WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF BANKING INSTITUTIONS IN RWANDA

Case study: BANK OF KIGALI PLC

Dissertation Submitted in Partial Fulfilment of the Requirement for the award of Masters Degree in Business Administration.

BY TUMAINI MUHEREKEZA ESPOIR

Roll Number: 202111182

KIGALI INDEPENDENT UNIVERSITY/ULK

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DECLARATION

I hereby declare that this thesis entitled “working capital management and financial performance, a case study of Bank of Kigali (BK) – Rwanda, period: 2013-2016”, is my original work and has not been presented for a degree or any other academic award in a University or in any institution of higher learning.

Signature: …………………………………   Date: …….. /….. / 2023

TUMAINI MUHEREKEZA ESPOIR

APPROVAL

This is to certify that this work entitled **Working Capital Management and Financial Performance of a baking institution in Rwanda:** a case study of Bank of Kigali (2013-2016) is a studied carried out by **TUMAINI MUHEREKEZA Espoir** under my guidance and supervision.

SUPERVISOR: Dr. Gashema BRUCE

Signature: ....

Date: ..../......../2023

DEDICATION

This research project is dedicated to my parents, MUHEREKEZA BASEDEKE and SARYDA CHAKUPEWA, who taught me that the best kind of knowledge is that which is learned for its own sake. Thank you for instilling in me the importance of education and the desire to continuously gain more knowledge. It is also dedicated to WANI PATRICIA, who taught me that even the largest task can be accomplished if it is done one step at a time. Her never- ending support and encouragement throughout my life is a gift that I will never take for granted and I am forever indebted to her.

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LIST OF ABBREVIATIONS AND ACRONYMS

% : Percentage

BK : Bank of Kigali

FI : Finance Institution

H0 : Hypothesis null

H1 : Hypothesis Alternative

Ltd : Limited

NBR : National Bank of RWANDA

NIM : Net Interest Margin

NPL : Non-Performing Loan

PhD : Doctor of Philosophy

POT : Pecking Order Theory

ROA : Return On Asset

ROE : Return On Equity

ULK : Université libre de Kigali

PLC : Public Limited Company.

ABSTRACT

Working capital is regarded as the lifeblood and nerve of a business concern, it is therefore essential to accommodate the smooth operations of any organization, but Studies in working capital management have provided inconclusive results. The objective of this study is to analyze the contribution of working capital management on the financial performance of banking institutions using Bank of Kigali. Research had the following objectives; To evaluate the working capital management of Bank of Kigali, To identify the factors influencing the effectiveness of working capital management in Bank of Kigali and To examine the relationship between working capital management and financial performance of Bank of Kigali. with the following research questions: How the working capital management influence the financial performance of Bank of Kigali? How is the effectiveness of working capital management in BK? And to what extend is the relationship between working capital management and financial performance in BK? with the following hypothesis: **H0:** There is no relationship between working capital management and financial performance in BK Rwanda. **H1:** There is relationship between working capital management and financial performance in BK Rwanda. The study used descriptive research design. The data collecting instrument that was used is a structured questionnaire developed by the researcher but also interviews, particularly for this study. Descriptive statistics for instance, frequency, percentages and cumulative frequency was utilized in analyzing quantitative data. The findings of the study showed that the that the organization constantly showed outstanding increase in its total assets over the course of the lengthy four-year examination period (2013-2016). This continuous growing trend demonstrates the company's sound financial management and highlights its capacity to meet its financial obligations while retaining a sizable asset base. The results from the analysis revealed a strong positive relationship between The Table 11 offer a compelling narrative of the bank's financial performance over the years, particularly in terms of key indicators like Return on Assets and Return on Equity. The data indicates a subdued performance in both 2009 and 2013, With the best performance levels, particularly in ROA and ROE, 2015 stands out as a notable year, continuing the uptrend into 2016. This emphasizes the complex link between asset quality and financial performance.

Keywords: *working capital, financial performance, return on asset and return on equity, trade-off theory, account payable, non performing loan.*

CHAPTER 1: GENERAL INTRODUCTION

This chapter provides the overview of the study. It contains the background of the study, the statement of the problem, Objectives of the study, Research questions, Hypotheses, Significance of the study, Scope of the study and finally the organization of the study.

1.1.Background of the Study

The concept of working capital management addresses how companies manage their short-term capital in order to achieve a satisfying liquidity, profitability and shareholders' value. Working capital management is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities. The short- term capital refers to the capital that companies use in their daily operations and it consists of companies' current assets and current liabilities. A well-managed working capital promotes a company's wellbeing on the market in terms of liquidity and it also acts in favor for the growth of shareholders value (Jeng-Ren, Li, & Han-Wen, 2006). Working capital management includes the selection of an appropriate strategy in coordination with the entity's financial needs and in lieu with increasing the company yield (Ajanthan, 2013).

The working capital is the life blood of a business and an important function of finance that defines and deals with the liquidity of the firm. Investors look for investments that give the highest yields; this necessitates the compilation of a strategy that helps predict today's market. Managers need a desirable working capital strategy that maximizes shareholder interests and directs them in challenges that the entity faces 2 (Ajanthan, 2013).

The level and the quality of current assets (Working capital) held by the firm and have direct impact on its liquidity (short – term solvency) position. As is known, current assets have the basic feature of transformation. One form of current assets converts itself into other form until cash is realized eventually at the end of the operating cycle of the business (Afza & Nasir, 2007). Thus, working capital management is essentially concerned with managing the liquidity position of the position of the business and it entails two related problems -managing the firm's investment in the current assets and managing the firms use of current liabilities (Anand, 2001). It is the cash which is used by the business to repay its current obligations or to pay for the procurement of the inputs needed in its operations. Without cash, or at least access to it, bankruptcy becomes a grim of possibilities (Anad, 2001). The liquidity position of the business depends on the level of current

assets it holds. The higher the level of current assets the higher would be the capacity to transform these current assets to generate cash. Consequently, the liquidity position of the business denoted by the current ratio (Ratio of current assets to current liabilities shall also be high). Apart from the level of current assets the quality of current assets is equally important aspect that affects the liquidity position of the business (Bridge, 1997). The higher the investment in more liquid current assets such as cash and receivables, the better is the liquidity position of the business. The banks are the financial institutions or financial intermediaries that accept deposits and channel these deposits into lending activities, either directly by loaning or indirectly through capital markets. The working capital which is our most concern is the money belonging to financial investment company. According to Flexiner (1987) is the money immediately available for business issues, rather money it has an investment or property.

Managers have shortened the cash cycle through shortening the period of receivables collections and inventory turnover and lengthening the period of settling liabilities, in order to increase company profitability (Onaolapo, Obasan, & Soyebo, 2012). Every business needs adequate liquid resources in order to maintain day to day cash flows. It needs enough cash to by wages and salaries as they fall due and to pay creditors if it is to keep its workforce and ensure its supplies. Maintaining adequate working capital; is not just important in the short term. Sufficient liquidity must be maintained in order to ensure the survival of business in the long term as well. Even a profitable business may fail if it does not have adequate cash flows to meet its liabilities as they fall due (Kargar, 1994).

Therefore when business makes investment decisions they must not only consider the financial outlay involved with acquiring the new machine or the new building but must also take account of the additional current assets that are usually involved with any expansion of activity. The significance of effective working capital has been a topic of contention with researchers failing to agree on most of the findings.

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. A banking sector is the nerve center and blood vessel of the whole economy. As result, when its operations generate good effects, it will contribute much to the country's wealthy and growth. Although banks do many things, their primary role is to take in funds called deposits from those with money, pool

them, and lend them to those who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (to whom the bank lends money). Research on working capital management has found that efficient investment in and management of working capital can enhance profitability and increase firm value (AlShubiri, 2011; Boțoc & Anton, 2017; Jeng-Ren & Han-Wen, 2006; Le, 2019). In other words, efficient management of working capital contributes to developing and maintaining a competitive advantage (Aktas et al., 2015; Baños-Caballero et al., 2014; Boisjoly et al., 2020; Deloof, 2003; Padachi, 2006; Reason, 2002). Thus, working capital management is relevant due to the sustained increase in competitive pressure (Baños-Caballero et al., 2012). Working capital management effectively influences the performance of commercial banks especially the Bank of Kigali and Effective capital management is a core requirement of the banking sector.

1.2.Problem Statement

Commercial banks like any other business face challenges such as insolvency, lack of loanable funds due to poor working capital management and disappointments due to clients who fail to get back their savings due to poor planning (Oguntimehin, 2001). Working capital performance of commercial banks aims to achieve balance between profitability and risk of making business which contributes to organizations value. No commercial bank can hope to be successful unless its working capital is well managed. The importance of working capital management to an organization is emphasized by Hill (2010); who precuts out that it is the function responsible for 60-70 percent of costs, assets and people. A commercial bank should have working capital policies on the management of receivables, cash, inventory and short-term investments. The policies if implemented appropriately, helps in minimizing the possibility of erratic working decisions by the managers.

It is upon this background that the researcher carried out an investigation on whether the effective management of working capital provides a key to the question of addressing the failings of Bank institutions in Kigali City.The aforesaid problems affect performance of commercial banks hence signifying that there is a relationship between working capital management in the performance of financial institutions in Rwanda. It is against this background that, the researcher intends to carry out this study on the role of working capital management on financial performance of financial institutions in Rwanda.

1.3.Research objectives

The study seeks to analyze the contribution of working capital management on the financial performance of banking institutions in Kigali City using BK ltd as a case study. The objective of the study was divided into two objectives: general objectives and specific objectives.

1.3.1. General Objectives

The general objectives is to analyze the contribution of working capital management on the financial performance of banking institutions using BK ltd as a case study with the intention of identifying the critical elements that support its profitability, liquidity, and overall financial stability. These general objectives implies that the study will look at how the bank manages its current assets and liabilities in relation to financial performance indicators like profitability ratios (such as return on assets, return on equity), liquidity ratios (such as current ratio, quick ratio), and other pertinent financial indicators. The study intends to insights into the effectiveness of the bank's working capital management techniques and their impact on the bank's overall financial success.

1.3.2. Specific Objectives

1. To evaluate the working capital management of Bank of Kigali.

2. To identify the factors influencing the effectiveness of working capital management in Bank of Kigali.

3. To examine the relationship between working capital management and financial performance of Bank of Kigali.

1.4.Research Questions

1. How the working capital management influence the financial performance of Bank of Kigali?
2. How is the effectiveness of working capital management in BK?
3. To what extend is the relationship between working capital management and financial performance in BK?

1.5.Research hypothesis

An hypothesis can be defined as a tentative explanation of the research problem, possible outcome of the research, or an educated guess about the research outcome (Sarantakos, 1993).

RONGERE P (1980) Null hypothesis is a denial of an attribute, an existence, a difference or an effect or relationship expressed in negative statement.

H0: There is no relationship between working capital management and financial performance in BK Rwanda.

H1: There is relationship between working capital management and financial performance in BK Rwanda.

1.6.Scope of the Study

The study focused on working capital management as the independent variable and financial performance as the dependent variable.

1.6.1. Scope in time

The study covered the period 2013-2016 because available data shows that it is within this period that the bank registered improved performance. This period also preferred because it is the one where current and relevant data was easily accessible.

1.6.2. Scope in domain

The research is in domain of finance and the researchers have been influenced by some courses studied like financial analysis and advanced analysis.

1.6.3. Scope in space

The study was carried out at BK Ltd main branch which is located in Kigali city along Nyarugenge District. BK was preferred because it is one of the private institutions that have registered improved performance.

