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Lending Rate Practices and Financial Performance of Commercial Banks in Rwanda. A Case of I&M Bank Plc

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Abstract

The objective of the research project was to assess lending rate practices and financial performance of commercial banks in Rwanda. The specific objectives were to assess effect of loan to deposit ratio on financial performance of commercial banks in Rwanda, to evaluate the effect of loan to value ratio on financial performance of commercial banks in Rwanda and to determine the effect of credit policy on financial performance of commercial banks in Rwanda. In this research project, theories were used to draw their implications on the current study and a conceptual framework showing the link between the study variables was established. During data collection, researcher used a descriptive research design using two-mixed approach such as quantitative and qualitative approach. The research information were collected from chief Executive officers of I&Mbank, Board staff members of I&Mbank, Information technology officers of I&M bank, Risk and audit officers of I&Mbank, accounting and audit officers as well as customer service. The total targeted population was 132 from whom a sample of 99 was selected by use of stratified random sampling technique. To analyze data, SPSS version 21 was used to get frequency tables, pie charts and their related percentages. Findings of this research project revealed that loan to deposit ratio is a measure of lending interest rate and contribute to the financial performance with the mean of 2.02 and standard deviation of 0.751.As indicated, findings revealed that loan to value ratio is a measure of lending interest rate and contribute to the financial performance of commercial bank with the mean of 3.41 and standard deviation of 0.66.The study findings also showed that credit policy contribute to the financial performance of commercial bank at the standard deviation of 0.649 and p-value0.000. The overall conclusion is that there is significant relationship between lending interest rate and financial performance at 0.798 based on Pearson correlation. As recommendations, based on different problems encounter by I&M bank, there is a need to put more efforts on proper management system of credit and lending throughout monitoring and evaluation, using credit limits and using credit recovery experts. By use of all these strategies, the financial performance is to be achieved.

Keywords: *Lending Rate Practices, Financial Performance, Commercial Banks, I&M Bank Plc, Rwanda*

1.0 Introduction

Credit creation is considered to be the cardinal mandate of any commercial bank. This is because through it, banks create credit from depositors' funds, which enables them to loan out credit facilities hence making a profit in a continuous process. In the credit creation process, banks charge different interest rates, which primarily determines the variations in profitability amongst the banks since commercial banks derive income primarily from the lending and the securities portfolio. To spread the risk which may arise out of bad loans and a poor macro-economic environment, banks in charge a high premium on their lending rates to guard against poor financial performance and loss of depositors' money. However, this is not usually the case as there are many factors that influence the effectiveness of the interest rates such as lending ratios that are embedded within the interest rates (Ogunbiyi & Ihejirika, 2014).

The financial institutions charges interest rate known as cost of debt on money borrowed. However, this money lent out is the money deposited in bank account by the depositors, which normally generate interest rate. The interest rate is the percentage paid on principal amount borrowed. The interest rate has both positive and negative effect depending on how it is used (Kumbirai & Webb, 2010).

According to Saunders (2019), the determination of interest rate is influenced by central bank of any country so as to provide stability of money. Therefore, monetary policies are implemented to avoid inflationary rate, to increase the level of public borrowings, encourage investment opportunities and provide efficiency in banking institutions. According Samuelson (2015), financial institution have the purpose of generating profit by setting interest rate for the money borrowed. The growth of interest constitute an investment capital and grow in the form of compound interest where interest is added to the principal to generate interest. The banking institution to be able to operate in competitive advantages, liberalization is some countries of Africa like in Tunisia remained important as this increased interest margin. The interest rate is important fact of bank's profitability and is applied based on market or demand in social working environment (Bennaceur & Goaied, 2008).

According to Khawaja and Musleh (2017), if the interest rate is high and while economy fluctuates more frequently, this reduces the level of borrowings and discourages deposits. Therefore, investors are few and saving habits is low. The main purpose why banking institutions charges high interest rate is to generate high return on investment capital According to Hoff and Stieglitz (2018), the interest rate is charged with basis of the value of the loan and this may be challenged by changes in economy, poor forecasting and inappropriate planning. The interest generating depends on effective credit recovery system so as to maximize return. Having high interest rate normally affect long term investment and remain the constraints of institution growth in some countries of Africa like Kenya. Commercial banks or financial institutions incur profit margin as a measure of income from interest charged or as the costs of service (Panwala, 2019).

Lending and deposit rate are important aspects of banking practices and encourages further investment when properly controlled or undertaken. Commercial banks in Africa more specifically in Rwanda are affected by increase in technological innovation and competition and other

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financial crisis (Ntuite, 2015).The banking institutions in Rwanda is dominant as the total asset in banking sector is 66.1% compared to institutions like pension which is17%, insurance which is 9.7% and microfinance institutions which is 6.4%. The Rwanda banking sector increased people saving in long term as this help them to generate 30% of GDP, brings about capital accumulation and enables them to allocate resources (Rwanda Development Board, 2021).

In Rwanda, financial systems and the whole economy have seen dramatic changes over the past 20 years of rehabilitation after the instabilities in the 1990's. Capital controls were relaxed to attract foreign investment to provide trade opportunities to the Rwandans. This has overtime attracted several foreign banks in the country whose major aim is to provide credit to the population, which predominantly depends on agriculture. (Rwanda Development Board, 2021). I&M bank in Rwanda Plc. is the commercial bank and has got license by Central bank and has opened in 1963 as Rwanda omm Commercial Bank (RCB). Nowadays, this bank operate as government bank with capital ownership of 80% and 20% of private institutions investors (Almazari, 2017). The general objective of the study is to assess lending rate practice and financial performance of commercial banks in Rwanda.

