THE CONTRIBUTION OF QUALITY ASSETS TO FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

Me. Kishar Bagan Ntwali Henock

Dr. Emmanuel Kayitare PhD

Email:

Department of Finance, Kigali Independent University ULK

Abstract

DRC's experience with the financial reform process shows a widening growth in the non-performing assets which has been a hindrance to the development of financial sector thus negatively contributing towards the growth of the Congolese economy. Therefore, this study was conducted to explore the evolution of nonperforming loans in BCDC; to examine the evolution of the profit of BCDC and to analyse causal relationship between nonperforming loans and the profit of BCDC. This study involved 14 employees of the financial department, 38 cashiers, 27 employees of credit department and 4 employees of the management department obtained using the universal sampling method. The findings on the evolution of nonperforming loans in BCDC revealed that in 2018, BCDC recorded 48,499,425,000 Fc of nonperforming loans. This amount decreased by 2.6% in 2019 and became 47,259,812,000 Fc. However, the amount of nonperforming loans recorded an increase of 39.1% in 2020 as it became 65,741,908,000 Fc. The findings on the causal relationship between nonperforming loans and the profit of BCDC showed that the value of R^2 for the model is 0.097. This means that 9.7% of the variation in the financial performance of BCDC can be explained from the NPLs. This indicates that the regression between the two variables (NPLs and ROA) is too low. Therefore, the researcher rejected the alternative hypothesis and conclude that the model is not statistically significant, meaning that there is no significant relationship between nonperforming loans and the profit of BCDC from 2018 to 2020, which confirms the null hypothesis. It recommends BCDC to improve its processes of screening credit customers and monitoring of credit risk. This is an important indicator because it had serious problem with non-performing loans in the past which led to collapse of many banks in DRC.

Key words: Quality Assets, Financial Performance, Commercial Bank

Introduction

DRC's experience with the financial reform process shows a widening growth in the non-performing assets which has been a hindrance to the development of financial sector thus

negatively contributing towards the growth of the Congolese economy. The commercial banks management responsibility of closely monitoring the assets quality has proven to be quite tasking owing to theoretical foundations on the impact that assets quality has on the financial performance of the commercial banks. Thus, there is no doubt that these two variables are interrelated and hence the need to establish the nature and significance of relationship. Fiscal policies by the Central Bank have done much to stabilize the market, but at times some interventions lead to unforeseen developments in the banking sector.

For instance, with regard to the evolution of their activities, there has been a positive trend in deposits and loans for several years. At the end of June 2021, the growth rate of deposits indeed recorded an increase of around 35% compared to its level of December 2017, thus demonstrating the public's confidence in the banking system. Meanwhile, loans are progressing more slowly with a growth rate of around 20% compared to the end of 2017, thus representing only 7% of GDP. Consequently, this constitutes a brake on investments in private productive enterprises and therefore an obstacle to the country's economic growth (Central bank Supervision Report, 2021).

At the same time, according to the Central Bank Supervision Report, the level of nonperforming loans have been increasing steadily from USD 691 million in 2018, to USD 742 million in 2019 and 863 USD million in 2020. This high level of non-performing loans continues to be an issue of major supervisory concern in DRC. It is accepted that the low quantity or the high ratios of nonperforming assets (NPAs) to gross assets is often associated with bank failures and financial crises in both developing and developed countries (Caprio and Klingebiel, 2020).

Commercial banks in DRC have continued to report increasing financial performance represented by profitability levels, despite deteriorating quality of the assets or increasing ratio of gross nonperforming assets to gross loans levels occasioned by the growth in loans and advances (assets). These results represent contrary expected established perceptions of negative correlation between the assets quality and financial performance; therefore, their relationship thereof is worth being studied (Central bank, 2020).

A number of studies have been undertaken both locally and internationally on the topic of assets quality especially in developed countries and in some African countries as well. Some of these study found that the quality of assets have a negative correlation on the financial performance of a bank while others have found the contrary results. For example, the study done by Makalaka Aristide B. showed that the quality of assets have a negative correlation on the financial

performance. On the other hand, the study done by Géraldine MERMOUX and Guillaume GILKES in 2019 confirmed that the quality of assets have no correlation with the financial performance. However, concerning the case of BCDC, no study has been made on the assets quality and financial performance at the researcher's knowledge. Therefore due to geographical gap and the contradicting findings by the researchers, it would be necessary to validate the actual position with a case study of BCDC.

