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EFFECTIVE LOAN MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA

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ABSTRACT

The aim of this study was to find out the effective loan management and financial performance of commercial banks in Rwanda. The methodology employed descriptive and correlational designs. Purposive sampling technique was applied to select sampled respondents. Data was analyzed using descriptive statistics, spearman correlation, regression analysis and financial ratios analysis. After all the following findings were reached: The effectiveness of loan management was measured by loans planning, client appraisal and collection policy.

Qualitatively analysis was used to explain the effectiveness of loan management and financial performance. According to the financial performance considering the overall mean of 3.97 which is interpreted as high mean. The quantitative results that were examined through the financial statements of Bank of Kigali Group Plc in form of profitability ratio, liquidity ratios and efficiency. To the third specific objective, it was found that there is high correlation between loan management and profitability of Bank of Kigali Group Plc. This is explained by the correlation (r) of 0.734 which is interpreted as high and the p-value of 0.00 which is less that the significance value of 0.01.

Based on findings have provide the suggestions to BK Plc: It is suggested that periodically relevant training programs are organized for credit officers particularly in the area of risk management, management of loan default and financial analysis. This helps improve the knowledge and analytical skills of the loan officers so as to improve their client's appraisal techniques. The credit committees at all levels must review clients' bank statements in order to ensure that credit is collected in a timely manner. The Bank of Kigali Plc should check at the character of the borrower during loan review and to enhance their loan risk control.

Key concepts: Effective Loan management, financial performance of commercial banks in Rwanda

1.0 INTRODUCTION

Globally, loan management involves evaluating the steps which the bank management takes to identify and control risks throughout the credit process. The assessment strongly focuses on what management does to identify issues before they become problems. In recent years, more and more globally active financial institutions in the US and Europe have been proactively engaged in loan management, rebalancing their loan asset portfolios while utilizing the credit market's functions to the full Karimet al., (2010). In the second half of the 1980s, US commercial banks faced declines in capital adequacy ratios and rising funding costs against the background of non-performing loans. Loan is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness (Boateng, 2014).

Effective loan management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential Cholastem (2017). But better technology and information systems have opened the door to better management methods. Banks generate most revenue through issuing of loans to customers. In actual terms, loans are key assets of commercial banks representing 50-75% of the total amount of assets in the banks. Loans have significant contributions to towards economic growth of any country. Thus, efficient management of loans not only affects the lending institution but also the borrowers and the country in totality (Vatansever&Hepsen, 2013)

As stated by Mehdi & Mohammed (2014), performance may be referred to as how much financial related goals and objectives of a financial institution have been refined or are being accomplished. To measure performance profitability ratios are used, ROE (Return-on-Equity) which is probably the most basic pointer of a bank's profitability and growth potential. It is the rate return to shareholders. ROA (Return-on-Assets), which exhibits how much net income, is generated per dollar of Assets. Measuring profitability is the most basic measure of the accomplishment of the business (Mwangi, 2012). The banking sector is considered to be an important source of financing for most businesses. Increase in financial performance leads to more improved functions and activities of any organization. It has effect on total economy of the country and the activities of any organization.

Reference to the National Bank of Rwanda report (2020), Rwandan banking sector is also exposed to Different types of related to poor loan management, through the National Bank of Rwanda (BNR) the government has set some tools and strategies to make sure that Loan Exposure Risks are mitigated. According to National Bank of Rwanda report (2018), most of Rwandan financial institutions had a cut dawn in the process of loan Granting in the last quarter of the year 2012 up to first quarter 2013 and this drastic dawn word trend is suspected to be associated with Inability to apply right credit risk Management techniques. The aim of this research study was to analyze the relationship between proper loan management strategies and its financial performance. Commercial banks also have done a lot in setting determinants to ensure that the loans are repaid back in time without clashing with the clients so as to maintain the good relation between the client and the bank. However, evidence has shown that, despite the efforts done by Commercial banks in ensuring that all loans are recovered on time, a substantial amount of these loans remain un-recovered. This problem does not only endanger the achievement of objectives, but also threaten bank's sustainability and efficiency. Therefore, there is a need of an effective loan management where loans should be very well managed to minimize potential risks that may affect the bank's performance.