1.1 Research Objectives

1. To assess the effects of loan to deposit ratio on financial performance of commercial banks
2. To evaluate the effects of loan to value ratio on financial performance of commercial banks in Rwanda
3. To determine the effects of credit policy on financial performance of commercial banks in Rwanda

2.1 Theoretical Literature

Lending rate Concept

According to Samad and Hassan (2019), lending rate is the rated established and determined by investors for the loan provided. Lending rate is the interest fixed to secure loan provided to institution investors. Lending interests rate as money borrowed plays an important role for the use of money borrowed from financial institution. Lending rate is the price paid for borrowed funds and is expressed in terms of percentage per year. Lending interest rate consists of the costs on borrowed funds or on investment capital. In other words, it is the price charged on the investment capital by business investors. The lending interest rate is determined based on people's abilities to pay back the loan and the size of loan granted to the clients. Having interest rate by business investors this presents significant influence on economic activity as this reflect income of people (Podder, 2012).According to Alumni (2014) lending rate in financial institution is determined by three main factors such as inflation, level of government borrowing and risks associated. Lending rate is set to control inflation and marginal propensity to consume.

Total Loan to Total Deposit ratio

According to (Kharawish, 2011), total loan to total deposit ratio is the measurement of lending interst rate that determines the liquidity within financial institution and assists in credit risks management within financial institutions. Total Loan to total deposit determines the percentage rate of bank deposit and its increases leads to increase in profit margin. The high loan deposit ratio implies the institution financial distress and this requires making and maintaining enough lending abilities. The lower the loan deposits ratio, the low profit margin within financial institutions. Loan to total deposit ratio remain important aspect of measuring liquid cash at bank and is the way of

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comparing loan provided to customers and their deposits rate so as to avoid the gaps or eliminates default payment.to avoid gaps in lending and deposit abilities, the bank establishes high interest rate to cover unforeseen funds requirements but low interest rate is fixed to stimulate earnings in most possible manner (Ahmed, 2011).

According to Rudolf (2019) is the traditional way of assessing institution position or performance and is determined based on banking finances compared to total assets. This ratio is broadly reliable as enhances the funding of the bank and determine amount of money generated by the bank with basis of assets and deposits. The core activity of banking system is to gather funds from society in deposits and saving forms and give them back to society in loans form. Loan to deposit ratio state how far the ability of the bank to repay the withdrawals made by depositors. Therefore the bank's profit derived from the margin the different between interest on credit and deposit interest (Podder, 2012).

Total Loan to Total Value Ratio (TL/TV)

According to Ansah (2019), loan to total value ratio is the ratio used in financial institution or other business organization as a measure of institution financial performance. This is computed by taking total loan over total value. The use of this helps in the banking institution to approve loan at a certain level of ratio, which generate a satisfied return. In many financial institutions, an effective loan to total value is fixed at 80% and such ratio indicates that investors have acquired enough asset, which help to generate the desired return. Therefore, this provide an assurance of good health condition of business and operating in environmental market situation (Rwanda Development Board, 2021).

According to Samad (2014), the higher level of loan to total value ratio, the higher risks associated with lending system as this brings about low borrowing abilities. Therefore the effects associated to this may be arise where the borrowers may be determined by default payment or bankrupt due to high lending interest rate. Fixing high lending interest rate may lead to non- performance of business organization as the market situation incurs changes related to politics, changes in economic system, technological changes and demographic changes. Therefore, there is a need to make appropriate measures based on market demand and changes in macro environment (Ahmed, 2011).

Credit Policy

According to Sidqqui and Shoaib, (2011) the credit policies are rules and standards set by financial institutions for credit recovery system. The credit policies goes with credit collateral requirements to secure loan granted to customers. The overall objective of credit policy is to avoid bank ruptsy caused by default payment and misuse of banking institution service. Setting policies within financial institution determines rules and guidelines and the management is able to make decision on banking process. Effectiveness and efficiency of banking credit policy requires involvement of all employees in smooth running of institution operational service, having the right way of decision making.

Banking credit policies are always important in achieving goal and objectives, as this is the basis of credit analysis to avoid bankruptcy. However, having the right decision-making is important and this leads to effective and efficiency of operations. Strong policies, rules and regulations within banking institution leads to competitive advantages within market environment (Kumbirai & Webb, 2010).According to Abdurrahman and Al-Sabaawee (2011) the credit policies determines

optimum investment as this minimizes costs and maximizes benefits. Setting credit policies depends on institution's goals and objectives to operation in competitive market. Therefore, institution managers and stakeholders are responsible to establish good policies, which reflect an institution performance.

Effective policies within banking services enables maximum return of investment capital and this goes with adjustment of credit standards, credit terms within institution. Strong policies are basis of long-term development of institutional as this leads to economic development investors (Ansah, 2019).According to Dock (2020), institution policies are defined as standards governing institution operations in terms of deposit and withdrawal of credits to support economic activities. The credit policies are enhanced by decision support system in line with appropriate standards to achieve institution goals and objectives.

Financial Performance of commercial banks

According to Nirmal (2004) and Dhanuskodi (2012), the financial performance is about achievement or accomplishment of goals and objectives. In other words, financial performance is measured in terms of return on investment or when the assets are greater than liabilities. The financial performance is determined by how institutions use assets and generate incomes. Therefore, this indicates financial health of banking institutions after lending and credit recovery system. Ratios are used to measure financial performance as this is compared with basis of institution assets and liabilities (Padachi, 2016). According to Panwala (2019), financial performance determines institutions' abilities to achieve both short and long-term goals, profitability and effective use of available resources. The financial performance within all institution is achieved whenever the management maximizes shareholders wealth.

The application of ratios in both financial institutions and productive industries helps to determine the level of performance. This is measured by comparing institution's return on assets, equity, either assessing net interest margin or assessing return on deposits. All these measurements are important to measure institution profitability and assess institution future in terms of financial sustainability (Bodie *et al.,* 2019). According to Gatuhu (2013), financial performance of commercial banks can be determined by the ways an institution applies policies, regulations in monetary or non-monetary management.

This implies that the performance of baning institution depend on the ability to manage institution assets, to meet customers' needs to operate more effectively, to achieve growth strategy and exploit environmental opportunities. According to (Ntuite, 2015), commercial banks performance is determined by how they are efficiency in resource management and the implementation of the stated goals and objectives.