1.7.Significance of the Study

This thesis is useful to various group of people for various purposes as explained below. The study findings intended to help the management through improving on its working capital management, to improve on its decision making on areas of financial performance, prompt settlement of claims and further investment.

1.7.1. Personal interest

The study helped the researcher to get knowledge as relevant information on how working capital management contributes on organization performance.

1.7.2. Social interest

The research benefit to BK managers to have the image of working capital management and how it contributes on financial performance of the bank.

1.7.3. Academic interest and scientific interest

The research was undertaken to fulfil the academic requirements for obtaining the master's degree in business administration as written in ULK regulations. The study used as references to university researchers and others researchers that interested to conduct research on related domain of the study.

1.8.Methodology

To success produce this thesis, it was necessary to use data collection tools by using questionnaire, interview and documentary based on the object of the study.

1.9.Definitions of key concepts

- Working capital management represents the relationship between a firm's short-term assets and its short-term liabilities.

- Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

1.10. Structure of the dissertation

This study was divided into five chapters. Chapter one deal with the definition of the key and gives all general introduction The second chapter presents the related literature review of the study. The third chapter presents the research methodology used in this research that will be clearly shown in the next chapter. The fourth chapter presents the research findings present the data analysis and the interpretation of the results which obtained by using the research methodology. The fifth chapter that is the summary, conclusion and recommendation where all data finds shows clearly and used.

CHAPTER 2: LITERATURE REVIEW

It has been often observed that the shortage of working capital leads to the failure of a business. The proper management of working capital may bring about the success of a business firm. The management of working capital includes the management of current assets and current liabilities. A number of companies for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of working capital.

A firm may exist without making profits but cannot survive without liquidity. The function of working capital management in an organization is similar that of the heart in a human body. Also it is an important function of financial management. The financial manager must determine the satisfactory level of working capital funds and also the optimum mix of current assets and current liabilities. He must ensure that the appropriate sources of funds are used to finance working capital and should also see that short term obligation of the business are met well in time.

This chapter provide the literature review also discuss various authors that have carried out studies working capitals. This enables the researcher appreciate what they have found out and the methodology used (Kombo and Tromp,2006). Review of the available literature is very important for this study because it's helps in clarifying the research problem, specifying research questions, focusing on research design and ultimately answering the research problems.

2.2. Definition of key concepts

The definition of key concepts is essentially by providing the necessary mean of various words because one word can be defined differently by researchers and can have different meaning according to domain of research.

2.2.1. Working capital management

Working capital management involves the management of all current assets, including cash, marketable securities, debtors, and stock (inventory), as well as all current liabilities, including creditors and outstanding expenses, according to Pandey (2005). L.J. Guthmann defined working capital as the portion of a firm's current. Assets which are financed from long–term funds. The excess of current assets over current liabilities are termed as Net working capital.

According to Van Horne and Wachowicz (2011), working capital management is the act of overseeing a company's current assets and liabilities in order to preserve an optimal balance between them.

2.2.2. Financial performance

According to Kabethi (2013), the financial performance is the process of measuring the results of a Firm's policies and operations in monetary terms. According to Brigham and Houston (2012), financial performance refers to the extent to which a firm generates income (profits) and whether the firm's operating income is sufficient to cover its costs. Financial performance encompasses a wide range of financial measures, including profitability, liquidity, solvency, and efficiency, that provide insights into a company's overall financial health. According to Van Horne and Wachowicz (2011). Financial performance may be defined as a general measure of a company's overall financial health over a given period of time, and can be used to compare similar companies across the same industry or to compare industries or sectors in aggregation (Maymand, 2014).

1. Cash Management

Cash is taken as the most liquid asset held by a firm (Horne and Wachowicz, 2000). It is therefore important for a firm to have a clear picture of its cash conversion cycle.

In their 2017, Richard A. Brealey and Stewart C. Myers said that a corporation has the proper quantity of cash available at the right time. In order to meet operational needs, it entails controlling financial flows and cash balances. Donald E. Kieso, Jerry J. Weygandt, and Terry D. Warfield in 2016 stated that cash management is the process of managing cash, cash equivalents, and short-term investments to ensure that a company has sufficient liquidity to meet its short-term obligations while maximizing returns on excess cash.

2. Inventory Management

Inventory management is a critical aspect of operations and supply chain management for businesses. According to Philip Kotler and Kevin Lane Keller(2015) effective inventory management is vital for businesses to ensure that they have the right products available at the right time and in the right quantities. James R. Stock and Douglas M. Lambert (2017), Inventory management plays a crucial role in achieving supply chain efficiency. It involves decisions regarding what to order, how much to order, and when to order to meet customer demand while minimizing costs.

3. Accounts Receivables management

Accounts Receivable management, also known as credit management, plays a crucial role in a company's financial health by ensuring the timely collection of outstanding customer payments

Philip Kotler and Kevin Lane Keller in their book "Marketing Management" (2015): "Effective Accounts Receivable management is essential for maintaining cash flow and ensuring that a company has the funds to support its operations. It involves credit policies, billing procedures, and collection strategies."

David M. Burt, Sheila Petcavage, and Richard Pinkerton (2009),Accounts Receivable management is a critical component of the cash-to-cash cycle in supply chain management. It focuses on managing customer credit and collections to optimize working capital.

4. Accounts Payable Management

Accounts Payable Management is a critical aspect of a company's financial management, involving the management of outstanding payments to suppliers and creditors.

Philip Kotler and Kevin Lane Keller (2015), Accounts Payable Management is essential for maintaining good relationships with suppliers and ensuring the timely payment of bills. It involves managing cash outflows and optimizing trade credit terms.

David M. Burt, Sheila Petcavage, and Richard Pinkerton (2009), Accounts Payable Management is a key component of working capital management. It focuses on optimizing cash flow by managing supplier payments efficiently.

Paul D. Kimmel, Jerry J. Weygandt, and Donald E. Kieso (2019) ,Accounts Payable Management involves monitoring and paying amounts owed to suppliers and creditors

2.3. The component of working capital management

To ensure effective use of its resources, working capital management involves controlling a company's short-term assets and liabilities. The following are the main elements of working capital management:

2.3.1. Current asset

Many authors in the fields of finance have written on and defined current assets. According to Ray H. Garrison, Eric W. Noreen, and Peter C. Brewer's book "Managerial Accounting" from 2014,

"Current assets are cash and other resources expected to be exchanged for cash or consumed within a year (or the company's operating cycle, if longer)."

The authors of "Introduction to Financial Accounting" (2007 publication) are Charles T. Horngren, Gary L. Sundem, and John A. Elliott. Current assets are anticipated to be used up within a year or during the operational cycle, whichever is longer.

2.3.2. Current liabilities

In their 2014 book "Managerial Accounting," authors Ray H. Garrison, Eric W. Noreen, and Peter C. Brewer write: "Current liabilities are obligations that are expected to be satisfied with current assets or by generating other current liabilities within a year (or the company's operating cycle, if longer)."

According to Charles T. Horngren, Gary L. Sundem, and John A. Elliott's book "Introduction to Financial Accounting" from 2007, "Current liabilities are debts that are scheduled to be settled within one year or the operating cycle, whichever is longer. Usually, current assets are used to settle them, or new current obligations are created.

2.4. The objectives of working capital management

Working capital management plays a crucial role in a company's financial health and efficiency. Various authors and experts have identified common objectives for working capital management.

Weston and Brigham: In their book "Managerial Finance" (1981), Weston and Brigham list a number of goals, including: Maintaining sufficient funds to fulfill immediate obligations, Optimizing the utilization of present assets to maximize profits, Reducing existing asset financing costs as much as possible.

According to Gitman: In his book "Principles of Managerial Finance" from 2016, Lawrence J. Gitman sets the following goals: making sure there is enough liquidity to support operations, lowering the possibility of financial trouble, increasing the return on investments made in current assets.

According to a number of authors, maintaining liquidity, increasing profitability, cutting expenses, and controlling risk are the shared goals of working capital management. Striking a balance between these goals is the goal of effective working capital management in order to guarantee a

business's profitability and financial stability. Depending on the sector, size of the organization, and prevailing economic conditions, several tactics and priorities may be used.

2.5. The components of financial performance

Financial performance is a thorough evaluation of a company's ability to control its financial resources and meet its financial objectives. It includes a number of elements that shed light on many facets of the financial success and health of an organization.

2.5.1. Return on Asset (ROA)

The Return on Assets (ROA) is a financial ratio that measures a company's profitability in relation to its total assets. It provides insight into how effectively a company is using its assets to generate profits. According to Richard A. Brealey and Stewart C. Myers (2017), Return on assets (ROA) measures how profitably a company uses its assets to generate earnings.

Ray H. Garrison, Eric W. Noreen, and Peter C. Brewer in their book managerial Accounting (2014), Return on assets (ROA) is a profitability ratio that measures a company's ability to generate profit relative to its total assets. It provides insight into how efficiently a company uses its assets to generate earnings."

The formula for ROA is:

$$\text{ROA} = \frac{Net\ profit}{Total\ asstets}$$

2.5.2. Return on Equity (ROE)

the Return on Equity (ROE) is a significant financial ratio that evaluates a company's ability to generate profits from the shareholders' equity invested in the company

The Return on Equity (ROE) is a financial ratio that measures a company's profitability in relation to its shareholders' equity. The return on equity (ROE) ratio measures a firm's ability to generate income for its common shareholders from their investment in the company, write Lawrence J. Gitman and Chad J. Zutter in their 2015 book Principles of Managerial Finance.

The authors of Introduction to Financial Accounting (2007 publication) are Charles T. Horngren, Gary L. Sundem, and John A. Elliott. The return earned by common shareholders on their investment in the company is measured by return on equity (ROE).

The formula for ROA is:

ROA = $\frac{Net\ profit}{shareholders\ equity}$

2.5.3. The net interest margin (NIM)

The authors of Financial Markets and Institutions (2015), Frederick S. Mishkin and Stanley G. Eakins: The difference between the average interest rate earned on assets and the average interest rate paid on liabilities is measured by the net interest margin (NIM).

The formula for ROA is:

NIM= $\frac{Net\ Interest\ income}{Average\ interest-earning\ asset}$

2.5.4. Non-performing loan ratio (NPL)

According to Rosemarie Bond, Michael G. Papaioannou, and Evangelos A. Calamitsis (2005), The non-performing loan ratio is an important indicator of a bank's asset quality, reflecting the proportion of loans that are not being serviced as agreed upon.

Charles W. Calomiris and Stephen H. Haber , The Political Origins of Banking Crises and Scarce Credit (2014): The non-performing loan ratio provides insights into a bank's credit risk and its ability to manage and recover loans.

The Non-Performing Loan (NPL) Ratio is an important financial metric used to evaluate the asset quality and credit risk of a bank's loan portfolio. It gauges the percentage of loans that are in default or aren't being repaid in accordance with the original loan terms.

The formula for NPL is:

NPL Ratio = $\frac{Total\ non-performing\ loan}{Total\ gross\ loans}$

2.6. The importance of understanding the relationship between working capital management and financial performance

The growth of a business entity depends on a lot of factors and one of such is the ability of the firm to use its current or short-term assets to meets its short-term liabilities (Harries, 2005). Working capital management focuses on promoting satisfying liquidity, profitability and shareholders' value (Makori & Jagongo, 2003). Niresh (2012) opine that working capital management is a crucial element in determining the financial performance of an organization. He pended that it is a concept that ensures the ability of the firm to fund the difference between short-term assets and short-term liabilities.