1.1 Problem Statement

The main problem with commercial banks of Rwanda includes insolvency where by the borrowers fail to pay back and poor loan management strategies leading to high nonperforming loan. Commercial banks also have done a lot in setting determinants to ensure that the loans are repaid back in time without clashing with the clients so as to maintain the good relation between the client and the bank. However, evidence has shown that, despite the efforts used by commercial banks in Rwanda to ensure that all loans are recovered on time, a substantial amount of these loans remain un-recovered. This problem does not only endanger the achievement of commercial banks objectives, but also threaten bank's sustainability and efficiency. Bank non-performing loans to gross loans (%) in Rwanda was reported at 4.3729 % in 2020, according to the World Bank collection of development indicators, compiled from officially recognized sources. Therefore, there is a need of an effective loan management where loans should be very well managed to minimize potential risks that may affect the bank's performance. Then this article intends to find out the effect of loan management to financial performance of Bank of Kigali.

2.0 LITERATURE REVIEW

2.1 Financial Accelerator Theory

The financial accelerator theory developed by Bernanke, Gertler and Gilchrist, (2015) seeks to explain how small economic shocks have relatively large effects on the lending and borrowing activities. It relies on the interplay between economic agents' net worth and the external finance premium that arises due to asymmetric information between lenders and borrowers. Where economic agents' net worth is defined as the sum of liquid assets plus collateral value of illiquid assets less outstanding obligations and the external finance premium is defined as the difference between the cost of funds raised externally and opportunity costs internal to the firm (Bernanke, et al. , 2015). The theory argues that the less the amount of his own wealth the borrower contributes to the project, the more his interests will diverge from the interests of the supplier of the external funds.

Borrowers were more eager to undertake riskier projects. That is, projects that have a high probability of large return, but also those offering low returns. From the borrower's perspective these projects are preferred since the firms' losses in the cases when the project's return is low are limited to zero by legal regulation. From the lenders' point of view, these projects are unfavourable since they bear all, or most of, the costs in the case of low project returns. The theory further indicates that due to economic shocks, the borrowers may not have the ability to borrow and are likely to avoid repayment of their loans (Bernanke, et al., 2015).

The financial accelerator theory is part of the theoretical and empirical literature about credit-market imperfections.

2.2 The Modern Portfolio Theory (MPT)

The basic portfolio model was developed by Harry Markowitz in the 1950s and early 1960s. Markowitz is considered the father of modern portfolio theory since he originated the portfolio model that underlies modern portfolio theory. He derived the expected rate of return for a portfolio of assets and the expected risk measure. Markowitz established that under reasonable assumptions, the variance (or standard deviation) of the expected rate of return was a meaningful measure of portfolio risk. From his model, the expected rate of return of a portfolio is the weighted average of the expected return for the individual assets in the portfolio The traditional portfolio theory, Modern Portfolio Theory (MPT), is a theory which attempts to maximize investors' expected return for a given amount of risk, or minimize investors' risk for a given level of expected return. MPT therefore includes two factors when choosing assets to form a portfolio, the mean and the variance and goes therefore also by the name of mean-variance theory. Portfolio theory deals with the selection of portfolios that maximize expected returns consistent with the individual acceptable levels of risk. The theory provides a framework for specifying and measuring investment risk and to develop relationships between risk and expected returns. Its main basic assumption is that investors often want to maximize returns from their investments for a given level of risk. The full spectrum of investments must be considered because the returns from all these investments interact hence the relationship between the returns for assets in the portfolio is important (Reilly & Brown, 2011).

This theory related to the study in such way that, it explains more about returns on investment where by DTSs equally invests by loan portfolios as assets with aim of getting returns from the investment. In such kind of investment, there are risks involved which in turn affect the financial performance of the DTS. It is therefore important for Bank of Kigali Plc to deploy prudent loan management practices in order to instill control within the various portfolios with a target of maximizing returns on each portfolio.

2.3 Liquidity Preference Theory

The general idea of the liquidity preference theory was developed by J.M Keynes`s within a simplified model in which there is only two types of financial assets money, the liquid and the bonds with no maturity, the illiquid assets. According to him, an increased preference for liquidity in the model is equivalent to increased demand for money and therefore demand for money increases wherever more people think interest rates are likely to rise than believes they are likely to fall (Howel & Bain, 2008). The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress say, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Instead of a reward for saving, interest, in the Keynesian analysis, is a reward for parting with liquidity.