2. Literature review

2.1 Capital Adequacy and its Effect on Financial Performance

Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may experience (Kosmidou, 2009). The capital structure of banks is highly regulated. This is because capital plays a crucial role in reducing the number of bank failures and losses to depositors when a bank fails, as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers (Kamau, 2009).

Although there is general agreement that statutory capital requirements are necessary to reduce moral hazard, the debate is on how much capital is enough. Regulators would like to have higher minimum requirements to reduce cases of bank failures, whilst the financial institutions shareholders in contrast argue that it is expensive and difficult to obtain additional equity and higher requirements restrict their competitiveness (Koch, 1995).

Beckmann (2007) argue that high capital leads to low profits since banks with a high capital ratio are risk-averse, they ignore potential (risky) investment opportunities and, as a result, investors demand a lower return on their capital in exchange for lower risk. However, Gavila et al (2009) argues that, although capital is expensive in terms of expected return, highly capitalized banks face lower cost of bankruptcy, lower need for external funding especially in emerging economies where external borrowing is difficult. Thus, well capitalized banks should be profitable than lowly capitalized banks. Gavila (2009) using a sample of 10 Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive impact of capitalization to ROA. Sufian and Chong (2008) also reported the same results after examining the impact of capital to the performance of banks in Philippines from 1990 to 2005.

2.2 Assets Quality and its Effect on Financial Performance

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit risk depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2005). Aburime (2008) asserts that the financial

performance of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen.

Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets. Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Ethiopia in the early 1980s. During that period 37 banks collapsed following the banking crises of 1986-1989, 1993-1994 and 1998 (Mwega, 2009).

According to Waweru and Kalani (2009) many of the financial institutions that collapse in 1986 failed due to non-performing loans (NPLs) and that most of the larger bank-failures, involved extensive insider lending, often to politicians. The central banks measure asset quality by the ratio of net non-performing loans to gross loans. However, Koch (1995) argues that a good measure of credit risk or asset quality is the ratio of loan loss reserve to gross loans because it captures the expectation of management with regard to the performance of loans.

Hempel et al (1994) observed that banks with high loan growth often assume more risk as credit analysis and review procedures are less rigorous, however returns are high in such loans indicating a risk and return trade-off. Kosmidou (2008) applied a linear regression model on Greece 23 commercial banks data for 1990 to 2002, using ROA and the ratio of loan loss reserve to gross loans to proxy profitability and asset quality respectively. The results showed a negative significantimpact of asset quality to bank profitability. This was in line with the theory that increased exposure to credit risk is normally associated with decreased firm profitability. Indicating that banks would improve profitability by improving screening and monitoring of credit risk.

2.3 Liquidity Management and its Effect on Financial Performance

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBK, 2009). It is argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Kamau, 2009). The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank's return but also increases its liquidity risks and the inverse is true. Thus, a high liquidity ratio indicates a less risky and less profitable bank (Hempel et al, 1994).

Thus, management is faced with the dilemma of liquidity and profitability. Levine (1998) emphasized the adverse effect of increased liquidity for financial Institutions stating that, "although more liquid assets increase the ability to raise cash on short-notice, they also reduce management's ability to commit credibly to an investment strategy that protects investors" which, finally, can result in reduction of the "firm's capacity to raise external finance" in some cases (Uzhegova, 2010).

2.4 Management Efficiency and its Effect on Financial Performance

Poor management of expenditure is the main contributors to poor profitability (Sufian and Chong 2009). In the literature on bank performance, operational expense efficiency is usually used to assess managerial efficiency in banks. Mathuva (2009) observed that the Cost Income Ratio (CIR) of local banks is high when compared to other countries and thus there is need for local banks to reduce their operational costs to be competitive globally. Beck and Fuchs (2004) examined the various factors that contribute to high interests spread in commercial banks. Overheads were found to be one of the most important components of the high interests' rate spreads. An analysis of the overheads showed that they were driven by staff wage costs which were comparatively higher than other banks in the SSA countries.