Working capital refers to management of current assets and current liabilities. Horne and Wachowite, (2000) asserts that working capital management is crucial in manufacturing firm since part of their major assets is composed of current assets, as directly affect the profitability and liquidity of firm (Rahemam & Nasr, 2007). An improper management of component of working capital that is, account receivables, account payables, and inventories will result to the difficulties in firm's continued operation and however will also affect the market value of such firm (Ogundipe, Idowu & Ogundipe, 2012).

Makori and Jagongo (2013) stated that working capital is regarded as the result of the time lag between the expenditure for the purchases of raw material and the collection for the sale of the finished goods. And its management can have a significant effect on both liquidity and profitability of the company (Shin, & Soenen, 1998, Soenen, 1993). Brigham (1980) asserts that liquidity is the ease with which a company can turn its current assets into cash. Liquidity is an offshoot of working capital because cash is a component of current assets. Horne (2010) opined that linear relationship subsists between liquidity and profitability in line with the performance of the firm especially when the manufacturing outfit has to make frequent and timely disbursement to the various stakeholders.

The ratio shows the extent to which the claim of creditors can be quickly meet. A low ratio indicates that two much capital is tied up in stocks. Free cash flow is a key influence of shareholders value hence, companies particularly in the current difficult economic times are targeting working capital in order to lock cash invested in the business and invest in areas of higher value-added returns (Mukhopadhyay, 2004). In as much as profit maximization is the aim of every business, maintaining liquidity of the firm also is crucial. Increasing profit at the cost of liquidity

can bring serious problems to firm, hence, a firm must adopt a strategy where a balance will be maintained between these two objectives, and this is of course a challenge in working capital management (Smith, 1980, Reheman & Nasr, 2007). Working capital management is one of the most important areas while making liquidity and profitability comparisons among firms (ELjelly, 2014). The theory of risks and return has it that investment with more risk will result to more return. Hence firms with high liquidity of working capital may have low risks and low profitability. Conversely a firm that has low liquidity of working capital faces high risk which results to high profitability.

2.7. Theoretical Review

In this section, we engage in a theoretical exploration aligned with the themes of the study. By mapping out key theoretical frameworks, concepts, and perspectives, we establish a cohesive foundation that resonates with the research objectives, hypotheses, methods, and research questions. This theoretical review enhances our ability to critically analyze the relationship between working capital management and the financial performance of Bank of Kigali within the Rwandan banking context.

2.7.1. Agency Theory

Agency theory provides insights into the relationships between principals (shareholders) and agents (management) within an organization. In the context of banking institutions, this theory can be applied to understand how working capital management decisions are influenced by the interests and incentives of various stakeholders. By analyzing the alignment of managerial actions with shareholder interests, we can hypothesize that effective working capital management positively impact financial performance, as they demonstrate prudent stewardship of resources. Agency theory (Jensen & Meckling, Citation1976) assumes that there are conflicts of interest between the principal (shareholders) and the agent (business managers); hence, triggering agency costs that affect financing.

2.7.2. Trade-Off Theory

The trade-off theory posits that there's a balance to be struck between different financial objectives, such as risk and return. In the context of working capital management, this theory suggests that a firm needs to manage the trade-off between maintaining high liquidity (lower risk) and optimizing

profitability (higher return). Research can focus on how Bank of Kigali's working capital navigate this trade-off, affecting its financial performance indicators. The trade-off theory of capital structure is the idea that a company chooses how much debt finance. This theory is often set up as a competitor theory to the pecking order theory of capital structure. A review of the trade-off theory and its supporting evidence is provided by Ai, Frank, and Sanati.

This theory fits in the literature initiated by Modigliani and Miller (Citation1958) upon strong assumptions capital markets are perfect and there are neither tax or agency costs nor transaction costs and demonstrate that financial structure is neutral vis-à-vis the value of the company.

The theoretical frameworks of agency theory, trade-off theory, and pecking order theory collectively guide the development of the conceptual framework. Agency theory elucidates the alignment of working capital decisions with stakeholder interests. Trade-off theory informs the balancing act between liquidity and profitability. Pecking order theory underlines the significance of internal financing in working capital management decisions.

2.7.3. Pecking Order Theory

The pecking order theory centers around the financing hierarchy that firms follow when sourcing funds. It asserts that internal funds (retained earnings) are preferred over external financing due to information asymmetry and agency costs. Within the banking sector, this theory can be explored in relation to how working capital management impact the availability of internal funds for investment, subsequently influencing the institution's financial performance.

Myers and Majluf (Citation1984) developed Pecking Order Theory (POT) upon the asymmetry of information between internal stakeholders (owners and managers) and external providers of the firm. Business leaders adopt a financial policy, which aims at minimizing the costs associated with asymmetric information, especially adverse selection, and prefer internal financing to external financing. This theory assumes that a business leader complies with the following hierarchy: self-financing, non-risky debt issuance, risky debt issuance and equity issuance as a last resort. Such behavior eschews a fall in the prices of shares of the firm; it restricts the distribution of dividends in order to increase cash flow and reduces the cost of capital by limiting as much as possible access to loans. Thus, profitable firms enjoy more internal funds available.

2.8. Review of Related Literature

In this section, we delve into an examination of previous empirical research that is closely related to the current study. By analyzing prior investigations that share similarities or relevance, we aim to identify gaps in terms of coverage, context, timing, and methodology.

2.8.1. Working Capital Management and Financial Performance

Numerous studies have explored working capital management across various industries, shedding light on the strategies employed and their implications. However, within the banking sector, there is a relative scarcity of research, particularly in the context of Rwandan banking institutions. Existing literature tends to focus more on manufacturing and service sectors. This gap highlights the need for a study that specifically examines working capital management in Rwandan banking, which our research aims to address by focusing on Bank of Kigali.

Several studies have attempted to establish a relationship between working capital management significant impact, inconsistencies and variations in findings persist. Furthermore, very few of these studies have centered on the banking sector, and fewer still on Rwandan banking institutions. Our research endeavors to bridge this gap by investigating the nuanced relationship between working capital and financial performance of Bank of Kigali, offering insights within a specific context that is underrepresented in existing literature.

2.9. Factors affecting working capital management

1. Nature of Business

The first factor which helps in determining the requirement of working capital is the type of business in which the company is involved. A trading company or a retail shop requires less working capital as the length of the operating cycle of these types of businesses is small. However, the wholesalers require more working capital, as they have to maintain a large stock and generally sell goods on credit, increasing the length of the operating cycle. Besides, a manufacturing company requires a huge amount of working capital as it has to convert its raw material into finished goods, sell the goods on credit, maintain the inventory of raw materials and finished goods.

2. Scale of Operation

The firms that are operating at a large scale need to maintain more debtors, inventory, etc. Hence, these firms generally require a large amount of working capital. However, the firms that are operating at a small scale require less working capital.

3. Business Cycle Fluctuation

A market flourishes during the boom period which results in more demand, more stock, more debtors, more production, etc., ultimately leading to the requirement for more working capital. However, the depression period results in less demand, less stock, fewer debtors, less production, etc., which means that less working capital is required.

4. Seasonal Factors

The companies which sell goods throughout the season require constant working capital. However, the companies selling seasonal goods require a huge amount of working capital during the season, as at that time there is more demand and the firm has to maintain more stock and supply the goods at a fast speed, and during the off-season, it requires less working capital as the demand is low.

5. Technology and Production Cycle

A company using labor-intensive techniques requires more working capital because it has to maintain enough cash flow for making payments to labor. However, a company using capital-intensive techniques requires less working capital because the investment made by the company in machinery is a fixed capital requirement, and also there will be less operating expenses.

6. Credit Allowed

The average period for collection of the sale proceeds is known as the Credit Policy**.** The credit policy of a company depends on various factors like the client's creditworthiness, industry norms, etc. A company following a liberal credit policy will require more working capital, as it is giving more time to the creditors to pay for the sale made by the company. However, if a company follows a strict or short-term credit policy then it will require less working capital.

7. Credit Avail

The time period that a company is getting credit from its suppliers also affects the requirement for working capital. If a company is getting long-term credit on raw materials from its supplier, then it can manage well with less working capital. However, if a company is getting a short period of credit from its suppliers, then it will require more working capital.

8. Operating Efficiency

If a company has a high degree of operating efficiency then it will require less working capital; however, if a company has a low degree of operating efficiency then it will require more working capital. (Operating cycle of a firm is the time period from the purchase of raw material to the realization from debtors). Hence, it can be said that the length of the operating cycle directly affects the requirements of the working capital of an organization.

9. Availability of Raw Materials

If the raw material is easily available to the firm and there is a ready supply of inputs and raw material, then the firm can easily manage with less working capital. Also, as the firm does not need to maintain any stock of raw materials, they can manage with less stock, and hence less working capital. However, if there is a rough supply of raw materials, then the firm will have to maintain a large inventory to carry on the operating cycle smoothly. Therefore, the firm will require more working capital.

10. Level of Competition

If there is competition in the market, then the company will have to follow a liberal credit policy for supplying goods on time. For this, it will have to maintain higher inventories, resulting in more working capital requirements. However, if there is less competition in the market or a company is in a monopoly position, then it will require less working capital, as it can dictate its own terms according to its requirements.

11. Inflation

A rise in the price increases the price of raw materials and the cost of labor, resulting in the increasing requirement for working capital. However, if a company is able to increase the price of

its goods also, then it will face less problem with working capital. A rise in price has a different effect on the working capital of different businesses.

2.10. The challenges and trade-offs that banks face when managing working capital

Lack of real-time data

Access to accurate and timely data is often a major hurdle for treasury managers. Many mid-sized businesses opt for cost-effective systems instead of investing in advanced technology, resulting in the use of manual processes like spreadsheets. Gathering data from multiple sources becomes daunting, limiting real-time availability and hampering productivity.

1. Poor inventory management: Balancing inventory levels is crucial for working capital optimization. Insufficient inventory may lead to unmet demand, while excessive inventory incurs storage costs and waste. Treasury managers must consider factors such as quantity, cost, rates, and pricing to manage inventory and maintain an optimal inventory-to-working capital ratio effectively.

2. Dealing with multiple stakeholders: Working capital management involves handling various components, including cash, accounts receivable, and payables, necessitating collaboration with multiple stakeholders. Implementing a new working capital strategy becomes more challenging due to differing opinions and priorities among stakeholders. Effective communication and alignment of goals are key to overcoming this challenge.

3. Poor investment and borrowing practices: Forecasting errors in net working capital can result in delayed borrowing with higher interest rates, overborrowing, or missed investment opportunities. Accurate forecasting is essential to make informed investment and borrowing decisions that maximize profit margins while minimizing financial risks.

4. Relevance to Bank of Kigali

The scarcity of case studies examining working capital management and financial performance within the Rwandan banking context is evident. While some studies focus on financial inclusion and economic development in Rwanda, few delve into the operational aspects of banking institutions. This gap underscores the significance of our research, as it contributes a specific and

comprehensive case study of Bank of Kigali, thereby providing valuable insights into the practical application of working capital strategies within the Rwandan banking industry

2.11. Empirical review

Various empirical studies have been conducted on the relationship between working capital management and financial performance shows that the two variables are to a largest extend positively related. A study was conduct by Shaffer(1974) on a small firm with fifty employees who performs similar tasks and had similar pay.

Niresh (2012) carried out a study on working capital management and financial performance of manufacturing sectors in Sri Lanka. The major purpose was to investigate the relationship between working capital management and financial performance of listed manufacturing firms in Sri Linka. The study covered a six years period between 2008 – 2011. Return on assets and return on equity were used as performance measures whereas cash conversion cycle, current assets to total asset and current liabilities to total assets were used as working capital management measures. The study employed correlation and regression analysis models for analysis and the result of the analysis revealed that there is no significant relationship between cash conversion cycle and performance measures and hence the study concludes that, manufacturing firms in Sri Linka follow conservative working capital management policy.