According to the Liquidity Preference Theory money is held for different motives. These are the transactions motive, precautionary motive, and speculative motive. Transactions Motive: We get income only periodically. We must keep some money with us till we receive income next, in order to be able to carry out transactions. Transactions motive also includes business motive. It takes some time before the businessman can sell his product in the market. But he must be able to pay wages to the workers, cost of raw material, etc. as these become due. He must therefore keep some cash for this purpose. Precautionary Motive: Everyone puts something aside for a rainy day. Some money must be kept to meet unforeseen situations and emergencies. Speculative Motive: The future is uncertain and the rate of interest in the market continues changing. No one can guess what turn the change will take. But everybody hopes, and with confidence, that his guess is likely to be correct. It may or may not be so. Some money, therefore, is kept to speculate on these probable changes to earn profit (Tushar, 2016).

According to this theory, investors will always prefer short term securities to long term securities. To encourage them hold long term bonds, long term securities should yield higher interests than short term bonds. Therefore, the yield curve will always be upward sloping. A hypothesis about the term structure of interest rates (the relationship between interest rates and term to maturity) holding that investors demand a premium for bearing interest rate risk. The extent of the premium increases with term to maturity but at a decreasing rate. The two reasons behind the decreasing rate of increase are that duration, a measure of a bond's price sensitivity

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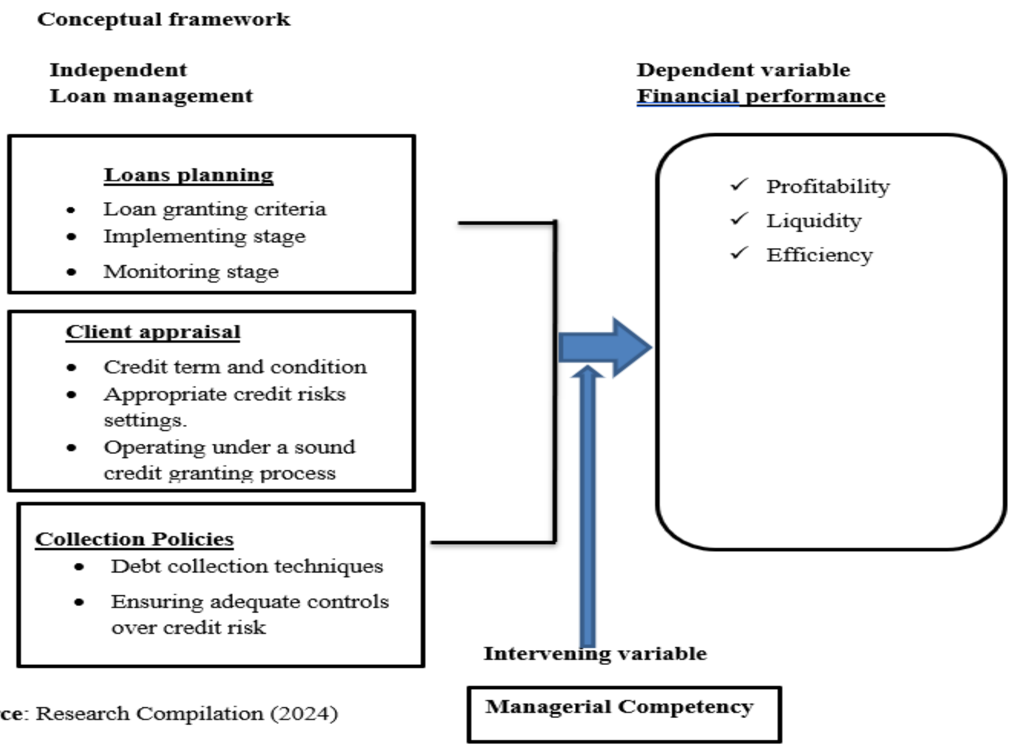
to interest rate changes, increases at a decreasing rate with term to maturity and that long term interest rates are typically less volatile than short term interest rates (Bibow, 2005) This theory addresses the interest rate loan management technique. This theory is related to the study addresses the independent variable of loan planning. It evaluates the relationship between of loan management and financial performance.

2.4 Conceptual framework

Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply (Amor H.B., 2009). Loan management in commercial bank provides profitability of that commercial bank though the collection policy based on time with application of standard interest rate which is affordable to many clients. Loan paid through credit policy on time helps commercial bank in liquidity management. Credit analysis lead commercial bank to higher profit as they sales are increasing. Standard interest rate leads to return on asset management.