The performance of banking institution is a subjective measure of how well the firm or banking industry uses its assets and generate revenues. Health this leads to long-term health over a given period of time and the performance is used to compare the one in the same industrial sector.

Return on Equity (ROE)

According to Ansah (2019), return on equity is one of the most effective measurements to know the financial institution performance in different sectors. However, this serves a good measure of banking profitability. Investors are more concerned to the return on equity, which expresses income generated from stakeholders' equity. In business investment, return on equity determines shareholders profit maximization as this indicates the return on ownership interest measured in

terms of profit margin. The return on equity in baking institution is achieved based on banking strategies for long term development goals (Bashir & Hassan, 2013).According to Samad (2004), return on equity termites institution achievement measured in terms of profitability, which is generated, based on investment capital. The effective financial performance of commercial banks depend on appropriate way of maximizing return on equity capital and this assists the institution achieve the strategic goals.

The performance measurements in all organizations are similar to those applied in financial institutions such as return on equity, return on assets, costs to income ratio that are commonly used. The return on equity, which is the net profit over total equity, determines internal performance to measure stakeholder's value (Samad & Hassan, 1999).According to Williamson (2013), return on equity proposes the direct assessment of financial return of stakeholder's investment provides relevant information and is the basis of comparison between other financial institutions operating in the same area of competitive advantages. The return on equity has the negative and significant influence on the level of financial distress. Low return on equity shows that financial institution cannot use equity to generate profits and increasingly complicate banking finance in internal funding sources for investment (Kharawish, 2011).

According to (Kharawish, 2011), return on deposit is calculated by taking profits over deposits and clearly indicates the fluctuations of return on deposits within banking situation. Return on deposits is important aspect mostly used by financial analysts to assess financial performance and position of banks (Wen, 2010).The return on equity is important determinant of banking profitability and motivate shareholder to undertake further investment capital. The higher return on equity, the more investment ability which brings about financial performance of commercial bank normally measured in terms of profitability (Kharawish, 2011).

Return on Assets (ROA)

The return on assets is the indicator of institution profitability in relative to its assets.it shows how well an institution utilizes assets in terms of profitability. The most considerable ratio which determines banking financial performance is return on assets which measures institution profitability or ability to measure profit or earnings at the level of income, assets and capital stock (Williamson, 2013).According to Almazari (2011), return on assets reflect the ability of banking management to manage its assets so as to generate profits. Return on assets determines institutions' value of money measured in terms of fixed assets and non-fixed assets. To achieve this, implementation of strong policies to enable high investment return is important and most banking institutions encourage high capacity building so as to operate in competitive environment.

Return on the assets is the important measure of how the bank is profitable relative to the assets. It gives an idea of efficient management and the use of institution's assets. Return on assets gives managers, investors and business analysts on how best or efficiency to management institutions assets so as to generate earnings (Ahmed, 2011). According to Shaw (2003), return on assets is important aspect of comparing companies or institution in the same industrial size as different institutions use assets differently. Even if return on asset is important measure in determining the institution financial performance, but it is constrained by technology changes, inflation and other macro- economic factors.

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Capital adequacy

According to chinonye (2010), capital adequacy is about enough capital or resources or finance and this has observed as important aspect of contributing to financial performance of commercial bank in different countries (developing and developed countries).To ensure effective capital adequacy, most financial institutions rely from strong international capital markets to increase their abilities of financial services. Thus, this assist them to have enough capital reserves, lending abilities and are able to provide employment opportunities (Chinonye, 2010).

According to Paul (2002), inappropriate capital adequate in the main cause of institution failure in various institution in Africa including Uganda. Capital adequacy enables banking institutions to achieve long-term goals as this plays important role in setting strategies, policies and guidelines for achieving the desired.

2.2 **Empirical Literature Review**

As indicated, hahing compliance with basel II accords has improved banking institution of Kenya and this presented the effect to the performance. Therefore, the use of GMM dynamic model remained important to achieve capital adequacy and operate more effectively to reduce credit risks in top 10 Tunisian financial institutions (Waithaka, 2013).

Financial Performance of commercial banks

A study done by (Padachi, 2016), in USA assessed the factors influencing financial performance in business institutions. The study revealed that an institution of offering financial and non-financial means of support is influenced by return on equity, return on assets and net profit margin. Therefore, this is indicated by ratio analysis where assets of institution are compared with liabilities to determine the financial position of the business. A study conducted by Medhat (2016) in United Arab more specifically in Oman assessed the link between return on assets, return on equity and how these affect financial performance. The study revealed that an institution profitability depends on how much assets and equity capital to undertake financial operations. Therefore, this depends on the size of the institution, assets risks taking management and appropriate allocation.

A study done by Ahmed (2011) in Jordanian was to assess the factors influencing the performance of banking institutions. The study showed that the performance of financial institutions in Jordanian are caused by return on assets and return on equity but some negative defects may affect the performance of financial institutions as some institutions are not strong enough and determined by weak internal control system. Nevertheless, strong institutions are the one which hold more assets and generate sufficient return on assets and equity capital. The survey done by Shepherd (2012) in Pakistan assesses the profitability of banking institution. The study showed that assets management, maintaining enough capital, economic growth and efficiency in operations, determines the profitability of banking institutions in Pakistan. A study conducted by Samad (2014) in United Kingdom was to assess the factors influencing the performance of commercial banks. The study revealed that liquidity preference and credit policy are important factors in determining the performance of financial institution. The determination of this performance is estimated based on ratios measured by comparing assets and liabilities.

Loan-to-Deposit Ratio and financial performance

A study done by Tarawneh (2016) in USA to determine the factors influencing lending interest rates in banks of United States of America. The study revealed that having enough capital, increase

in saving abilities and economic growth remain important in fixing lending interest rate as all these present the significant impact on banking financial performance. A study done by Kharawish (2011) in Mexico to assess the comparison of banking sector performance revealed that most of banks determined by financial performance have high rate of loan to deposit ratio as measure of profitability while nonperformance of banking institution have low rate of loan to deposit ratio. A survey done by Uwalomwa (2015) in China to assess the good factors used to measure lining interest rate within financial institutions revealed that , loan to deposit ratio is important as this determines or compares customers deposits and the saving level. Therefore, this determines banks' ability of granting loan to its customs.