Although the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues. In relatively uncompetitive markets where banks enjoy market power, costs are passed on to customers; hence there would be a positive correlation between overheads costs and profitability (Flamini et al, 2009). Neceur (2003) found a positive and significant impact of overheads costs to profitability indicating that such cost is passed on to depositors and borrowers in terms of lower deposits rates/ or higher lending rates.

2.5 Diversification of Income and its Effect on Financial Performance

Financial institutions in recent years have increasingly been generating income from "off balance sheet" business and from fees and commissions income. Albertazzi and Gambacorta (2006) as cited by Uzhegova (2010) noted that the decline in interest margins, has forced banks to explore alternative sources of revenues, leading to diversification into trading activities, other services and non-traditional financial operations. The concept of revenue diversifications follows the concept of portfolio theory which states that individuals can reduce firm specific risk by diversifying their portfolios.

However, there is a long history of debates about the benefits and costs of diversification in banking literature. The proponents of activity diversification or product mix argue that diversification provides a stable and less volatile income, economies of scope and scale, and the ability to leverage managerial efficiency across products (Choi and Kotrozo, 2006).

Chiorazzo et al (2008) noted that as a result of activity diversification, the economies of scale and scope caused through the joint production of financial activities leads to increase in the efficiency of banking organizations. They further argued that product mix reduces total risks because income from non-interest activities is not correlated or at least perfectly correlated with income from fee based activities and as such diversification should stabilize operating income and give rise to a more stable stream of profits (Uzhegova, 2010).

The opposite argument to activity diversification is that it leads to increased agency costs, increased organizational complexity, and the potential for riskier behavior by bank managers. Mihail (2009) mentioned that activity diversification results in more complex organizations which "makes it more difficult for top management to monitor the behavior of the other divisions/branches. They further argued that the benefits of economies of scale/scope exist only to a point. The costs associated with a firm's increased complexity may overshadow the benefits of diversification.

As such, the benefits of diversification and performance would resemble an inverted-U in which there would be an optimal level of diversification beyond which benefits would begin to decline and may ultimately become negative. Using annual bank level data of all Philippines commercial banks Sufian and Chong (2008) found a positive relationship between total non-interest income divided by total assets, a proxy for income diversification and bank profitability. Uzhegova (2010) using a HH index of interest income, commissions, fee income, trading income, non-interest income and other operating income found empirical support of theidea that banks involved in diversification activities expect some benefits. While Kotrozo and Choi 2006, using a similar index found that activity diversification tends to reduce performance compared to banks more focused in their activities.

3. Materials and methods

3.1 Research design

In this research, correlation research was used to determine the statistical association between the relationship of assets quality and financial performance of BCDC.

3.2 Participants

For the purpose of this research, the study population comprised of the employees from key departments of BCDC, able to provide us with reliable information about our study. According to the annual report of this bank, in 2022 it was working with 83 employees working from key departments like:14 employees of the financial department, 38 cashiers, 27 employees of credit department and 4 employees of the management department.

The research concerned 14 employees of the financial department, 38 cashiers, 27 employees of credit department and 4 employees of the management department obtained using the universal sampling technique.Therefore, the sample is composed by 83 employees of BCDC.

3.3 Research instruments

This is a collection of carefully formulated questions that a researcher prepares and distributes to research participants in order to collect the same factual data in writing. It is thus a series of interconnected questions organized in a particular order with the goal of collecting data from the study's survey participants (Grinner & William, 2010). The questionnaire was splited into small sections and section I gives details on socio demographic characteristics of respondents; sections II, III and IV captured data about the level of nonperforming loans, the level of profit made and the relationship between nonperforming loans and the profit respectively. The questionnairewas administered to BCDC employees.

3.4 Data collection procedure

Prior to collecting data, the researcher obtained a letter of approval from Mount Kenya University's School of Health Sciences. This was presented to authorities of Kigali City to apply for permission for data collection in their area of administration.

After being briefed by the researcher, there was a direct contact between the researcher and the respondents to enable them to express their opinions. The respondents are sex workers living in the City of Kigali. They were met at their respective households. To reach them in the community, the researcher was guided by mature sex workers as they know every sex worker in their respective villages. Sex workers were asked questions and answers were filled in the questionnaire by the researcher or data collectors. Those who know to read and write filled themselves the questionnaire while those who did not know to read or to write were assisted by data collectors to fill the questionnaire.