Source: Research Compilation (2024)

3.0 EMPIRICAL STUDIES

Eric Nkuah (2015) conducted the study on the effect of loan management on the performance of banks in Ghana.The specific objectives of the study are: To investigate the effect of loan management on the performance of banks in Ghana from 2007 to 2013. To determine other factors that influences the performance of banks in Ghana. Using dataset from the annual reports for 10 Ghanaian universal banks from 2007 to 2013, the study employed panel regression technique with the aid of STATA Statistical Software. Among the various panel data techniques, fixed effect model was identified as the best technique based on the Hausman test between fixed and random effect. Return on Equity (ROE) and Net Interest Margin (NIM) were used to proxy financial performance whiles Loan Portfolio Financial performance (LPP) and Loan Loss Provision to Gross Loan Advances (LLP/GLA) were used as proxies for loan portfolio quality. Cost Income Ratio (CIR), Liquid Funds to Total Assets and Total Assets were used as control variables.The result from the analysis indicates that LLP/GLA has a negative effect on the financial performance of banks in Ghana. In addition, the findings of the study indicate that net interest margin has a positive effect on the financial performance of the selected banks. The findings of the study therefore established that loan portfolio quality has significant effect on the financial performance of the selected Ghanaian universal banks. The study recommends that universal banks in Ghana should develop effective and efficient strategies and policies to improve the quality of their loans in order to improve their financial performance.

Gongera Enock (2013) carried out an analysis of loan management on organization financial performance: Case of Commercial Banks in Kenya .The aim of this study was to close the gap in knowledge by investigating financial performance determinants within commercial banks in Kenya. The determinants studied were loan portfolio, interest expense, and administration costs and assets value. A descriptive survey design was employed in this study. The population of the study was the management employees working for commercial banks in Kenya. The sample was accessed by use of both stratified and simple random sampling. A questionnaire was used to gather the primary information. The questionnaires were self-administered and were served to the respondents by self-introduction. Research assistants were used to follow up on duly completed questionnaires. Statistical package for social sciences (SPSS) was used to analyse primary data while the SAS v.6 of 2009 was used to analyse the secondary data gathered from the banks. Findings of the study showed that public sector banks and private sector banks were not much affected by increasing or decreasing of interest margin. It can therefore be interpreted that the financial performance growth of public and private sector banks are not dependent on fluctuation of interest rate although the foreign banks have the benefit of high return due to increase or decrease in interest margin. The researcher recommends for consistent implementation on the KYC procedures to ensure uniformity in the lending operations. This should ensure that all the credit staff that is attached to the lending operations in the financial institution is well trained in the intricacies of KYC procedures.

Mpumwire Benjamin (2018) conducted the study on effect of loan Portfolio Management on the Financial Performance of The Banking Industry in Rwanda Case Study: Rwanda Development. The objective of this study will be to analyze the effect of risk diversification on the financial performance of Rwanda development bank; to determine the effect of asset rebalancing on the financial performance of Rwanda development bank and to assess the effect of asset allocation on the financial performance of Rwanda development bank. The researcher has used a correlational research design. The population under study was comprised of 80 employees of Rwanda Development Bank. The sample size of the study was 79 people. The study population was stratified into strata (groups) according to the departments. From these strata, the researcher used simple random sampling method as these enabled the study to select respondents who could provide the information needed for the study. The types of data that were needed in this study were primary sources of data. The types of data to be analyzed were collected by use of questionnaires and interview. The data were analyzed using inferential statistics, such as Pearson correlational and multiple linear regression analysis to determine the relationship between the variables and the degree to which the independent variable explain

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the variation in the dependent variable. Where SPSS version 16 was used in this study as statistical tool. The data were presented in form of tables.

The study found that there is a positive correlation and relationship between independent variables and dependent variable. This implies that there is a positive relationship between financial performance, asset allocation, risk diversification, asset rebalancing. The study concluded that, the risk of an individual asset can be measured by the variance on the returns. The risk of individual assets can be reduced through diversification. The study also concluded that diversification reduces the variability when the prices of individual assets are not perfectly correlated.

Nduwayo (2012) in his research work on the effect of loan management on the financial performance of commercial bank stated the financial institutions are very prone to credit risk and therefore, there is a need of an effective loan management where loans should be very well managed to minimize potential risks that may affect the bank's performance. The study findings revealed that there is an effect of loan management on financial performance of Bank of Kigali, where it was noted that well management of loan was the main source of the positive financial performance achieved by Bank of Kigali. The study conducted Bandorayingwe (2017) on impact of loan portfolio management on financial performance of commercial banks in Rwanda. The research findings revealed that loan portfolio management effectively analyzed using (loan risk analysis; risk monitoring; loan risk diversification) affect financial performance of Cogebank through its profitability; liquidity. Cogebank should put more effort on the following actions in order to maintain the increasing of its profit Cogebank Ltd should make sure that all given collateral security are well analyzed in order to avoid the higher rate of non- performing loan.