Another study done by Abdulrahman and Al-Sabaawee (2011) in Iran to assess the causes of banking financial performance showed that determination of financial ratios, having technical knowhow, having resources and efficiency of operations remain important aspects of banking financial performance. A study done by Almazari (2017) In Kenya to assess the relevance of accounting ratios within financial institutions revealed that with accounting ratios, banking institutions are able to establish efficiency of operations in banking services depends on deposits of customers, pay back of interest on acquired loan and other service fee granted by financial institution.

Loan-to-Value Ratio and financial performance

A study done by Almazari (2017), in Malawi to determine the role of loan to total value of financial institutions in Malawi revealed that this ratio enables institutions to increase its advantage ratios thereby boosting the risks of mortgage defaults. The study puts more importance on policy implementation as th good way of achieving institution objectives. Another study conducted by Samad (2014), in Iran to determine the effectiveness of loan to total value within banking institutions revealed that effective policies of loan to total value is important connection with an effect on financial stability, credit growth, and a reduced systematic risks of parameters.

A study done by Samad (2004), in Hong Cong to assess the effect of credit risks on loan to total value revealed that as the credit risks increases, this leads to the increase of loan to total value ratio as well as debt to income ratio. Loan to total value ratio is carefully set and determined based on institution financial stability and strengths. A study done by Almazari (2011), in Tunisia to assess the contribution of loan to total value ratio in financial institutions showed that the financial performance of banking institutions is determined or influenced by both return on equity and return on assets. The study showed that all these determinants indicate the value of properties of banking institutions. A study done by Bodies, et al, (2009) to establish the importance of loan to value ratio, showed that determinants of loan to value ratio helps an institution to recover loan especially with the mortgage which is observed in the market where mortgage is originated. The study also revealed that the value of mortgage may not be adequate and its sales may not fully settle the creditors.

Credit Policy and financial performance

A study done by Nyawera (2013 to assess the effects of credit policies in banking institutions in Kenya showed that having credit policies influences the financial performance of commercial banks. Therefore, with appropriate policy implementation, banking institution in Kenya has had effective performance. A study conducted by Byusa and Nkusi (2012) in Kenya showed that the credit policies in microfinance plays important role as this helps in establishing credit limits and achieve credit recovery systems. However, the credit policies affect institution financial

performance as this leads to minimum credit risks. Another study done by Almazari (2017) in Nigeria to determine the factors influencing efficiency and effectiveness of banking system in Nigeria showed that having credit policies applies to institution rules which enable institution achieve the goals and objectives. Therefore, with policies, the institution is able to make good management with clear decision making and appropriate operating programmes.

2.3 Conceptual Framework

This conceptual framework illustrates how the relevant variables (independent and dependent) for this study relate to each other. The independent variable is determined by loan to deposit ratio, loan to value ratio, credit policy all these are part of independent variables which influence financial performance as determined by return on equity, return on assets and credit policy. In this study, the intervening or moderating variables are government policies, laws and regulations, which both influence lending rate system and financial performance of commercial banks.