Document review helped the researcher to reach financial statements of BCDC, published and accessible online as it is mandatory for all commercial banks in DRC to help banking survey. The banking Survey is an annual publication that publishes annual financial statement of all banks in DRC while the Central Bank of Congo publishes and analyzes financial institutions performance data annually. The study covered a three years period from the years 2018 to 2020.

3.5 Data analysis procedure

In this study, during the analysis and interpretation of data collected from BCDC employees and annual reports, the researcher used trend percentages and ratios analysis to analyze data.

3.5.1. Trend percentages

It is an analysis of financial statements where all balance sheet or income statement figures for a base year equal 100 (percent) and subsequent financial statement items are expressed as percentages of their values in the base year. Trend percentages are immensely helpful in making a comparative study of the financial statements for the several years. The method of calculating trend percentage involves the calculation of the percentage relationship that each item bears to the item in the base year. Thus, any year may be taken as base year. Therefore, the BCDC's accounting period 2018 was taken as a base year and each item of the base year was been taken as 100 and on that basis the percentages for each of the items of each of the years were calculated.

3.5.2. Ratios analysis

Ratio analysis is one of the techniques of financial analysis where ratios have been used as a yardstick for evaluating the financial condition and the performance of the company. Therefore, the ratio analysis was used to express relationship in mathematical terms between figures of BCDC's financial statements made during 2018 to 2020 and it was used to evaluate BCDC's profitability and liquidity position.

3.5.3. Regression analysis

On this issue, the data were collected and analyzed using the computer software known as Statistical Package for Social Sciences (SPSS) version 20.0. Descriptive and regression analysis was applied to the study and compared the effect of independent variable on the dependent variable. The dependent variable which is represented by the Financial Performance of the banks

and denoted by Return on Assets (ROA) which is a measure of profitability and it indicates how efficient the bank's management uses its assets to generate earnings/ incomes which is calculated as annual earnings divided by total average assets.

On the other hand, in order to obtain the independent variable which is represented by the Assets quality; it was evaluated using the following ratio: NPAs to Total Assets. The correction test was used since with a 5% statistic test of significance. The nature of the relationship between the two variables was defined by computing the correlation coefficient (r) and coefficient of determination (r2).

3.6 Ethical consideration

Conducting a research does not only necessitate expertise but also honesty and dignity. Ethical actions are essential to the research by the way of guarding the rights of individuals, acquiring an informed consent and submitting an original research proposal for the university review. In this study, the researcher respected ethical approval procedures. The researcher will ensure that the information obtained during the research process is protected with the highest degree of confidentiality and used by the researcher exclusively for academic purposes. The researcher was issued with a data collection letter from LUK, which worked as an official introduction of the researcher to the institution concerned by the study. The researcher also sought an official permission to conduct the research from the concerned authorities in BCDC through a formal reply to the researcher and copies of both letters are reflected in the appendix of the final thesis.

4. Results

4.1 Findings

Tables 4.1 Socio demographic characteristics of respondents

Variables	Frequency	Percentage
Gender		
Male	53	63.9
Female	30	36.1
Age		
20-30	34	41.0
31-40	28	33.7
Over 40	21	25.3
Experience as a BCDC employee		
Less than 2 years	18	21.7
2-5 years	49	59.0
Over 5 years	16	19.3
Education		

Secondary	18	21.7
A1	15	18.1
A0	44	53.0
Masters and PhD	16	19.3

As shown in Table 4.1, the majority of the respondents were male (63.9%) and 36.1% were female; the group of 20-30 years old among employees dominated other groups with 41%. Also, the majority of the respondents have worked with BCDC for a period comprised between 2 and 5 years. The education level showed that the majority of the respondents were employees with A0 level of education with 53% followed by 21.7% of participants with secondary education; 18.1% had A1 level while 19.3% had Masters or PhD level of education.

Table 4.2 Level of nonperforming loans in BCDC from 2018 to 2020 (,000 Fc)

	2018	**2019**	**2020**
NPLs	48,499,425	47,259,812	65,741,908
Variation in %		-2.6	39.1

Source: BCDC, 2018-2020

The results obtained show that in 2018, BCDC recorded 48,499,425,000 Fc of nonperforming loans. This amount decreased by 2.6% in 2019 and became 47,259,812,000 Fc. However, the amount of nonperforming loans recorded an increase of 39.1% in 2020 as it became 65,741,908,000 Fc.