4.0 RESEARCH METHODOLOGY

A research design is the action plan for collection and analysis of data in manner that meet the research objectives. Research design means the type of study we are going to undertake which is both descriptive and multiple linear regression. This research adopted descriptive design due to the fact that descriptive design enables to describe the loan management strategies used by commercial banks particularly Bank of Kigali Group Plc as our case study. For multiple linear regression, the rationale behind it is choice is that it enables to investigate the relationship between independent and dependent variables which are loan management and financial performance of commercial banks to determine the relationship between two variables. The research described Effective loan management as independent variable. It described also financial performance as dependent variable.

4.1 Sample size

The case study being BK-remera branch which is comprises with 40 employees. Where employees are selected from credit and risk management department, from finance, employees from accounting and employees from Recovery department, because they have the information on credit risk management and profitability. In the research carried out, no sample size was calculated because the targeted population was small and was less than 100.

Content validity index is the degree to which an instrument has an appropriate sample of items for the construct being measured and is an important procedure in scale development. Content validity index (CVI) is the most widely used index in quantitative evaluation.

CVI=(Total number of relevent items in the instrument)/(Total number of items in the instrument)

CVI=30/34= 0.88

The questionnaire is valid because the calculated C.V.I(0.88) is greater than 0.60 (Sounders, 2012).

Reliability statistics

Cronbach's Alpha	N of Items
.844	30

Reliability of data collection instrument was tested using Cronbach's Alpha Measurements are reliable to the extent that they are reputable and those they any random influence which tends to make measurements different from occasion to occasion or circumstance is a source of measurement error. From table 3.2 above, the value for Cronbach's Alpha (α) was 0. 814 for all variables. If Alpha (α) is greater than 0.7, it means that it has high reliability, then the responses generated for all of the variables' used in this research were reliable enough for data analysis

Cronbach's alpha

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Source: Cronbach (2004)

5.0 FINDING OF THE STUDY

5.1 Effectiveness of Loan Management

As it has been found the first specific objective in this study was to identify loan management strategies used by Bank of Kigali. To get reliable information 40 employees in Bank of Kigali provided their opinion on meaningful selected statements that may determine the effectiveness of loan management in general. Below tables shows the details on their opinions regarding indicators of the effectiveness of loan management that include loans planning, client appraisal and collection policies.

Commercial Banks Loan Planning

	N	Mean	Std. Deviation	Comments
Bank of Kigali Group Plc	57	3.77	.866	High mean

has an establishment of well-defined loan granting criteria.				Heterogeneity
Collaterals are required in lending process of Bank of Kigali	57	4.14	.480	High mean Homogeneity
All loan procedures are set before starting credit operations in Bank of Kigali Group Plc	57	4.11	.418	High mean Homogeneity
There exists a written loan selection policies and procedures	57	3.98	.612	High mean Heterogeneity
Before giving credit, Bank of Kigali Group Plc analyzes regularly eligibility of client for payment according to current credit policy.	57	3.72	.818	High mean Heterogeneity
Loan officers are not prepared, trained and allocated before commencement of any operating year in Bank of Kigali Group Plc	57	3.23	1.282	Moderate mean Heterogeneity
Average mean	57	3.82		

Source: Primary data, November 2023

The table above shows the perception of respondents concerning loan planning at Bank of Kigali Plc . For the first statement, the respondents revealed that Bank of Kigali Plc has an establishment of well-defined loan granting criteria by considering the mean of 3.77 interpreted as high. For the second statement, the respondents attested that collaterals are required in lending process of Bank of Kigali since the mean was 4.14 interpreted as high mean. For the third statement, the respondents revealed that all loan procedures are set before starting credit operations in Bank of Kigali Group Plc by considering the mean of 4.11 which is high mean. For the fourth statement, the respondents reported that there exist a written loan selection policies and procedures since the mean was 3.98 interpreted as high mean. For the fifth statement, the respondents revealed that. For the sixth statement, the respondents revealed that before giving credit, Bank of Kigali Group Plc regularly analyzes eligibility of client for payment according to current credit policy by considering the mean of 3.72 interpreted as high mean. Lastly, the respondents attested that the loan officers are not prepared, trained and allocated before commencement of any operating year in Bank of Kigali Group Plc as well at moderate mean of 3.23

The average mean of 3.82 shows that loan planning in Bank of Kigali Plc is well designed objectives and policies according to the guide loan-granting activities and the bank developed an appropriate loan risk management. Those are supported by Strischek (2002) said that, establishing an appropriate loan environment also indicates the establishment of a good loan culture inside the bank, which is the implicit understanding among personal about the lending environment and behavior that are acceptable to the bank.