Muturi and Samantha (2018) investigated the working capital management on the performance of bank of Kigali Rwanda. Secondary data was sourced from financial statement of bank of Kigali. Population was used however the study narrowed to sample of size of 90 workers. Purpose sampling was adopted for fact finding. Return on Asset was used as measure of financial performance. Using linear regression, the study observed that working capital management and investing financial management all have a positive effect on financial performance.

2.12. Research Gaps

Even in different studies have been conducted on working capital management on financial performance. This study is coming to ascertain how working capital management contribute to the financial performance of an organization in Rwanda, especially in BK Rwanda by considering the achievement of BK goals.

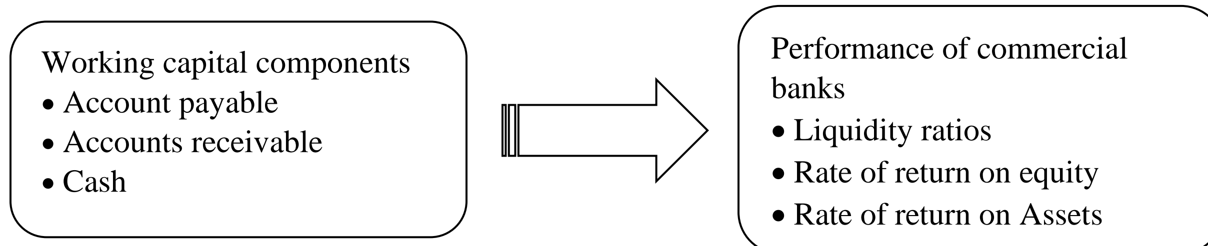
The literature review has provided a comprehensive overview of the existing body of knowledge related to the research topic "Working capital management and Financial Performance of a Banking Institution in Rwanda: A Case Study of Bank of Kigali." This chapter aimed to contextualize the research within the broader academic landscape and identify gaps that the present study seeks to address.

The literature review commenced with an introduction that highlighted the importance of understanding the relationship between working capital management and financial performance, especially within the banking sector of Rwanda.

2.13. Conceptual Framework

The conceptual framework serves as a visual representation of the interrelationships between key concepts and variables in the study. It outlines the path through which the research objectives will be achieved by systematically linking established concepts from the literature review.

In the case of this study, the conceptual framework illustrates how working capital management influence the financial performance of Bank of Kigali within the Rwandan banking context.



Sources: Generated by research (2023)

Figure: Conceptual framework

Effective liquidity management strategies positively impact the return on assets and return on equity, as optimized working capital ensures a bank's ability to meet short-term obligations while maximizing profitability. Enhanced operational efficiency resulting from efficient working capital management translates into improved financial performance metrics like net profit margin and earnings per share. Sound risk management practices, integrated with working capital strategies, mitigate potential financial risks, indirectly contributing to better return on assets and return on equity.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter presents the methodological approach used to design this study, obtain data and information from the field as well as the data analysis and presentation. Its outs an emphasis on the research design, population of the study, sampling procedures, data collection, method and data analysis. Furthermore, to successful produce this thesis, it was necessary to use data analysis and data collection tools by using a questionnaire, interview and documentary based on research objectives. This research aims to investigate and understand the working capital management and financial performance of baking institution in Rwanda over the period from 2013-2016.

3.1.Research Design

The research design refers to outline plan or strategy specifying the procedure to be used in investigating the research problem (Creswel J.W.1994). In the due course the research collect relevant data needed to test the researcher hypothesis. According to Bailey(2005), a research design provide " the glue" that holds the research project together. In mix together of descriptive research design was adopted.

The study will adopt a mixed methods research design, qualitative and quantitative approaches.

This approach will provide a comprehensive understanding on how working capital management can lead to the performance of the bank and descriptive research will demonstrate relationship and describe the world as it exists. Descriptive research helped to provide a clear understanding of working capital management and financial performance.

Purposive sampling refers to selection of only those elements of which was believed to be able to deliver required data and was used in the study because the study assume that these people are knowledgeable and have skills necessary for giving information required whereas simple random sampling is the probability sampling where all members in the population have an equal chance of being selected and it was applied in the study because everyone in the study was expected to give required information as their randomly selected both male and female.

3.2.The population of the study

In this study, one organization was selected, that is BK for the purpose of generating required information. The respondents were senior management officials, supporting staffs and bank

clients. Purposive sampling procedure was used to cover senior management officials at BK and simple random sampling procedure was employed to cover supporting staff and clients in the organizations.

3.3.Sampling

Sampling is a critical method used to select a subset of the study population, known as the sample, from which data is collected for field research. The selection of the sample size and the technique used to choose units from the subset are vital aspects of ensuring that the sample accurately represents the larger population. In this study, the choice of sampling technique, the identification of the sampling frame, the determination of the sample size, and the justification for these decisions will be elucidated.

A sample of 83 respondents was used in the study. Within the sample size there were key management personnel at Bank of Kigali were chosen based on their expertise in working capital management and their influence on financial decision-making, Bank of Kigali's management team members, including executives responsible for financial operations, risk management, and strategy. This approach ensured that the selected participants possessed the necessary insights to provide comprehensive information about the institution's working capital strategies and their impact on financial performance.

Table 1: Table sample size

RESPONDENTS	NUMBERS	TOOL TO BE USED
Informant	3	Interview
Branch manager	1	Interview
Finance department	30	Questionnaires
Risk management staff	29	Questionnaires
Employees	10	Questionnaires
Bank client	10	Questionnaires
TOTAL	**83**	

Source: Researcher,2023

3.4.Data collection instruments

In order to facilitate the study to be well accomplished, each objective of the study was investigated by using specific questions. The researcher used three methods or techniques of data collection. These included questionnaires, interviews which were used for collecting primary data, review of relevant documents which were applicable in collecting secondary data.

3.4.1. Questionnaire

Bell (2002) defined a questionnaire as technique that consists of working out a series of written questions for which the respondent provides answers. Questionnaires were used because they collect information from many respondents in a projected time frames. All respondents were given the same sets of questions except in technical circumstances. the researcher distributes questionnaires to a representative sample of banking employees. These questionnaires were composed of both close-ended and open-ended parts. Close ended questions were preferred because they are easy to answer and score while open-ended questions were intended to give respondents a chance to support their opinions in a free atmosphere in addition to predetermined choices. This method could not interfere with their working schedules since there were given ample time to fill them during their free time.

3.4.2. Interviews

Interviews are a method of data collection that involves two or more people exchanging information through a series of questions and answers. "Interview is asking questions from the research and getting answers from participants in a study" Creswell (2014: 25). Interviews were used for collecting primary data.

3.4.3. Documentary

According to Cohon and Minion (2007), documents are materials, which contain the information about a phenomenon that researchers wish to study. The basic advantages of documentary studies are to explore the sources more fully in order to obtain additional information on an aspect of this topic. Specially, it tells whether the problem under study has already been researched on or not. The documentation for this research includes data in the form of articles and journals providing information on goals achievement on the case study. With documents analysis, performance reports and policies related to working capital management and the financial performance; the

researcher got the information that would otherwise not have been assessed through the methods of questionnaires and interviews.

3.5.Reliability and Validity of the Data

According to Carmines & Zeller, (1979), reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always presents to a certain extent, there is generally good deal of consistency in the results of a quality instrument gathered at a different time. The tendency toward consistency found in repeated measurements is referred to as reliability. Charles, (1995), defines reliability to the notion that consistency with which questionnaires items are answered or individuals scores remain relatively the same can be determined through the test-retest method at two different times. Validity can be defined as the degree to which a test measurement measures what it is supposed to measure (Carmines & Zeller 1979). To ensure both internal and external validity, accurate and up to date literature been have used. However, relevant and right questions were asked in survey and produce valid result. According to olive M. and Abel G.Mugenda (2003), validity of instruments means that the instrument measures what it is meant to measure. In the case of the qualitative survey, reliability of questionnaire instrument was assured in the following manner. Reliability was performed using cronbach's alpha test to determine the internal consistence of the scale that was used to measure variables. The questionnaire instrument reliability was ascertained by carrying out reliability index.

3.6.Data Processing

The process began by editing interview guides and questionnaires. This was done to ensure uniformity, accuracy and consistency of the questions raised. This was followed by tabulation, which involved arranging data in tables in order to fit a particular statistical test and analysis. The analysis laid emphasis the working capital management and the financial performance bearing in mind the objectives of the study. The researcher thoroughly checked data collected for comprehensiveness, completeness, accuracy and uniformity. Tables were then drawn accordingly to record frequency, distribution and percentages while graphs represented some data for easy comparison. Furthermore, the collected data were also edited, coded, and analyzed decrepitly manually.

Editing means process of examining the collected raw data to enable dictating of errors and omission and correcting mistakes. The basic purpose of editing was to secure a quality standard on the data and it involve inspection and if necessary checking of the retained questionnaire or interview schedules. Coding the data means the data to be collected will be assigned by numerical or classes (Kothari 1990:153). Alphanumerical code was used to sign letters or symbols and numeric code will be used in assign number during presentation of the data. Classification was conducted by arranging collected data in groups and classes in the basis of their common characteristics. Data having common traits were putting in one class and were classified according to attributes or class interval. In tabulation the collected data was summarized and displayed in compact form so that to enable them to be easily analyzed. Lastly was the analysis of the collected data so as to formulate the conclusion.

3.7.Methods of data analysis

As known in our study we have 3 specific objectives that gives us several approaches to data analysis: qualitative and quantitative approaches. We will have descriptive statistics this could include measures such as percentages. Inferential statistics uses for instance correlation, regression. Comparative analysis, conduct a comparative analysis to compare the previous analysis of working capital management of BK, by using regression analysis to determine if there were significant relationship in key performance indicators.Qualitative data as collected through interview and open-ended survey questions, we will conduct a thematic analysis to identify common themes and patterns in the responses. This will provide a deeper understanding of BK ltd. Data visualization by presenting the fended data using appropriate data visualization technique such as chart, tables and graphs.

3.8.Limitations

The limitations we may encounter will be at the level of language (communication) since several people feel more free and flexible to speak in Kinyarwanda. For me, who does not have a good level of Kinyarwanda language, this may seem difficult but I will eventually find a solution.

3.9.Ethical Considerations

While conducting the study, the researcher observed and respected various research ethics such as honesty, objectivity, integrity, openness, confidentiality, responsible publication, social responsibility, non-discrimination, competence, human subjects“ protection, etc. The researcher

first explained the purpose of the research to respondents and then sought permission for conducting the study in their organization. The researcher respected human dignity and the respondents" choice to participate or decline. Only informed consent was sought, confidentiality was observed and names of respondents are not included in this dissertation.

CHAPTER 4: RESEARCH FINDINGS

This chapter presents research findings and discussion on data collected from both primary and secondary sources. The chapter has been organized into sections.

4.1. Quantitative analysis

The quantitative analysis involves the use of a variety of statistical procedures including basic descriptive statistics (tables and percentages). The survey was conducted on a total of 83 personnel.

4.2. Presentation of Bank of Kigali

Bank of Kigali, established in 1966, has grown to become one of the largest and most influential banks in Rwanda. With a wide range of banking services and a significant market share, Bank of Kigali plays a pivotal role in the country's financial landscape. The institution caters to various customer segments, offers diverse financial products, and is involved in numerous financial operations, positioning it as a crucial player within the Rwandan banking sector.