To support this information, the study participants were asked to estimate the amount of loans granted by BCDC to its customers, how the customers were paying back their loans and the amount of nonperforming loans within BCDC. The findings are summarized in Table 4.3 below:

Table 4.3 Level of nonperforming loans in BCDC

Variables	**Frequency**	**Percentage**
How do you value the amount of loans granted by BCDC to its customers?		
Great amount	62	74.7
Average	12	14.5
Small amount	9	10.8
How are the customers paying back their loans?		
They are well paying back	57	68.7
They are not well paying Back	26	31.3
How do you value the amount of nonperforming loans within BCDC?		
Great amount	27	32.5

Average	38	45.8
Small amount	18	21.7

Source: Primary data, 2022

Table 4.3 demonstrated the study findings where 74.7% recognized that BCDC granted great amount of money as loans to its customers; 68.7% said that those customers were well paying back their loans and 45.8% affirmed that there was an average amount of nonperforming loans.

Table 4.4 Profit made by BCDC from 2018 to 2020 (,000 Fc)

	2018	**2019**	**2020**
Profit	14,835,747	23,266,232	6,438,757
Variation in %		-14.3	-49.4

Source: BCDC, 2018-2020

The results obtained show that in 2018, BCDC made a profit equivalent to 14,835,747,000 Fc. This amount decreased by 14.3% in 2019 and became 23,266,232,000 Fc. The decrease continued in 2020 because the profit made was 6,438,757,000 Fc meaning a decrease of 49.4%. Based on this profit, the Return on Assets is calculated as follows:

Table 4.5 ROA made by BCDC from 2018 to 2020

	2018	**2019**	**2020**
Profit	14,835,747	23,266,232	6,438,757
Assets	1,474,638,429	2,118,008,137	2,203,868,806
ROA	3.3	2.2	3.0
Variation in %		-33.3	36.4

Source: BCDC, 2018-2020

These results show that in 2018, BCDC made a return on assets equal to 3.3%. This rate decreases by 33.3% in 2019 and became 2.2% while in 2020 it increased by 36.4% and became 3%. According to BCC recommendations, the ROA should be equal or greater to 4%. The results obtained show that BCDC did not reach this recommended level for the whole period of the study. However, efforts have been made to be the nearest possible of the recommended level because the calculated ROA is between 2.2 and 3.3%.

To support this information, the study participants were asked to estimate the amount of profit made by BCDC and to give their views on its financial situation based on its respective profit from 2018 to 2020. The findings are summarized in Table 4.6 below:

Table 4.6 Level of profit made by BCDC

Variables	**Frequency**	**Percentage**

How do you value the amount of profit made by BCDC in these years?		
Great profit	65	78.3
Average	11	13.3
Small profit	7	8.4
How is its financial situation based on its respective profit from 2018 to 2020?		
The financial situation is Good	67	80.7
The financial situation is 50-50	10	12.0
The financial situation is not good	6	7.2

Source: Primary data, 2022

Table 4.6 demonstrated the study findings where 78.3% recognized that BCDC made a great profit from 2018 to 2020 and 80.7% confirmed that its financial situation is good based justly the profit made.

Regression analysis was applied to the study and compared the effect of independent variable on the dependent variable. The dependent variable which is represented by the Financial Performance of the banks and denoted by Return on Assets (ROA) which is a measure of profitability and it indicates how efficient the bank's management uses its assets to generate earnings/ incomes which is calculated as annual earnings divided by total average assets.

On the other hand, in order to obtain the independent variable which is represented by the Assets quality; it was evaluated using the following ratio: NPAs to Total Assets.

The regression test was used with a 5% statistic test of significance. The nature of the relationship between the two variables was defined using linear regression. The nature of the relationship between the two variables was defined by computing the correlation coefficient (r) and coefficient of determination (r2).

Table 4.7 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.311[a]	.097	-.806	.7642

a. Predictors: (Constant), NPLs

Source: Researcher's computation from SPSS, 2023

This table presents the information that the value of R^2 for the model is 0.097. This means that 9.7% of the variation in the financial performance of BCDC can be explained from the NPLs.This indicates that the regression between the two variables (NPLs and ROA) is too low.