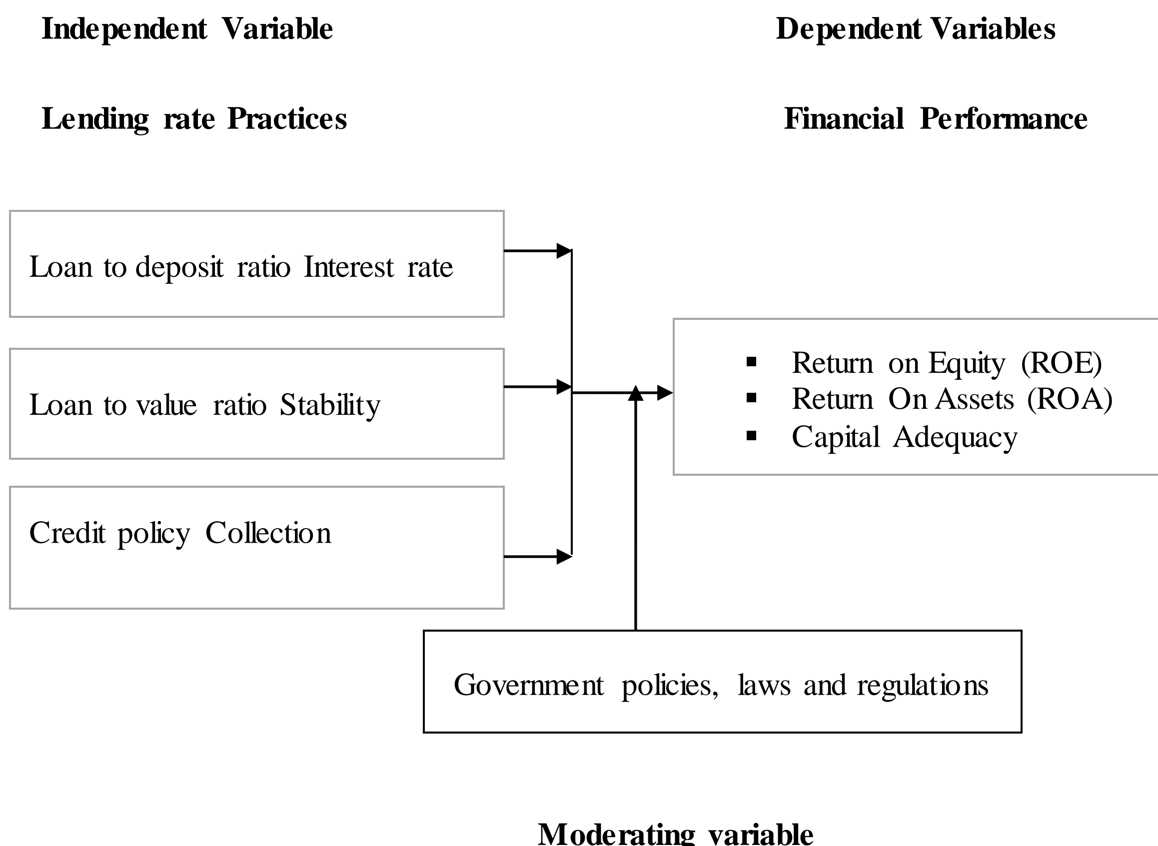

Figure 1: Conceptual framework

Source: (Research, 20223.0 Research Materials and Methods

In this study, a descriptive research design and correlation research design will be used as this describes the phenomena as it is. This descriptive research design consists of investigating the situation and get quantitative information related to a specific phenomenon. However, it was in two method or approach such as quantitative approach measured in terms of questionnaire and qualitative approach measured in terms of interview guide were used. The quantitative approach

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involves semi-structured questionnaire, which was distributed to research participants such as mangers of I&M Bank such as Information Technology Officers, Risk and Audit Officers, Accounting and credit officers and Customer care service officers. The qualitative approach will be given to CEO and Board staff members and the information provided will be treated as a supplement of those collected using questionnaire.

The target population is the people having the common characteristic and researcher has interests on them to achieve research objectives. In this research, the study targets managers, CEO commercial Banks in Rwanda but zeros down on I & M Bank PLC Rwanda as a case study. I&M Bank is a registered commercial bank in Rwanda regulated by the National Bank of Rwanda (BNR). The targeted a population of 132 comprises employees within I&M Bank headquarter such as CEO and Board staff members, information and technology officers, risks and audit officers, accounting and credit officers and customer service officers. Therefore, from 132, a sample was selected as representative. All this population were chosen or determined based on their responsibilities and were treated as important agents to answer research objectives.

Table 1: Target Population

Category	Number
CEO and Board staff members	8
Information Technology Officers	17
Risk and Audit Officers	12
Accounting and credit officers	61
Customer care service officers	34
Total	**132**

Source: (Research, 2021)

According to Kothari (2014), the sample size is the technique of selecting small sample as representative of the total target population. In this study, researcher preferred to use the formula developed by Neyman to compute the sample size

$n = \frac{N}{1+N(e)^2}$ Where, n: stands for total target population, n: stands for sample size and e: stands for the sampling error.

In this study, the sampling error equal to 5% and determines the level of precision where 95% indicates the confidence intervals to give 5% as the level of deviation. However the sample size will be

$n = \frac{132}{1+132\,(0.05)^2}$ = 99 respondents

Since the population under the study are in six categories of different responsibilities, in order to know how many that will be asked information for each category of the sample size, the sample ratio is computed as follow: K=n/N .This means that if n=99 and N=132, therefore sample ratio or proportion is 8/132=0.061 for CEO and Board, 17/132=0.129 Information Technology, 12/132=0.091 Risk and Audit, 23/132= 0.174 Accounting,38/132= 0.289 Credit and 34/132= 0.256 Customer service.

Table 2: Sample Size

Category	Number	Proportion	Sample size
CEO and Board officers	8	0.061	6
Information Technology officers	17	0.129	13
Risk and Audit officers	12	0.091	9
Accounting and credits officers	61	0.462	46
Customer service officers	34	0.256	25
Total	132		99

Source: (Research, 2021)

In this research project, the technique used to collect data was simple random technique, which is more effective, and convenience based on the nature of this research. The use of this technique is because population is that all population targeted have equal probability chance to be selected within different departments of I&M Bank Rwanda Plc.

In this study, researcher shall use semi-structured questions, which were distributed to different categories of I&M bank. The choice of semi structured question is because this will allow respondents manage their time and increase the response rate. Open-ended questions also allowed further explanation if the responses were not clear. Since a self-administered questionnaire is used, care and control is realized by keeping a register of all the questions asked and the responses. However, the researcher will not record any personal information or company data. The questionnaire is structure in a way that does not ask any offensive, private or invasive questions. The researcher will seek approval from I&M Bank to allow researcher to interview M Bank employees.

The authority was through a letter addressed to the head of I&M Bank seeking approval to enter the premises and administer questionnaires. The research will therefore create a rapport with the participants and will book an appointment to avoid inconveniencing or interrupting M Bank's operations &I. The documentation review shall also be used as instrument for data collection. This consists of having different source of information, which are relevant to achieve research objectives. These include textbooks, journal articles, annual reports and internet sources. In this study, interview was given to the CEO and Board of I&M Bank. This helped to complete information collected using questionnaire. The information during interview was recoded using mobile phone to facilitate interpretation.

In this research project, researcher collected information by administering questions to research participants where questionnaire were left to be filled. This indicates voluntary participation in answering research questions. This was done by using research assistant of I&M bank .Thus, clarification was only made when needed by research participants and this was done through mobile call.

4.0 Results

In this research project, demographic characteristics of respondents was established based on respondents gender, age group, education and occupation so as to know the categories of research participants. The total sample of 99 respondents were assessed in the form of questionnaire. Respondents were employees within I&M Bank headquarter such as CEO and Board staff members, information and technology officers, risks and audit officers, accounting and credit officers and customer service officers.

Table 3: Gender of Respondents

	Gender	Frequency	Valid Percent
Valid	Male	75	75.8
	Female	24	24.2
Total		**99**	**100.0**

Source: (Primary Data, 2022)

The information collected from research participants showed that 75.8% of respondents were male and they are more than female who 24.2% among surveyed respondents were. The general observation of researcher with basis of research findings is that male are more than female in I&M Bank.

Table 4: Age group of Respondents

	Age group of respondents	Frequency	Valid Percent
Valid	21 to 30 years	19	19.2
	31 to 40 years	50	50.5
	41 to 50 years	21	21.2
	51 and above	9	9.1
Total		**99**	**100.0**

Source: (Primary Data, 2022)

Research findings showed that (50.5%) were generally in the age group of between 31 -40 years. Respondents of 21.1%) varied between 41-50 years' group width. 19.2% of respondents have the age group of between 21-30years while 9.1% of respondents were in the age group above 51years.