Bank of Kigali Group Plc formerly (Bank of Kigali Limited) is Rwanda's largest commercial bank by assets and licensed by the country's banking regulator, National Bank of Rwanda. It offers a full spectrum of products and services for retail banking, corporate banking and central treasury. Bank of Kigali SA commenced operations in 1967, The Bank changed its name to Bank of Kigali Limited in 2011 under a new law relating to companies from Bank of Kigali S.A to Bank of Kigali Limited.

Bank of Kigali's prominence in the Rwandan banking sector made it an ideal candidate for the study. As the objectives focused on understanding how working capital management influence financial performance, choosing an institution of significant size and influence was essential to extract meaningful insights. Bank of Kigali's annual financial reports provided a rich source of historical financial data. These reports facilitated the quantitative analysis of financial performance indicators and enabled the researchers to assess the impact of working capital management over time.

Bank of Kigali offer comprehensive compensation and benefits package to all the staff. Such as: Career Development (BK encourages and contributes to staff growth and development. Through various internal and external courses and on the job training, you will have the opportunity to enhance your skills); Competitive salaries to motivate and encourage excellent performance; Bonuses in recognition of superior performance; Social benefits for staff; Annual leave, in addition

to public holidays; Insurance (Medical insurance for staff); Finance (Access to finance for mortgage or vehicle).

With his moto "Financially Transforming Lives" Bank of Kigali is determined to create a great place to work. The employees, customers and communities around have dreams for themselves and their families and the bank are determined to create the right environment for them to succeed. All qualified applicants receive consideration for employment.

4.3. Profile of respondents

This section presents information on the bio data of the respondents. The characteristics of the respondent are very important section of the research. According to Kothari (2000), the characteristics of respondents helps in ensuring validity and reliability of the information collected. This section shows the age, gender, educational background and the experience of the respondents as presented in the table below:

Table 2: Profile of respondents

Age of respondents

Age	Frequency	Percentage	Cumulative Percentage
Between 21 and 30	9	10.8	10.8
Between 31 and 40	40	48.1	58.9
Between 41 and 50	30	36.2	95.1
Above 51	4	4.9	100
Total	**83**	**100**	

Sources: Primary data, September 2023

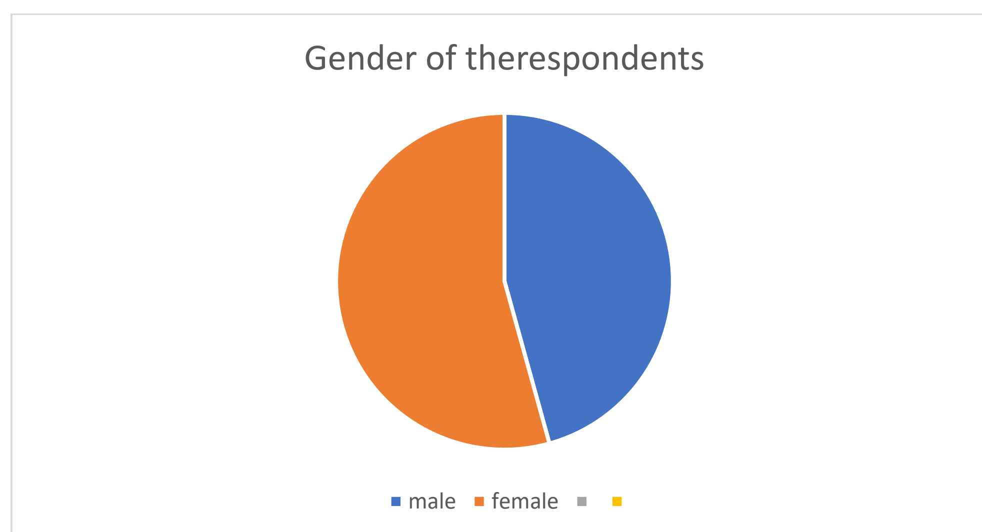
Table 1 and figure 1 shows the age of the respondents. The results from the survey indicated that 10.8% are in between 21-30 years old, 48.1% are in 31-40 years old, 36.2% are in between 41-50 years old, 4.9% are above 51 years old. The results from the survey showed that majority of the respondents are mature people. This increases the validity and reliability of the information collected

Table 3: Gender of respondents

Gender of respondents	Frequency	Percentage	Cumulative Percentage
Male Female	38 45	45.7 54.3	45.7 100
Total	**83**	**100**	

Sources: Primary data, 2023

Figure 1: Gender of the respondents



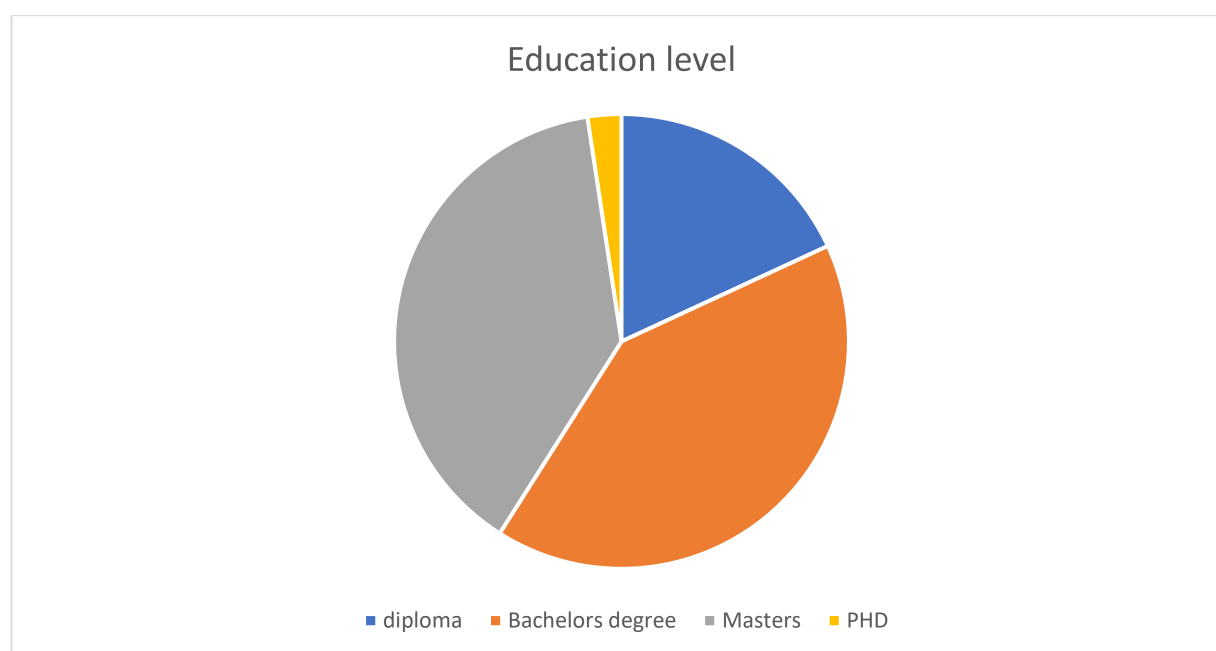
Gender of the respondents is another sensitive part in the management of the organization. The government policy recommends at least 30% of the employed work force to be ladies. The results from the survey indicated that 45.7% of the respondent are male whereas 54.3% of the respondents are female the shows that Bank of Kigali respect the government policy on gender issues since more than 30% of the employees were ladies.

Table 4: Education level of respondent

Education level	Frequency	Percentage	Cumulative Percentage
Diploma	15	18.1	18.1
Bachelor's degree	34	40.9	59
Master's degree	32	38.6	97.6
PHD	2	2.4	100
Total	83	100	

Sources: Primary data, 2023

Figure 2: Education level of respondent



The results in table 1 showed that 18.1% of the respondent have diploma, 40.9% of the respondent have a bachelor's degree, 38.6% of the respondent have a master's degree, 2.4% of the respondent have a PhD. The result from the survey showed that all respondents are qualified and therefore, their information can be relied upon to conclude the findings of this study.

4.4. Working capital management

The first objective of the study was to assess the various working capital management of banking institutions; the table below present respondents 'view on the various working capital management in Bank of Kigali.

Table 5: Regular trainings and resources

		Frequency	Percentage	Cumulative percentage
valid	Strongly agree	53	63.8	63.8
	Agree	17	20.4	84.2
	Neutral	4	4.8	89
	Disagree	5	6.1	95.1
	Strongly disagree	4	4.9	100
	Total	**83**	**100**	

Sources: Primary data,2023

The solvency ratio serves as a reliable gauge of a company's financial robustness, with a higher ratio indicative of a stronger financial position. Over the span of the four years examined (2013-2016), it's noteworthy that the company consistently witnessed a growth in its total assets. This growth signifies an excess of total assets over total liabilities, reinforcing the company's capacity to meet its obligations while retaining a substantial asset base. The consistent pattern of increasing total assets, coupled with a favorable solvency ratio, reflects the company's solid financial health. This not only instills confidence in its ability to honor its financial commitments but also underscores its capacity to weather unforeseen challenges and seize growth opportunities. In essence, the company's financial trajectory over these years is undeniably promising and augurs well for its future prospects.

Table 6: The bank maintains strong and collaborative relationships with its suppliers to optimize cost structures.

		Frequency	Percentage	Cumulative percentage
valid	Strongly agree	33	39.8	39.8
	Agree	27	32.5	72.3
	Neutral	6	7.2	79.5
	Disagree	12	14.4	93.9
	Strongly disagree	5	6.1	100
	Total	**83**	**100**	

Sources: Primary data,2023

How employees are treated is a strong determinant of employee motivation and performance. Lawler (2003) emphasizes that "treating people right is fundamental to creating organizational effectiveness and success. The study reveals in table 4.8 that 39.8% of the respondents strongly agrees and 32.5 % agrees that collaboration with suppliers optimize the cost of the bank.

4.6.The factors influencing the effectiveness of working capital management in Bank of Kigali

The Second objective of the study was to identify the factors influencing the effectiveness of working capital management in Bank of Kigali. Respondents were requested to rank the factors that affect working capital of banking intuitions in BK. The factors were ranked from the most influential to the least influential.

Table 7:How the Factors that affect working capital management are controlled?

		Frequency	Percentage	Cumulative Percentage
valid	maximise stock levels	35	42.1	42.1
	Negotiate favorable payment	20	24.1	66.2
	Maintain positive relationships	20	24.1	90.4
	Market conduction	8	9.6	100
	Total	**___83**	**100**	

Source: Primary data,2023

Table 4.7 offers intriguing insights into the factors influencing decision-making within the surveyed group. Surprisingly, the findings show that the goal of maximizing stock levels is the element that respondents feel has the most influence, with a considerable 42.1% giving this response. This emphasizes how important inventory management is as a key factor in their decision-making processes. Following closely behind, two other factors, namely "negotiate favorable payment terms" and "maintain positive relationships," hold sway as influential factors, underscoring their importance with the responses of the participants. The implication is that these factors significantly impact the strategic decision-making landscape, reflecting the intricate balance between financial considerations and relationship dynamics in the context of business operations. Moreover, the data underscores the intricate interplay of these factors in shaping the overall decision-making framework, with market conditions also featuring prominently in respondents' considerations. This multidimensional viewpoint on decision-making aspects offers insightful understandings into the difficulties of strategic business decisions, where variables like stock levels and relationship management wield significant influence.