Commercial Banks Client Appraisal

	N	Mean	Std. Deviation	Comments
Bank's clients are visited before credit approval	57	4.21	.411	High mean Homogeneity
The loan department always checks at the collateral of the borrower during loan review	57	4.15	.411	High mean Homogeneity
The loan department always checks at the capacity of the borrower during loan review	57	3.30	1.90	Moderate mean Heterogeneity
Before giving loan, Bank of Kigali Group Plc analyzes regularly eligibility of client for payment according to current credit policy.	57	4.14	.350	High mean Homogeneity
Client bank statement is reviewed before credit approval	57	3.05	1.44	Moderate mean Heterogeneity
Bank of Kigali Group Plc headquarter supervised borrowers after getting loan	57	3.21	.818	Moderate mean Heterogeneity
Average Mean	57	3.67		

Source: Primary data, November 2024

The study sought to establish the level at which respondents agreed or disagreed with the above table relating to Client appraisal in Bank of Kigali Group Plc, from the findings in the table above the majority of them respondents agreed that Bank's clients are visited before credit approval as shown by a mean of 4.21 interpreted as high mean, the loan department always checks at the collateral of the borrower during loan review by considering the mean of 4.15. Interpreted as high mean. The loan department always checks at the capacity of the borrower during loan review at moderate level by considering the men of 3.30 interpreted as moderate mean. Bank of Kigali Group Plc always analyzes client eligibility to loans as shown by a mean of 4.14 interpreted as high mean. It was attested that Client bank statement is reviewed before credit approval since the mean was 3.05 interpreted as moderate mean. For the last statement, the respondents attested that Bank of Kigali Group Plc headquarter supervised borrowers after getting loan by considering the mean of 3.21 interpreted as moderate mean. In conclusion the average mean of 3.86 interpreted as high mean shows that the level of client appraisal is well implanted in Bank of Kigali Group Plc.

The results from interview conducted with the manager of revealed that BK provide trainings and different advice related to efficient use of collateral securities for getting loan as well as entrepreneurship skills. The management of Bank of Kigali Plc revises the procedures of providing credit based on collateral provided by the clients and the management of Bank of Kigali Plc has made improvement of marketing strategies by providing loan which does not require collateral.

Those findings is Supported by Benson Mwai Karugu (2015) the study sought to analyze the effect of credit risk management practices on profitability of listed commercial banks at Nairobi Kenya. Based on the study findings the study concluded that credit appraisal has a significant positive effect on profitability.

Commercial Banks Loan Collection Policies

	N	Mean	Std. Deviation	Comments
Collection policies and procedures apply equally to all borrowers regardless of their professional or social standing.	57	4.14	.467	High mean Homogeneity
There exists a written loan collection policy	57	4.15	.434	High mean Homogeneity
Collection Policy contribute in calculation and management of Liquidity of different commercial bank	57	4.23	.423	very High mean Homogeneity
The bank conducts a credit risk analysis on businesses and individuals before lending	57	2.48	.856	Low mean Heterogeneity
Average mean	57	3.56		

Source: Primary data, November 2024

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The study sought to establish the level at which respondents agreed or disagreed with the statement in the table above relating to debt collection techniques of Bank of Kigali Group PLC.

The respondents reported that the collection policies and procedures apply equally to all borrowers regardless of their professional or social standing by considering the mean of 4.14 interpreted as high mean. From the findings majority of the respondents strongly agreed that there exists a written loan collection policy as shown by the mean of 4.14 interpreted as high mean, for the third statement the respondents revealed that formulation of collection policies have not been a challenge in loan management as shown by a mean of 4.28 which is interpreted very high mean. For the fourth statement, it was reported that the collection Policy contribute in calculation and management of Liquidity of different commercial bank by considering the mean of 4.23 interpreted as very high mean. Lastly, the respondents revealed that the bank conducts a credit risk analysis on businesses and individuals before lending since the mean of 2.48 interpreted as very low mean. In conclusion; the collection policies applied by Bank of Kigali Group Plc were appreciated by respondents by considering the average mean of 3.56 interpreted as high mean.

