

**CREDIT RISK MANAGEMENT AND PROFITABILITY OF COMMERCIAL BANKS
IN RWANDA
A CASE STUDY OF BANK OF KIGALI**

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ABSTRACT

The current global financial crisis indicates that risk management of the financial institutions is not adequate enough. This leads to the failure of the banks in highly challenging financial market. Furthermore, the discussion of financial crisis in mass media and among scholars mentions the risk management as omissions or neglect of risk measurement signals. They state that more attentive participants could avoid the tremendous affect of the financial meltdown

Joel,(2004). Therefore, Risk Management as a discipline is being taken seriously nowadays. Nevertheless, the financial storm teaches several key lessons which can assist to improve the risk management in future. As a result, risk has become a very challenging area of studies. This has motivated us to conduct our thesis on this area of interest.

In economic life, the role of banks is important; first of all it is by banks that the small capital isolated and sterile can be combined to form large capital which can play a productive role in the economy. Given the multiplicity of financial relations linking banking institutions between them and banking institutions with individuals that are faced with many risks, some are common to all companies (legal risks, accidents and theft , fire, financial malfeasance, etc), while others are specific to the business of banking. The financial crisis facing the world today shows that banking institutions are facing risks. However credit risk is the main source of loss for financial institutions. The credit portfolio deserves special attention, which requires credit analysts to make extensive studies, including various internal and external dimensions in relation to credit, interest rate, term of the loan, the industry, recovery, the size of credit etc. ..Credit risk management in banks has become more important not only because of the financial crisis that the world is experiencing nowadays but also the introduction of Basel II. Since granting credit is one of the main sources of income in commercial banks, the management of the risk related to that credit affects the profitability of the banks. The main purpose of our study is to describe The impact level of credit risk management on profitability in Rwandan commercial banks. The study is limited to identifying the relationship of credit risk management and profitability of commercial banks in Rwanda. The results of the study are limited to banks in the sample and are not generalized for the all the commercial banks in Rwanda. The project research was focused mainly on finds of study on contribution of risk management toward profitability in commercial banks, with case study of Bank of Kigali. The scope of this study is 2009 to 2011. The major objective of this study was to find and assess the contribution of risk management toward profitability in commerce bank. The process and conditions and requirements involved when issuing acquiring credit. Respondent have been the employees of BK from credit department, they contributed to get the findings conclusion and recommendation. Questionnaires and open interview are the two techniques that has been used to collect primary data, secondary data has been collected from annual report, written books international financial manuals, and websites, the information that has been obtained by the use of the above techniques has been edited and debuted and provides the basis ground of analysis and recommendations. The research shows that there is relationship of credit risk management and profitability of Bank of Kigali, the results obtained from the regression model show that there is

an effect of credit risk management on profitability on high level with 96, 1% possibility of NPLR in predicting the variance in ROE, so the credit risk management strategy defines profitability level to an important extent