Table 8: Relationship with supervisor influence financial performance

		Frequency	**Percentage**	**Cumulative percentage**
valid	Strongly agree	45	54.2	54.2
	Agree	20	24.1	78.3
	Neutral	5	6.1	84.4
	Disagree	4	4.8	89.3
	Strongly disagree	9	10.8	100
	Total	**83**	**100**	

Sources: Primary data,2023

Table 8 offers insightful information about the respondents' perceptions of how their interactions with supervisors affect financial success. Notably, a sizable 78.3% of respondents strongly agreed (54.2%) or agreed (24.1%) that this relationship had a favorable effect on financial performance. The majority of participants agreed, highlighting the importance of supervisor-employee dynamics in shaping financial outcomes. Interestingly, a small proportion of respondents, 6.1%, chose not to disclose their stance, possibly reflecting the nuanced nature of this influence. Additionally, 4.8%

expressed disagreement with the statement, while 10.8% strongly disagreed with the notion that the relationship with supervisors affects financial performance. The variety of viewpoints on this issue is highlighted by these disagreeing opinions. The research emphasizes how many elements interact in the workplace, with supervisor connections being a major issue for a sizeable majority of the respondents. It implies that building strong working connections is a worthwhile endeavor since it may have a favorable impact on financial performance, but not all parties may recognize this.

Table 9: How account payable is measured in Bank of Kigali?

Years	Total purchase	Average account payable	account payable turnover
2013	41,608,064,000	8,705,581,000	4.7
2014	10,783,551,000	11,185,264,000	1
2015	41,128,567000	9,656,897,000	4.2
2016	10,171,238,000	6,286,996,000	1.6

Source: Secondary data,2023

The researcher conducted a meticulous analysis, utilizing a specific formula to determine the account payable turnover of Bank of Kigali. This crucial financial metric offers valuable insights into the bank's management of its accounts payable, shedding light on its ability to efficiently settle its obligations to suppliers and creditors. The findings of the study unveiled a striking pattern in the account payable turnover for the examined years. In 2013, the bank recorded a robust account payable turnover rate of 4.7%, signifying a swift and efficient management of its payables. However, a notable shift occurred in 2014 when the turnover rate declined significantly to 1%. This drop might indicate changes in the bank's payment practices or supplier relationships during that year. Interestingly, the account payable turnover rebounded in 2015, climbing to 4.2%, suggesting a return to more effective payables management. Nevertheless, in 2016, the turnover rate settled at 1.6%, indicating some degree of volatility in the bank's ability to manage its payables consistently. The fluctuating account payable turnover over these years underscores the importance of closely monitoring and managing supplier relationships, payment practices, and cash flow dynamics. Sudden drops in turnover rates may warrant further investigation to identify the underlying causes and implement corrective actions. In conclusion, the examination of the account payable turnover reveals a dynamic aspect of Bank of Kigali's financial operations. While

the bank demonstrated efficient payables management in certain years, there were periods of challenges and fluctuations. This underscores the significance of continuous evaluation and adaptation in accounts payable management to ensure the bank's financial stability and creditor relationships.

Table 10: Solvency ratio of bank of Kigali

Years	Assets	Liabilities	Solvency ratio
2013	422,360,073,000	351,596,389,000	1.20
2014	482,607,964,000	393,060,230,000	1.22
2015	561,226,400,000	461,980,855,000	1.21
2016	638,336,598,000	529,850,998,000	1.20

Source: Secondary data,2023

The solvency ratio serves as a reliable barometer of a company's financial robustness, with a higher ratio signifying a more secure financial position. It is particularly noteworthy that the organization constantly showed outstanding increase in its total assets over the course of the lengthy four-year examination period (2013-2016). This continuous growing trend demonstrates the company's sound financial management and highlights its capacity to meet its financial obligations while retaining a sizable asset base. The continuous increase in total assets, in conjunction with a strong solvency ratio, is a testament to the company's enduring financial health and stability. This not only reaffirms its capability to meet its financial obligations but also underscores its resilience in navigating unforeseen challenges and seizing opportunities for expansion. The company's financial performance over the analyzed years was certainly strong, and these tendencies are encouraging for its prospects going forward. The company's strategic focus on preserving a strong solvency ratio while increasing total assets positions it for stability and growth, demonstrating a dedication to sound financial practices and a hopeful outlook in the ever-changing business environment.

Table 11: How account receivable is measured in Bank of Kigali?

Years	Credit sales	Average Account receivable	Account Receivable turnover in percentage
2013	35,194,844,000	7,695,005,000	4.5
2014	39,255,227,000	7,665,385,000	5.1
2015	46,239,769,000	8,255,500,000	5.6
2016	55,698,149,000	8,877,766,00	6.2

Source: financial statement of bk, Secondary data, 2023

The researcher employed a well-established formula to determine the Bank of Kigali's account receivable turnover. This critical financial metric provides valuable insights into the bank's efficiency in managing its accounts receivable. The study's conclusions showed an interesting pattern in the account receivable turnover for the years under consideration. In 2013, the bank exhibited an account receivable turnover rate of 4.5%, which subsequently increased to 5.1% in 2014, further to 5.6% in 2015, and finally culminating at 6.2% in 2016. The Bank of Kigali appears to have improved its collections procedures over time based on the consistent and increasing trajectory of the percentages of account receivable turnover. Such an increase indicates that the bank is becoming increasingly proficient in swiftly converting credit sales into cash, which is an encouraging sign for its financial health. An increase in account receivable turnover shows that the bank has been attentive in getting its customers to pay, which has led to a decrease in the amount of outstanding accounts receivable. This has a favorable influence on the bank's liquidity and demonstrates a dedication to efficient credit management and collection techniques. The observed trend in account receivable turnover demonstrates that Bank of Kigali has been successful in enhancing its efficiency when it comes to managing accounts receivable and converting credit sales into much-needed cash, ultimately contributing to its financial well-being.

4.5. Techniques used to manage the credit policies in order to minimize bad debt expenses.

Effective management of credit policies is essential for reducing bad debt costs and ensuring the financial viability of a corporation.

Evaluation of Credit: Before granting credit, thoroughly evaluate each prospective customer's credit. Aspects including your credit history, financial security, and payment patterns should be taken into account.

Limits on Credit: Depending on each client's creditworthiness and financial capacity, set and enforce credit limits for them. Review these restrictions often, and make necessary corrections.

Credit Terms

Insurance for Credit: To protect yourself from consumer defaults, think about getting credit insurance. This can act as a backup plan in case of unanticipated bad debt.

Client Monitoring: Keep an eye out for existing clients' creditworthiness. regularly check their credit records and financial statements.

Collection Guidelines: Establish clear and consistent collection policies that spell out what should happen when payments are past

Paying Off Debt: Create a strategy for collecting bad debts that, if necessary, may include taking legal action. If internal efforts are unsuccessful, think about hiring specialists to handle your collections.

Instruction and Learning: Learn the company's policies and how to properly implement them so that personnel who are involved in credit management and collections do so.

Communicating with customers: Communicate with consumers in an open and honest manner about their credit status, expected payments, and any potential problems.

Keeping meticulous records

4.6.1. Analysis of financial reports

The financial reports and the financial statements for Bank of Kigali were used to determine the trends on cash at hand, accounts receivable, inventory and current asset to total asset ratio as the determinants of management practice being employed by the bank. The accounts were analyzed in terms of yearly total and yearly percentage change

The trend of cash at hand, other asset, current asset and total deposits ratio was extracted from the balance sheet over the period 2013- 2016.

Table 6: current asset and total deposits ratio

Years	Cash at hand RWF 000	Current Accounts RWF 000	Other assets RWF 000	Total Deposits RWF 000
2013	11,110,210	259,263	7,695,005	188,071,949,000
2014	12,020,669	298,967	7,665,385	171,285,391,000
2015	14,951,617	352,236	8,255,500	172,211,981000
2016	15,032,721	232,010	8,877,766	150,641,289,000

Source: Secondary data,2023

The strong evidence shown in Table 8 highlights the following recurrent and notable pattern:: over the years, there has been a consistent increase in cash at hand, current accounts, other assets, and total deposits. These results shed light on the bank's calculated plan to increase its current asset base. Such a proactive strategy is consistent with the primary goal of avoiding illiquidity, a crucial component of good financial management. The bank's commitment to nurturing and expanding its current assets is a prudent measure, considering that liquidity challenges can have adverse consequences. By fortifying its position in these areas, the bank is better equipped to meet its short-term obligations promptly and navigate unforeseen financial hurdles. This demonstrates a proactive stance in safeguarding its financial stability and enhancing its ability to serve its stakeholders effectively.

Table 7: Other financial indicators

Years	Total assets RWF 000	Total liabilities RWF 000	Total equity
2013	422,360,073	351,596,389	70,763,684
2014	482,607,964	393,060,230	89,547,734
2015	561,226,400	461,980,855	99,245,545
2016	638,336,598	529,850,998	108,485,600

Source: Secondary data,2023

The data presented in Table 9 paints a vivid picture of the evolving trends in assets, liabilities, and equity. Notably, a pattern emerges where total liabilities and equity remained relatively stable in the initial three years, showcasing a consistent financial equilibrium. However, the final year

stands out as a crucial turning point, characterized by a considerable increase in both total liabilities and equity. This development shows that the bank underwent significant efforts or changes in that year, possibly connected to company growth, capital infusion, or strategic restructuring. The data underscores the dynamic nature of the bank's financial landscape and its adaptability in response to evolving market conditions. The increase in total liabilities and equity in the last year signifies a strategic approach that could be aimed at capitalizing on growth opportunities while ensuring financial stability. This finding suggests a financially astute approach, establishing the bank for both resilience and prospective growth in the ever-evolving financial environment.

Table 8: Non-performing loans to total loan in Bank of Kigali?

Years	loans	Non-performing loans	Percentage
2013	143,629,758,000	7,840,743,000	5.4
2014	115,006,967,000	12,175,056,000	10.5
2015	123,818,398,000	8,589,722,000	6.9
2016	107,327,363,000	10,884,202,000	10.1

Source: Secondary data,2023

Table analysis reveals a striking trend in the loans granted by Bank of Kigali over the examined years, painting a dynamic financial landscape. Notably, the years 2013 to 2016 saw significant growth in loan issuance. In 2013, non-performing loans stood at a modest 5.4%, but this increased to 10.5% in 2014, marking a substantial shift. With non-performing loans at 6.9% in 2015, there was a modest recovery, but in 2016, it rose once again to 10.1%. An analysis of the underlying variables at work is warranted given this variation in non-performing loans. The manager's explanation that the rising non-performing loans are a result of the global financial crisis highlights the extensive influence that foreign economic events have on a nation's financial stability. This rationale highlights the interconnectedness of the global financial system and its ripple effects on the bank's loan portfolio performance. These results underline the significance of appropriate risk management techniques and adaptive measures to meet such problems head-on and preserve a strong financial position.

4.7.Relationship between the working capital management and the financial performance of banking institutions in Rwanda

The financial reports and the financial statements for the banks were analyzed to determine the trends on profits, ROE, ROA and non-performing loan accounts in terms of yearly totals and averages, yearly percentage change and correlations with financial indicators in order to determine financial performance of the bank over the periods. The trend of ROE, ROA, profitability and non-performing loans were extracted from the balance sheets over the period (2013-2016) and the results are indicated below.