Table 5: Education of Respondents

	Education of respondents	Frequency	Valid Percent
Valid	Bachelor Degree	87	87.9
	Master Desgree	12	12.1
Total		**99**	**100.0**

Source: (Primary Data, 2022)

The findings in Table 5 shows that the education background of most bachelor respondents is with a 87.9% and this shows that they understand lending rate practices, respondents with masters having a 12.1% shows that they contribute so much in achieving institution towards performance as they are very experience with banking operations in terms of lending rate practice.

Table 6: Experience of Respondents

	Experience of respondents	Frequency	Valid Percent
Valid	1-2 years	22	22.2
	3-4 years	63	63.6
	5-6years	9	9.1
	7 years and above	5	5.1
Total		**99**	**100.0**

Source: (Primary Data, 2022)

The findings from Table 6 revealed that majority of respondents have a working experience of 3 to 4 years at 63.6% which means that they understand the lending rate practice and how this leads to the performance of financial institution.22.2% of respondents have working experience of 1-2years, 9.1% of respondents have working experience of 5to 6years while 5.1% have working experience of 7years and above.

Effects of loan to deposit ratio on financial performance of commercial bank in Rwanda

As it was said previously, the first specific objective of this study was to assess the Effects of loan to deposit ratio on financial performance of commercial bank in Rwanda. Below table shows how loan to deposit ratio contributes to financial performance of I&M Bank plc.

Table 7: Loan to deposit ratio contributes to financial performance of i&m bank

Statement	strongly disagree	disagree	agree	strongly agree	mean	SD
Loan to deposit ratio measures lending interest rate	0.0	18	39.2	50.9	3.41	.666
Loan to deposit ratio determines the level of borrowing	3.5	17.0	55.0	24.6	3.01	.748
Loan to deposit ratio influences abilities of further investment	23.4	54.4	18.7	3.5	2.02	.751
Loan to deposit ratio is used to assess the level of financial performance	0.0	1.8	46.7	51.5	3.54	.576
Loan to deposit ratio helps to assess ongoing progress of I&M bank.	0.0	8.2	53.2	38.6	3.30	.614
Loan to deposit ratio has led to investment decision making	17.5	66.7	15.2	0.6	1.99	.594
Average Mean					**2.88**	**.2632**

Source: (Primary data, 2022)

Based on the assumptions for the Categories of means established by Field (2005), it assumed that 1.00-1.85= Very low mean; 1.86-2.71=Low mean; 2.72-3.57=high mean; 3.58-4=Very high mean. Therefore, the information collected as presented in Table 4.2 showed that loan to deposit ratio

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contributes to financial performance of I&M bank plc which is indicated by the following indicators:

Financial performance of commercial banks benefit from Loan to deposit ratio measures lending interest rate since the mean was found to be 3.41 and standard deviation of 0.66 interpreted as high mean, Loan to deposit ratio determines the level of borrowing considering the mean of 3.01 and standard deviation of 0.748 interpreted as high mean, Loan to deposit ratio influences abilities of further investment with the mean of 2.02 with standard deviation of 0.751 interpreted as low mean, Loan to deposit ratio is used to assess the level of financial performance with the mean of 3.54 with standard deviation of .576 interpreted as high mean, and Loan to deposit ratio helps to assess ongoing progress of I&M bank with the mean of 3.30 with standard Deviation of 0.614 and Loan to deposit ratio has led to investment decision making since the mean was found to be 1.99 with SD of .594 interpreted as low mean.

Effects of loan to value ratio on financial performance of commercial bank in Rwanda

As it was said previously, the first specific objective of this study was to determine the effect of loan to deposit ratio contributes to financial performance of I&M bank plc. Below table shows effects of loan to value ratio on financial performance of commercial bank in Rwanda.

Table 8: Effects of loan to value ratio on financial performance of commercial bank in Rwanda

Statement	Strongly disagree	Disagree	Agree	Strongly agree	Mean	SD
The loan to total value is important measurement of lending rate system	0.0	9.9	.2hh	50.9	3.41	.666
Loan to total value ratio shows level of loan with basis of value generated	3.5	17.0	5.0	24.6	3.01	.748
The loan to total value determines equity generated as result of investment	23.4	54.4	18.7	3.5	2.02	.751
Loan to total value is important within banking institution to estimate the level of financial performance	0.0	1.8	46.7	51.5	3.54	.576
The loan to value ratio determined institution; s assess and liability	0.0	8.2	53.2	38.6	3.30	.614
Loan to value ratio is an important aspect of achieving institution goals and objectives	0.0	1.8	53.2	38.6	3.10	.72
Loan to value ratio is the important aspect of comparing assets and liabilities	0.0	1.8	67.1	28.0	3.42	.821
Average Mean					**2.879**	**.2632**

Source: (Primary Data, 2022)

As indicated in Categories of means according to Field (2005): 1.00-1.85= Very low mean; 1.86-2.71=Low mean; 2.72-3.57=high mean; 3.58-4=Very high mean. According to the above Table, the Effects of loan to value ratio on financial performance of commercial bank in Rwanda and

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appreciated on the following indicators: The study findings showed that loan to total value is important measurement of lending rate system since the mean was found to be 3.41 and standard deviation of 0.66 interpreted as high mean, Loan to total value ratio shows level of loan with basis of value generated with a mean of 3.01 and standard deviation of 0.748 interpreted as high mean, The loan to total value determines equity generated as result of investment with mean of 2.02 with standard deviation of .751 interpreted as low mean , Loan to total value is important within banking institution to estimate the level of financial performance with the mean of 3.54 with standard deviation of .576 interpreted as high mean, and The loan to value ratio determined institution; s assess and liability with the mean of 3.30 with standard deviation of 0.614 interpreted as high mean.