The results obtained in this study differ from the ones obtained by Ahmed et al. (2010) in their study on the impact of nonperforming loans to the performance of a financial company. According to these authors, NPLs has a significant positive relationship with the performance of a financial institution considering its ROA. The results implied that an increase in non-performing loans led to decrease in ROA and ultimately a negative impact of profitability, hence an increase in credit risk.

These results differ from those of Vereecken and Maes (2020) in their study on the impact of asset quality management and the profitability of Algerian banks. These authors found that non-performing loans (NPL) has an inverse relationship with banks' profitability. Hence, they suggested that it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests.The reason of this discrepancy may be explained by the difference in financial environment between banks of DRC (The case of the present study) and Algerian banks (The case for Vereecken and Mae).

Using ANOVA table, the researcher found the following situation:

Table 4.9 ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.063	1	.063	.107	.798[a]
Residual	.584	1	.584		
Total	.647	2			

a. Predictors: (Constant), NPLs

b. Dependent Variable: ROA

Source: Primary data

The overall regression results as shown in the ANOVA table indicates that the regression model is not statistically significant (F ratio= 0.107, Sig. level 0.798). This indicates that the predictor indicated in the regression model that is NPLs did not explain the dependent variable which is ROA. Therefore, the increase or decrease observed on the financial performance of BCDC did not result only in the increase or decrease of NPLs.

Table 4.10 Regression model coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.911	2.850		.670	.624
	NPLs	.000	.000	.311	.328	.798

a. Dependent Variable: ROA

Source: Researcher's computation from SPPS, 2023

Based on the probability of the estimated parameters, these results show that NPLs did not affect the ROA as long as the probability of its estimated parameter is greater than 5% (It is 0.798). When NPLS increases by 1, the ROA grows by 0.000 ceteris paribus as indicated in B column. There is no influence indeed.

Therefore, we accept null hypothesis and conclude that the model is not statistically significant, meaning that there is no significant relationship between nonperforming loans and the profit of BCDC from 2018 to 2020, which confirms the null hypothesis.

These results differ from the ones obtained by Anjichi (2014) on the effects of assets and liabilities on the financial performance of commercial banks over the period of 2004-2013. These authors analysed all the CAMEL factors and found that all of them (including NPLs) have a statistically significant impact on financial performance. Garcia et al (2012) and Ponce (2010) also measured the determinants of bank profitability in Spain; the results indicated that there is higher profit growth in banks having higher proportional of loans total assets, higher customer deposits, efficiency and lower credit risks. In this aspect they argued that higher profitability is to the bank which is capable of holding higher assets in terms of loans. Although there is additional costs of holding higher loan, the bank receive higher profit level, and where there is higher loan,

liquidity is the problem thus, banks need to strike to balance between the two, as in theory higher loans means higher profitability.

The present findings also differ from those obtained by Athanasoglou et al (2008), Angbazo (1997), and De young and Rice (2004) who found that there is positive relationship between quality of the assets as measured by decrease in doubtful assets, decrease in impairment losses decrease in non-performing loans and increase in receivable. In general the health balance sheet structure and effectiveness of credit administration tends to increase the profitability of the banks. The reason of this discrepancy may be explained by the difference in financial environment between banks of DRC and European banks.

6. Conclusion

In conclusion, this study has revealed that there is no significant relationship between nonperforming loans and the profit of BCDC from 2018 to 2020.

7. Recommendations

Every business organization aims at maximizing profits and minimizing costs, the same to BCDC, profit maximization is the most important goal that need to be achieved but this should be applied hand in hand with cost minimization. BCDC has not achieved a significant growth over the three years concerned by the study. That is why some improvements need to be made and the following recommendations have to be taken into considerations:

- BCDC should enhance its efforts to reduce NPLs because it was found that in 2018, BCDC recorded 48,499,425,000 Fc of nonperforming loans and increased by 39.1% in 2020 as it became 65,741,908,000 Fc.

- For asset quality BCDC needs to improve its processes of screening credit customers and monitoring of credit risk. This is an important indicator because it had serious problem with non-performing loans.

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