Table 9: General trend of financial performance indicators

Years	ROA %	ROE %	Non performing Loan %
2013	4.0	22.2	6.9
2014	4.0	22.9	6.6
2015	3.9	21.7	4.9
2016	3.5	20.0	4.5

Source: Secondary data,2023

The findings presented in Table 11 offer a compelling narrative of the bank's financial performance over the years, particularly in terms of key indicators like Return on Assets (ROA) and Return on Equity (ROE). Notably, the data indicates a subdued performance in both 2009 and 2013, with these indicators registering as particularly low during those periods. However, the analysis reveals a positive turning point in 2015, where performance indicators began to show signs of improvement. With the best performance levels, particularly in ROA and ROE, 2015 stands out as a notable year, continuing the uptrend into 2016. It's critical to note that non-performing loans also fell during this period of performance improvement, reaching their lowest level in the same year. This emphasizes the complex link between asset quality and financial performance and emphasizes the crucial role that efficient risk management techniques play in delivering favorable financial results.

Table 10: Relationship between deposits and loans advances to customers?

Years	Deposits	Loans	Percentages
2013	188,071,949,000	143,629,758,000	76.3
2014	171,285,391,000	115,006,967,000	67.1
2015	172,211,981000	123,818,398,000	71.8
2016	150,641,289,000	107,327,363,000	71.2

Source: Secondary data,2023

The table above provides a clear picture of the evolving relationship between deposits and loans granted by Bank of Kigali during the study period. It's apparent that these two critical financial elements experienced proportional fluctuations. From 2013 to 2016, the respective proportions were 71.2%, 67.1%, 71.8%, 71.2%, and 76.3%. An important aspect to note is that the proportion of deposits and credit at Bank of Kigali consistently remained below 80%, which aligns with the recommendations set forth by the National Bank of Rwanda (BNR) in 2018 and 2019. This adherence to BNR regulations underscores the bank's commitment to regulatory compliance and prudent financial management. By maintaining these proportions within or below the specified threshold, Bank of Kigali ensures it operates in accordance with established financial regulations, which in turn contributes to financial stability and responsible banking practices. This demonstrates the bank's dedication to maintaining a sound and compliant financial position in the industry.

4.8.Relationship between working capital management and the rate of return on equity

The rate of return on equity is an important determinant of how the shareholders are benefiting from the profits and hence it’s an important indicator of performance that relates closely to the working capital management indicators. The rate of return on equity therefore determines the productive levels of the equity put in bank by shareholders and hence profitability of shares. Correlation between the working capital management indicators and ROE was analyzed.

Table 11: Correlation between Working Capital Practices and Financial Performance

	ROA	ROE	NPM	Current ratio
Inventory Management	0.321**	0.278*	0.201	0.046
Accounts Received	0.173	0.112	0.105	0.091
Accounts Payable	-0.204	-0.186	-0.159	0.021
Cash Management	0.072	0.091	0.063	-0.032

Source: Secondary data,2023

Table 13 displays the correlation coefficients between working capital management and financial performance indicators. The presence of asterisks (*) to denote significant correlations (*$p < 0.05$, **$p < 0.01$) underscores the statistical rigor applied to the analysis, enhancing the credibility of the findings. Particularly noteworthy is the data's finding that inventory management has a relatively favorable link with both Return on Assets (ROA) and Return on Equity (ROE). This fascinating finding raises the intriguing possibility that an organization's careful management of inventory levels may have a significant impact on its profitability and return on equity. The presence of significant correlations between specific working capital practices and financial performance indicators hints at compelling connections worthy of further exploration. The positive correlations attributed to inventory management underscore the pivotal role that streamlined inventory control can play in bolstering overall profitability and returns, offering valuable insights for businesses seeking to enhance their financial performance through efficient working capital management practices. These findings invite deeper scrutiny and consideration of the strategic implications of working capital decisions on a company's bottom line.

4.9.Qualitative Analysis

4.9.1. Working capital management Factors

The interviewees were asked to mention some of the Working capital management Factors in working sector. The following were the responses given as factors that motivate them: These are three main components associated with working capital management

1. **Accounts Receivable**

Accounts receivable are revenues due what customers and debtors owe to a company for past sales. A company must collect its receivables in a timely manner so that it can use those funds to meet its own debts and operational costs. Accounts receivable appear as assets on a company's balance sheet, but they do not become assets until they are collected. Days sales outstanding is a metric used by analysts to assess a company's handling of accounts receivables. The metric reveals the average number of days a company takes to collect sales revenues.

2. **Accounts Payable**

Accounts payable is the amount that a company must pay out over the short term and is a key component of working capital management. Companies endeavor to balance payments with receivables to maintain maximum cash flow. Companies may delay payments as long as is reasonably possible with the goal of maintaining positive credit ratings while sustaining good relationships with suppliers and creditors. Ideally, a company's average time to collect receivables is significantly shorter than its average time to settle payables.

3. **Inventory**

Inventory is a company's primary asset that it converts into sales revenues. The rate at which a company sells and replenishes its inventory is a measure of its success. Investors also consider the inventory turnover rate to be an indication of the strength of sales and how efficient the company is in its purchasing and manufacturing. Low inventory means that the company is in danger of losing out on sales, but excessively high inventory levels could be a sign of wasteful use of working capital. (Research,2023).

Respondents were asked to indicate which Working capital management factors among the one mention above which is frequently used in Bank of Kigali and most of the respondent’s rated inventory as the highest working capital management, followed by accounts receivable, and account payable.

4.9.2. Benefit of working capital management

The interviewees were asked to mention some of benefit of Working capital management in working sector. The following were the responses given: The financial well-being and general

performance of a firm depend on effective working capital management. In order to guarantee that a company has enough liquidity to meet its operational needs, it entails managing its short-term assets and liabilities. Working capital management has the following major advantages:

1. **Improved Liquidity**: Good working capital management makes sure a company has enough cash on hand or readily convertible assets to cover its short-term debts. This lessens the possibility of financial hardship and the have to take out expensive loans when there is a cash crunch.

2. **Operations**: Effective working capital management enables a business to conduct daily operations without interruption. It guarantees that there are no delays brought on by cash flow problems, allowing the business to pay its bills on schedule, buy inventory, and pay employees

3. **Reduced Financing Costs**: By managing working capital effectively, a business can cut back on the use of pricey short-term borrowing options. As a result, interest costs may be reduced, raising profitability.

4. **Better Relationships with Vendors and Creditors**: Vendor and creditor relations can be enhanced by timely payment of invoices and liabilities. This may lead to improved access to resources, discounts, and more favorable financing terms

5. **Increased Profit Margins**: Good working capital management can free up money that can be put back into the company, which may open up prospects for cost savings or profitable investments. Over time, this may result in better profit margins.

6. **Enhanced Decision-Making**: A company can make wise decisions about investments, expansion, and risk management if it has a comprehensive grasp of its working capital requirements and cash flow patterns.

7. **Risk reduction:** It aids in the early identification of potential financial concerns and permits the implementation of proactive steps to reduce those risks. This can involve controlling credit risk, cutting back on surplus stock, and keeping an eye on accounts receivable.

8. **Competitive Advantage**: Businesses who manage their working capital well are better able to react to changes in the market, a downturn in the economy, or unforeseen possibilities, providing them a competitive edge.

Managing working capital effectively can increase investor confidence since it shows that a company is using its resources wisely and is less likely to get into financial issues.

9. **Long-Term Sustainability**: Good working capital management helps a company stay in operation and thrive over the long term by ensuring that it can withstand financial hardships and adjust to shifting market conditions.

In conclusion, working capital management is essential for sustaining a strong and long-lasting company. It helps to maintain long-term competitiveness and profitability in addition to ensuring short-term financial stability. Businesses that are excellent at managing their working capital are better able to negotiate the challenges of the business world and embrace expansion possibilities.

4.10. Determinants of Financial performance

The interviewees were asked to mention the determinant of financial performance in working sector. The following were the responses given; Financial performance is influenced by a complex interplay of factors, both internal and external to a company. These determinants can vary depending on the industry, the company's size, and its specific circumstances. Here are some key determinants of financial performance:

1. **Revenue and Sales Growth**: The rate at which a company's revenue and sales are growing is a fundamental determinant of financial performance. Higher revenue growth typically indicates a healthier financial position.

2. **Profitability Ratios:** Profitability metrics, such as gross profit margin, operating profit margin, and net profit margin, reflect how efficiently a company is generating profits from its operations.

3. **Cost Management:** Effective cost control and management are essential for financial performance. Companies that can minimize costs and operate efficiently are more likely to have strong financial results.

4. **Asset Utilization:** Efficient use of assets, as measured by metrics like return on assets (ROA) and asset turnover ratio, is important for financial performance. Maximizing asset utilization can lead to higher profits.

5. **Debt Levels and Financial Leverage:** The amount of debt a company carries and its use of financial leverage can impact profitability and risk. Excessive debt can lead to higher interest expenses and financial instability.

6. **Cash Flow Management:** Positive cash flow is vital for meeting short-term obligations, investing in growth, and servicing debt. Strong operating cash flow and free cash flow are indicators of financial health.

7. **Market Position and Competition:** A company's market position, including its market share and competitive advantage, can significantly affect its financial performance. Strong market leadership often leads to better financial results.

8. **Economic Conditions:** Broader economic conditions, such as inflation rates, interest rates, and overall economic growth, can influence a company's financial performance. Economic downturns can impact sales and profitability.

9. **Industry and Sector Trends:** The industry and sector in which a company operates can significantly impact its financial performance. Factors like demand trends, technological advancements, and regulatory changes can affect financial results.

10. **Management and Leadership:** Effective leadership, strategic decision-making, and management practices play a critical role in determining financial performance. Strong leadership can drive growth and profitability.

11. **Innovation and Productivity:** Companies that innovate and improve productivity tend to perform better financially. Innovations can lead to new revenue streams, cost savings, and competitive advantages.

12. **Customer and Supplier Relationships:** Maintaining positive relationships with customers and suppliers can impact financial performance. Loyal customers can lead to repeat business, while favorable supplier terms can reduce costs.

13. **Risk Management:** Effective risk management practices, including insurance coverage and hedging strategies, can protect a company's financial performance from unexpected events.

14. **Corporate Governance:** Strong corporate governance practices can enhance investor confidence and improve access to capital, positively affecting financial performance.

15. **Government Policies and Regulations:** Changes in government policies, tax laws, and regulations can have financial implications for businesses. Compliance and adaptability are important.

It's important to note that these determinants are interconnected, and changes in one area can have ripple effects throughout a company's financial performance. Successful companies often have strategies in place to monitor and manage these determinants to achieve their financial goals.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter focuses on the summary of major findings, conclusion based on the findings and the recommendations.

5.1. Summary of findings

The summary of findings is organized around the questionnaire which was based on the research objectives of the study.

From the study, it can be noted that the female employees form the majority by 54.3% while male are represented by 45.7%. This shows that Bank of Kigali respect the government policy on gender issues since more than 30% of the employees were ladies. Working capital management is the most important decisions in knowledge of financial management. The ability of corporate for long term activity related to this subject that financial managers apply optimum management for working capital management. The managers of manufacturing firms can create balance between corporate profitability and liquidity and get optimum working capital management. Hence the conclusion made that there is a relationship between working capital management employed by the financial performance indicators in the financial institutions in Rwanda.

5.2. Conclusion

The general objective of the study is to analyze the contribution of working capital management on the financial performance of banking institutions using BK ltd as a case study. The following are specific objectives of the study; To assess the various working capital management of banking institutions in Kigali city. To identify the factors influencing the effectiveness of working capital management in Bank of Kigali. To examine the relationship between working capital management and financial performance of banking institutions in Kigali city with the following hypotheses:

H0: There is no relationship between working capital management and financial performance in banking institution in BK Rwanda.

H1: There is relationship between working capital management and financial performance in banking institution in BK Rwanda Based on the research findings, researcher verified and confirmed **H1** while **H0** is rejected.