Pandey (2004) held that credit policy is needed because sometimes customers do not pay the bank's installments in time and therefore, policies should be put in place to monitor repayment and that these policies should be convenient to both the lender and the borrower. By carrying out the intermediation function banks collect surplus funds from savers and allocate them to those (both people and companies) with channel funds from savers to borrower's thereby increasing economic efficiency by promoting a better allocation of resources (Tuladhar (2017).

5.2 Commercial banks financial performance

The second specific objective of this study is to analyse the level of financial performance of Bank of Kigali Main Branch during the period of 2019-2022.

Normally, the p financial performance is measured in quantitative manner but for responding all the objectives of the study is was found necessary that qualitative that could be collected based on the opinions of the respondents especially the employees of Bank of Kigali and in this study the financial performance was measured using three indicators mainly profitability liquidity and efficiency.

Financial Profitability of BK Group Plc

	N	Mean	Std. Deviation	Comments
The bank profitability increase in terms of net profit margin	40	4.20	.405	High mean Homogeneity
The bank has known the increases of return on asset	40	4.13	.335	High mean Homogeneity
The bank profitability	40	4.18	.385	High mean

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increase in terms of return on equity				Homogeneity
Average Mean	40	4.17		

Source: Primary data, November 2024

According to the above table, the Bank of Kigali has known the effectiveness of profitability is explained by the following there has been increase of bank profitability increase in terms of net profit margin considering the mean of 4.20 which is interpreted as high mean, and Bank of Kigali has known increase on return on asset considering the mean 4.13 which is interpreted as high mean while it has been reported that the bank has known an increase of return on asset considering the mean of 4.18 which is interpreted as high mean. Briefly it has found the Bank of Kigali has known an appreciable profitability considering the average mean of 4.17 which is interpreted as high mean. Apart from those results related to opinions of respondents, the below table shows the quantitative results that were examined through the financial statements of Bank of Kigali in form of profitability ratio.

Commercial banks liquidity reference to BK

	N	Mean	Std. Deviation	Comments
Effective loan management assisted Bank of Kigali Plc to increase its liquidity	40	4.15	.362	High mean Homogeneity
Effective loan management has helped Bank of Kigali Plc to increase its liquidity	40	4.08	.267	High mean Homogeneity
Income from operations ratio was high during last three years	40	4.00	.000	High mean Homogeneity
The good loan management implementation enhances profit and liquidity in Bank of Kigali Plc	40	3.55	1.108	High mean Heterogeneity
Effective loan management assisted Bank of Kigali Plc to increase its liquidity	40	3.68	.797	High mean Heterogeneity
average mean	40	3.89		

Source: Primary data, November 2024

The findings above explains the views of respondents on liquidity of BK Plc. It was revealed that the effective loan management assisted Bank of Kigali Plc to increase its liquidity by the mean was 4.15 interpreted as high mean. For the second statement, it was revealed that the loan has helped Bank of Kigali Plc to increase its liquidity by considering the mean of 4.08 interpreted as high mean. For the third statement, it was revealed in income from operations ratio was high during last three years by considering the mean of 4.00 interpreted as high mean. For the fourth statement, the respondents attested that the good loan management implementation enhances profit and liquidity in Bank of Kigali Plc since the mean was 3.55 interpreted as high mean. For the last statement, the respondents attested that the effective loan management assisted Bank of Kigali Plc to increase its liquidity on the mean of 3.68 interpreted as high mean.

Respondents Views on efficiency

	N	Mean	Std. Deviation	Comments
Effective loan management lead to increase opening of new branch	40	3.90	.810	High mean Heterogeneity
Loan management implementation lead to the better performance	40	3.70	.823	High mean Heterogeneity
This bank has known an efficient yield from loan	40	3.50	1.01	High mean Heterogeneity
Average mean	40	3.70		

The findings above illustrates the appreciation of respondents in term of efficiency in BK Group Plc. It was reported that the effective loan management lead to increase opening of new branch since the mean was 3.90 interpreted as high mean. Secondly the respondents revealed that the loan management implementation lead to the better performance by considering the mean of 3.70 interpreted as high mean, thirdly, the respondents attested that the Bank of Kigali has known an efficient yield from loan by considering the mean of 3.50 interpreted as high mean.