However, the following were professional trainings were lowly appreciated by participants in this study: Loan to value ratio is an important aspect of achieving institution goals and objectives the mean was found to be 2.02 interpreted as low mean, and categorization of Loan to value ratio is the important aspect of comparing assets and liabilities the mean was found to be 3.42 with SD of 0.614 interpreted as low mean. In conclusion, the grand mean of 2.87 shows that effects of loan to value ratio on financial performance of commercial bank in Rwanda related is good.

Effects of credit policy on financial performance of commercial bank in Rwanda.

As it was said previously, the first specific objective of this study was to identify the Effects of loan to value ratio on financial performance of commercial bank in Rwanda. Below Table4.4 shows how credit policy contribute to the financial performance of commercial banks in Rwanda.

Table 9: Effects of credit policy on financial performance of commercial bank in Rwanda

Statement	Strongly disagree	Disagree	Agree	Strongly agree	Mean	SD
The bank uses credit policies to make an accurate lending interest rate	23.4	54.4	18.7	3.5	2.02	.751
The credit policies are important aspect of credit recovery system	0.0	9.9	39.2	50.9	3.41	.666
Having credit policy within banking institution enables credit management	3.5	17.0	55.0	24.6	3.01	.748
The credit policies increased assurance of credit recovery system with I&MBank	17.5	66.7	15.2	0.6	1.99	.594
Effective credit policies have led to the performance of I& M Bank	0.0	1.8	46.7	51.5	3.54	.576
The credit policies led clients to build understanding on banking strengths and weakness.	0.0	8.2	53.2	38.6	3.30	.614
Average Mean					**2.879**	**.2630**

Source: (Primary Data, 2022)

Based on the categories of means as said by (Field, 2005), 1.00-1.85= Very low mean; 1.86-2.71=Low mean; 2.72-3.57=high mean; 3.58-4=Very high mean. The information collected about effects of credit policy on financial performance of commercial bank in Rwanda showed that The

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bank uses credit policies to make an accurate lending interest rate since the mean was found to be mean of 2.02 with standard deviation of .751 interpreted as low mean , The credit policies are important aspect of credit recovery system of 3.4.1 with standard deviation of .666 interpreted as high mean, However, the following credit policy within banking institution enables credit management with mean 1.99 with standard deviation of .594 interpreted as low mean.

The credit policies increased assurance of credit recovery system with I&M Bank with the mean of 3.54 with standard deviation of 5.76 interpreted as high mean, and effective credit policies have led to the performance of I & M Bank with the mean of 3.30 with standard deviation of 6.14 interpreted as high mean. The credit policies led clients to build understanding on banking strengths and weakness with the mean of 3.30 with standard deviation of .614 interpreted as high mean In conclusion the grand mean of 2.88 shows that the effects of credit policy on financial performance of commercial bank in Rwanda. It is on good position since the mean result is interpreted as high mean.

Financial performance of commercial bank

Normally, the financial performance of commercial bank was measured by financial return on equity, return on assets and capital adequacy. The information collected from research participants are summarized in the table below.

Table 10: Financial performance of I&M bank is measured by return on equity

	Rating scale	**Frequency**	**Valid Percent**
Valid	Strongly agree	32	32.3
	Agree	51	51.5
	Neutral	9	9.1
	Disagree	7	7.1
	Total	**99**	**100.0**

Source: Primary Data, 2022

Table 10 showed that 32.3% strongly agreed that financial performance in I &Mbank is determined by return on equity. The information collected were also agreed by 51.5% of respondents. In this research, only 9.1%of respondents were neutral and 7.1 disagreed. The conclusion is that most of respondents put more emphasis on return on equity as important aspect of financial performance.

Table 11: Financial performance is determined by capital adequacy

	Rating scale	**Frequency**	**Valid Percent**
Valid	Strongly agree	46	46.5
	Agree	48	48.5
	Strongly disagree	5	5.1
	Total	**99**	**100.0**

Source: Primary Data, 2022

In Table 11, the study findings showed that financial performance is measured by capital adequacy as strong agreed by 46.5% of respondents. The information collected was also agreed by 48.5% of

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respondents. During data collection only 5.1% of respondents strongly disagreed but majority of respondents agreed on the statement.

Relationship between lending rate practices and financial performance of commercial bank

In this study, the relationship between lending rate practices and financial performance of commercial bank was determined using correlation technique, which is known to measure the relationship between the independent and dependent variables. In this study, the significance spearman correlation coefficient was used.

Table 12: Correlation between lending rate practices and financial performance of commercial banks

			Lending rate practices	Financial performance of commercial bank
Spearman's rho	**Lending rate practices**	Correlation Coefficient	1.000	.798**
		Sig. (2-tailed)	.	.000
		N	99	99
	Financial performance of commercial bank	Correlation Coefficient	.798**	1.000
		Sig. (2-tailed)	.000	.
		N	99	99

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

Source: (Primary Data, 2022)

As indicated by Table 12, there is a high positive relationship between lending rate practices and financial performance of commercial bank. That relationship is statistically significant at 0.798, which is high.

Regression Analysis

The following Table 14 is about the model summary of the indicators of independent variables (loan to deposit ratio, loan to value ratio and credit policy) while the dependent variables is financial performance and determined by return on equity, capital adequacy and return on assets) and dependent variable.

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.849[a]	.768	.769	.52062

a. Predictors: (Constant), Professional training ,Lending procedure and Financial Decision

b. Dependent Variable: financial performance of commercial bank

The findings in Table 13 revealed that lending rate practices as measured by (loan to deposit ratio, loan to value ratio and capital adequacy) were significantly important to financial performance of

commercial bank. Therefore, the regression analysis (R2) of 0.768, this means that the findings show strong linear, positive, statistically significant and good fit therefore the financial performance of commercial banks.