5.3. Recommendations

The bank managers should better predict short-term liquidity demands, increase the accuracy of cash flow forecasting. Precise prediction aids in effective cash management and guarantees the availability of capital to fulfil operational demands.

Stay up to date with financial laws and guarantee stern adherence. It's important to be informed about regulatory changes as they may affect capital adequacy and liquidity needs.

The government of Rwanda established a law No. 007/2008 concerning organizations of banking systems in Rwanda in the section related to the working capital kept at the bank. However, in an open market, the banks should be allowed some flexibility to fix themselves the level of available working capital according to their daily operations.

5.4. Limitation of the Study

The major limitation that faced to accomplish this work includes difficult in accessing some of the key informants. It has been very difficult to reach certain potential people with valuable information for this thesis. For instance, it had been a long process to obtain an appointment and even when the appointment was secured a researcher could not met with some of those people. Another limitation is that researcher administered 100 questionnaires to respondents but only 83 questionnaires were returned back to researcher.

5.6. Suggestion for further study

The following suggestions were made based on the limitation and findings of the study:

A more detailed study targeting all the stakeholders in the banking sector is required to derive a comprehensive model explaining the quantitively relationship between financial institutions in Rwanda and their respective working capital management.

Future researchers are advised to adopt others sets of working capital management indicators to test how respective practices influence the companies' financial performance. This will significantly make contributions towards establishing a comprehensive scholarly opinion relating to corporate finances and working capital management modifications.

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APPENDICES

QUESTIONNAIRE

I, **TUMAINI MUHEREKEZA Espoir** a student at Kigali Independent University ULK currently pursuing a Master program in Business Administration and carrying out the research entitled "**working capital management on financial performance in banking institution in Rwanda, a case study of Bank of Kigali, Period:2013-2016"**

As part of my research, I would like to gather some information from you which will help me gather relevant data for my research. The information gathered will be strictly confidential but useful to promote research and inform human resources management.

A. SECTION: RESPONDENTS IDENTIFICATION

SEX	
Male	
Female	
Age	
Between 21 and 30	
Between 31 and 40	
Between 41 and 50	
Above 51	
Educational level	
Diploma	
Bachelor's degree	
Masters degree	
Phd	
Working experience	
Under 2	
Between 3 and 5	
Between 6 and 10	
Between 11 and 15	
Above 15	

B. SECTION: THE VARIOUS WORKING CAPITAL MANAGEMENT OF BANKING INSTITUTIONS

Please rate the following statements based on your perception of Bank of Kigali's working capital management. Use a scale from 1 (Strongly Disagree) to 5 (Strongly Agree).

Bank of Kigali effectively manages its current assets and liabilities to ensure liquidity.

[ ] 1 - Strongly Disagree

[ ] 2 - Disagree

[ ] 3 - Neutral

[ ] 4 - Agree

[ ] 5 - Strongly Agree

2.2. The bank maintains an optimal level of inventory to balance between meeting customer demand and minimizing holding costs.

[ ] 1 - Strongly Disagree

[ ] 2 - Disagree

[ ] 3 - Neutral

[ ] 4 - Agree

[ ] 5 - Strongly Agree

2.3. Bank of Kigali effectively manages its credit policies to minimize bad debt expenses.

[ ] 1 - Strongly Disagree

[ ] 2 - Disagree

[ ] 3 - Neutral

[ ] 4 - Agree

[ ] 5 - Strongly Agree

2.4. The bank maintains strong and collaborative relationships with its suppliers to optimize cost structures.

[ ] 1 - Strongly Disagree

[ ] 2 - Disagree

[ ] 3 - Neutral

[ ] 4 - Agree

[ ] 5 - Strongly Agree

2.5. Cash flow management practices at Bank of Kigali effectively balance short-term operational needs and long-term growth initiatives.

[ ] 1 - Strongly Disagree

[ ] 2 - Disagree

[ ] 3 - Neutral

[ ] 4 - Agree

[ ] 5 - Strongly Agree

Section 3: Financial Performance

3.1. In your opinion, how would you rate the financial performance of Bank of Kigali over the past year?

[ ] Excellent

[ ] Good

[ ] Fair

[ ] Poor

3.2. Have you observed any significant changes in the bank's financial performance over the last five years? If yes, please describe these changes briefly.

Section 5: Working Capital Components

Please rate the following components of working capital management at Bank of Kigali based on your perception of their effectiveness. Use a scale from 1 (Very Ineffective) to 5 (Very Effective).

5.1. Management of accounts receivable (credit sales) to ensure timely collections.

[ ] 1 - Very Ineffective

[ ] 2 - Ineffective

[ ] 3 - Neutral

[ ] 4 - Effective

[ ] 5 - Very Effective

5.2. Management of accounts payable (credit purchases) to optimize payment terms and cash flow.

[ ] 1 - Very Ineffective

[ ] 2 - Ineffective

[ ] 3 - Neutral

[ ] 4 - Effective

[ ] 5 - Very Effective

C. SECTION: TO EXAMINE THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF BANKING INSTITUTIONS IN KIGALI CITY.

Financial Performance Metrics

In your opinion, what are the most important financial performance metrics for Bank of Kigali? Please rank them in order of importance.

[ ] Return on Assets (ROA)
[ ] Return on Equity (ROE)

How does Bank of Kigali measure and track its financial performance? (e.g., quarterly reports, annual statements, key performance indicators)

Performance Measurement

17.2. In your opinion, are the current performance measurement methods adequate in gauging the effectiveness of working capital management?

[ ] Yes
[ ] No

17.3. If no, what improvements or additional metrics would you recommend to better evaluate performance?

Working Capital Performance Evaluation

Please rate the following aspects of working capital performance at Bank of Kigali based on your perception. Use a scale from 1 (Poor) to 5 (Excellent).

27.1. Liquidity management and cash flow optimization.

[ ] 1 - Poor
[ ] 2 - Fair
[ ] 3 - Neutral
[ ] 4 - Good
[ ] 5 - Excellent

27.2. Management of inventory levels and turnover.

[ ] 1 - Poor

[ ] 2 - Fair

[ ] 3 - Neutral

[ ] 4 - Good

[ ] 5 - Excellent

27.3. Management of short-term debt and financing.

[ ] 1 - Poor

[ ] 2 - Fair

[ ] 3 - Neutral

[ ] 4 - Good

[ ] 5 - Excellent

Performance Evaluation Metrics

41.1. Which key performance metrics or indicators do you consider most important for evaluating the success of working capital management at Bank of Kigali?

[ ] Cash Conversion Cycle (CCC)

[ ] Current Ratio

[ ] Quick Ratio

[ ] Inventory Turnover

[ ] Accounts Receivable Turnover

[ ] Other (Please specify): ________________

Are there specific benchmarks or target values that the bank aims to achieve for these metrics?

Thank you for your time and insights.

INTERVIEW GUIDE

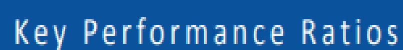
I, Tumaini Muherekeza Espoir a student at Kigali Independent University ULK currently pursuing a Master program in Business Administration and carrying out the research entitled "**working capital management on financial performance in banking institution in Rwanda, a case study of Bank of Kigali, Period:2013-2016"**

Respected madam/sir, as part of my research, I would like to gather some information from you which will help me in an in-depth study of project. Since the interview is used for academic purpose, the information gathered will be strictly confidential.

1. In your opinion, what are working capital management factors and What is the effect of those factors on Bank of Kigali's performance?
2. Are there challenges or barriers that you've encountered which affected both working capital management and financial performance?
3. In your view, how strong is the connection between both working capital management and financial performance In BK?

Thank you for your time and insights. Your input is invaluable in helping us understanding the dynamic both working capital management and financial performance in Bank of Kigali.

	Note	2016 FRw'000	2015 FRw'000
Assets			
Cash in hand	18 (a)	15,032,721	14,951,617
Balances with the National Bank of Rwanda	18 (b)	31,832,058	44,572,594
Due from banks	19	84,634,868	62,568,118
Held to maturity investments	20(a)	77,962,606	93,503,198
Loans and advances to customers	21(a)	385,824,570	313,925,535
Other assets	22	8,877,766	8,255,500
Equity Investments	20(b)	221,425	221,425
Property and equipment	23	33,435,701	22,846,884
Intangible assets	24	514,883	381,529
Total Assets		**638,336,598**	**561,226,400**
Liabilities			
Due to banks	25	28,105,184	22,609,724
Deposits and balances from customers	26	419,017,263	384,713,700
Tax Payable	16(b)	4,165,830	808,141
Deferred tax liability	27	6,795,553	1,682,520
Dividends Payable	28	8,343,104	34,230
Other liabilities	29	6,286,996	9,656,897
Long-term finance	30	57,137,068	42,475,643
Total Liabilities		**529,850,998**	**461,980,855**



Key Performance Ratios

	2016	2015	2014	2013	2012	2011	2010
Profitability							
Return on Average Assets (ROAA), %	3.5%	3.9%	4.0%	4.0%	3.9%	3.6%	3.5%
Return on Average Equity (ROAE), %	20.0%	21.7%	22.9%	22.2%	18.9%	18.6%	24.5%
Net Interest Margin, %	10.5%	10.1%	9.9%	11.1%	9.6%	8.4%	8.3%
Loan Yield, %	17.6%	19.2%	20.5%	20.5%	17.0%	16.9%	15.8%
Interest Expense/Interest Income,%	22.9%	22.9%	24.4%	22.2%	26.0%	26.8%	25.6%
Cost of Funds, %	3.3%	3.2%	3.4%	3.3%	3.4%	3.1%	2.8%
Efficiency							
Cost/Income Ratio	47.5%	47.8%	47.9%	48.4%	52.8%	48.4%	47.5%
Costs/Average Assets, %	6.1%	5.8%	6.2%	7.0%	6.6%	5.9%	5.8%
Personnel Costs/Total Recurring Operating Costs	38.5%	49.4%	51.8%	45.0%	47.4%	51.8%	52.3%
Personnel Costs/Average Total Assets, Annualised	2.3%	2.9%	3.2%	3.1%	3.1%	2.9%	3.0%
Personnel Costs/Total Operating Income	18.3%	23.6%	24.8%	21.8%	25.0%	25.1%	25.0%
Net Income/Total Operating Income	27.0%	32.1%	31.5%	27.6%	30.7%	29.5%	29.2%
Total Operating Income/Average Assets %	12.8%	12.2%	12.9%	14.4%	12.6%	12.1%	12.1%

	Note	2014	2013
		FRw'000	FRw'000
Assets			
Cash in hand	16 (a)	12,020,669	11,110,210
Balances with the National Bank of Rwanda	16 (b)	46,938,373	24,855,050
Due from banks	17	102,988,217	107,377,523
Held to maturity investments	18(a)	58,596,907	50,820,690
Loans and advances to customers	19(a)	233,439,509	199,025,241
Equity Investments	18(b)	221,425	218,455
Other assets	20	7,665,385	7,695,005
Property and equipment	21	20,503,423	21,018,894
Intangible assets	22	234,056	239,005
Total Assets		**482,607,964**	**422,360,073**
Liabilities			
Due to banks	23	15,214,461	17,345,024
Deposits and balances from customers	24	324,601,160	280,489,463
Tax Payable	14(b)	692,518	1,828,573
Deferred tax liability	25	1,431,391	1,620,650
Dividends Payable	26	5,469	7,416,579
Other liabilities	27	11,185,264	8,705,581
Long-term finance	28	39,929,967	34,190,519
Total Liabilities		**393,060,230**	**351,596,389**