Summary of overall mean on financial performance of commercial Banks

Strategic management practices	**Mean**
Profitability	4.17
Liquidity	3.89
Efficiency	3.70
Overall mean	**3.92**

Source: Primary data, 2024

The findings show the overall financial performance in Bank of Kigali Plc in term of profitability, liquidity and efficiency. The profitability was rated on mean of 4.17 interpreted as high mean. Liquidity was rated on mean of 3.89 interpreted as high mean. Efficiency was rated on mean of 3.98 interpreted as high mean. Efficiency was rated on mean of 3.70 interpreted as high mean. However, the overall mean of 3.92, helps in concluding that Bank of Kigali Plc has known the good financial performance.

5.3 Correlational between of loans management and BK' financial performance

The third specific objective of this study was to find out if there is a significant relationship between loan management and the financial performance of Bank of Kigali Group Plc.

To respond this objective the researcher used the method of correlation where Spearman Rho was used. For Spearman the positive correlation coefficient indicates a positive relationship and negative relationship when the correlation is negative. The test of the relationship was done basing on the significance level of 0.01. When the p-value or Sig (2-tailed) is less than or equal 0.01 it is to say that there is a significant relationship and when the p-value or Sig (2-talied) is greater than 0.01 the relationship is said to be not statistically significant.

Table 4.12 Correlation between loan management and financial performance of BK

		Loan management	Financial performance
Loan management	Spearman Correlation	1	.734**
	Sig. (2-tailed)		.000
	N	57	57
financial performance	Spearman Correlation	.734**	1
	Sig. (2-tailed)	.000	
	N	57	57

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

According to the above table there is high correlation between loan management and financial performance of Bank of Kigali Plc since 2019 to 2022. This is explained by the correlation (r) of 0.734 which is interpreted as high and the p-value of 0.00 which is less that the significance value of 0.01. Those results indicate that loan management could be considered as the indispensable tool for the financial performance of commercial bank since offering loan to client is their main business. The study findings illustrated that there is a significant positive association between loan management of Commercial Banks and their financial performance. This was indicated by the correlation coefficient of 0.734 or 73.4% which shows a high positive correlation between the variables. This indicates that, there is a direct association between loan management and financial performance and that good asset quality or high performing credit to total asset related to good bank performance.

Correlation Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	4.479	.695		6.442	.000
	Loans planning	.132	.119	.130	1.111	.271
	Client appraisal	.531	.122	.497	4.347	.000
	Collection Policies	.246	.113	.254	2.173	.034

a. Dependent Variable: Financial performance

From the table above, a multiple regression model can be drawn. It is written below as:

Y = a0+a1x1 + a2x2+a3x3+et

Y stands for the financial performance, a1, a2, a3, represent the coefficients values of the independent variables, respectively; a0: represents the value of the vertical section (and equal to the value of the dependent variables when the values of the independent variables coefficients equal to zero) and et represents the error term.

Y: Financial performance

X1: Loans planning

X2: Client appraisal

X3: Collection Policies

et : Error term

According to the model above, holding Percentage of Loans planning, Client appraisal and Collection Policies constant at zero, financial performance will be 4.479. When Client appraisal and Collection Policies are held constant, a unit increase in Loans planning will increase the financial performance by 0.13. When other factors are held constant, a unit Client appraisal sheet offered will increase the bank financial performance by 0.497. When other factors are held constant, a unit increase in Collection Policies will increase the bank financial performance of the bank by 0.254 From the above model we can conclude that the increase in Loans planning, Client appraisal and Collection Policies result into increase in financial performance.

H1: There is a statistical significance relationship between loan management and financial of Bank of Kigali Plc.

Based on the Spearman’s rho coefficient correlation results, the coefficient correlation was significant as it was research findings.

Therefore, the null hypothesis which was saying that there was no statistical significance relationship between loan management and financial of Bank of Kigali Plc was rejected in the favor of alternative hypothesis which says that there is a statistical significance relationship between loan management and financial of Bank of Kigali Plc.

6.0 CONCLUSION

Loan in commercial banks is numerous and most of them are related to payment default since the main business of commercial banks is to offer loan. The banks use to explore risks before providing loans to customers where those who are considered as the best client with minimum risks are given credit. In Rwanda risk exist since the business are known to be not able to repay the loan asked by the investors and that is why banks use constant loan management in order to maintain their profitability. In this study it was found that loan management have an influence on profitability of Bank of Kigali Group Plc, and this is considered as the main tool for avoiding loan repayment defaults.

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