Table 14: Regression Coefficients

Model		Unstandardized Coefficients B	Std. Error	T	Sig.
1	(Constant)	.344	.186	1.851	.067
	Loan to deposit ratio	.454	.147	3.088	.003
	Loan to value ratio	0.91	.239	-.381	.007
	Credit policy	0.14	305	-.046	.003

a. Dependent Variable: financial performance of commercial

Source: Primary Data, 2022

The findings in Table 14 indicate that holding independent variables (helding lending rate practice) to a constant zero, financial performance of commercial bank would be at 0.344. one unit increase in loan to deposit ratio would lead to increase of financial performance with 0.454 and P value of .003., loan to value ratio would lead to increase of financial performance with 0.91 and P value of .007 and credit policy would lead to increase of financial performance with 0.14 and P value of .003 . From the findings of table 4.8 it is clear that loan to deposit ratio, loan to value ratio and credit policy has a great influence on financial performance of commercial bank; these results concur with that of Ngare (2018) who found that credit appraisal analysis strategy is very important for commercial bank to develop their financial performance.

These finds indicate that lending rate practices have a great impact on financial performance of commercial bank; it means that when there is good Interest rate in bank, stability and effective credit collection lead to return on equity, capital adequacy and return on assets. These findings concur with that of (Brown bridge, 1998); saw that the banking crisis cost in terms of output loss was high and continued saying that most of the Bank failures is linked to poor prudential loans management in many countries.

Hypothesis Testing

The first null hypothesis was to H01: There are no significant effects of loan to deposit ratio on financial performance of commercial in Rwanda. According to table 4.8 the results showed that loan to deposit ratio had p =0.003 >0.05 hence we fail to reject Null Hypothesis and conclude that There is no significance contribution of loan to deposit ratio on financial performance of commercial bank. Second null hypothesis was H02: There are no significant effects of loan to value ratio on financial performance of commercial bank in Rwanda.

According to Table 15 the results showed that loan to value ratio had p =0.007 <0.05 hence we reject Null Hypothesis and conclude that there is there are no significant effects of loan to value ratio on financial performance of commercial bank in Rwanda The third null hypothesis was H03:

There are no significant effects of credit policy on financial performance of commercial bank in Rwanda. According to table 4.8 the results shows that credit policy had p =0.003 >0.05 hence we fail to reject Null Hypothesis and conclude that There are no significant effects of credit policy on financial performance of commercial bank in Rwanda.

Discussions

The study findings showed that loan to deposit ratio measures lending interest rate since the mean was found to be 3.41 and standard deviation of 0.66. The study findings showed that Loan to deposit ratio determines the level of borrowing considering the mean of 3.01 and standard deviation of 0.748 interpreted as high mean, Loan to deposit ratio influences abilities of further investment with the mean of 2.02 with standard deviation of 0.751. The information provided are supported by the study conducted by Tarawneh (2016) in USA to determine the factors influencing lending interest rates in banks of United States of America. The study revealed that having enough capital, increase in saving abilities and economic growth remain important in fixing lending interest rate as all these present the significant impact on banking financial performance.

The study findings also showed that Loan to deposit ratio is used to assess the level of financial performance with the mean of 3.54 with standard deviation of .576 interpreted as high mean, and Loan to deposit ratio helps to assess ongoing progress of I&M bank with the mean of 3.30 with standard Deviation of 0.614 and Loan to deposit ratio has led to investment decision making since the mean was found to be 1.99 with SD of .594 interpreted as low mean. Findings from research participants were also supported by the study done by A study done by Almazari (2017) In Kenya to assess the relevance of accounting ratios within financial institutions revealed that with accounting ratios, banking institutions are able to establish efficiency of operations in banking services depends on deposits of customers, pay back of interest on acquired loan and other service fee granted by financial institution.

The study findings showed that that loan to total value is important measurement of lending rate system since the mean was found to be 3.41 and standard deviation of 0.66 interpreted as high mean, Loan to total value ratio shows level of loan with basis of value generated with a mean of 3.01 and standard deviation of 0.748.This is was supported by the study done by Samad (2014), in Iran to determine the effectiveness of loan to total value within banking institutions revealed that effective policies of loan to total value is important connection with an effect on financial stability, credit growth, and a reduced systematic risks of parameters. The information collected from respondents of I&M Bank revealed that credit policies are important aspect of credit recovery system of 3.4.1 with standard deviation of .666 interpreted as high mean, However, the following credit policy within banking institution enables credit management with mean 1.99 with standard deviation of .594 interpreted as low mean. This was also supported by the study done by Byusa and Nkusi (2012) in Kenya showed that the credit policies in microfinance plays important role as this helps in establishing credit limits and achieve credit recovery systems. However, the credit policies affect institution financial performance as this leads to minimum credit risks.

5.0 Conclusions

In providing bank development support and specialized assistance to high-level beneficiaries to expand their chances of mission success and reduce default rates. Access to finance has been identified as a key factor for small and Medium Enterprises to successfully develop production capacity, compete, create employment opportunities and contribute to poverty. Loan policies are considered only as part of the procedure that should be considered in the general evaluation of the

policy management must maintain a written loan review policy reviewed and approved by Board Policy Guide. The main obstacle to the rapid development of the SME sector is financed by debt and lack of equity financing. Financial institutions view SMEs as risks due to their weak collateral and lack of information on their ability to repay loans. People whose personal lifestyles can have a profound impact on the operations and sustainability of such businesses mainly own small businesses. Due to the ownership structure, some of these companies are unstable and may not be able to guarantee long-term profitability.

6.0 Recommendations

Finding that loan to deposit ratio may influence financial performance of commercial banks and following are recommended to in general: I&M Bank should provide additional business skills, training, they usually study the positive effects of updating business information and expanding customer reliability standards Provide sufficient training to employees on lending practices throughout using information technology, experienced personnel and reducing interest rate. The study recommends that bank should have comprehensive lending policy, maintaining written and up-to-date lending guidelines are approved d by the executive committee. I&M Bank need to maintain a lending practice more effectively and procedures that should be considered in the general evaluation of the policy regulating lending practices. I&M Banks requires long-term visions from service providers and donors who can support them, it appears to be the key to ensuring course delivery training.

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