ABSTRACT

The main purpose of the research was to study the profitability of commercial banks in Rwanda. The first step was to determine the extent to which non performing loans ratio and capital adequacy impact on the profitability of those banks. Then the profitability itself was analyzed through its major internal key drivers. This study determined the effect of NPLR and CAR on profitability in four selected commercial banks, namely Bank of Kigali, Commercial Bank of Rwanda, Popular Bank of Rwanda, and Ecobank. The study found out that NPLR has a negative effect on the profitability in the four selected banks, this effect being statistically significant in only two banks, i.e. Bank of Kigali and Ecobank. Concerning the CAR, the study found out that CAR has a positive effect on the profitability in the four selected banks, this effect being statistically significant in only one bank, i.e. BPR. In the BCR, none of the two indicators of credit risk management does show a significant effect on the profitability. The study established that BK and BCR are performing well in terms of profitability. For BPR and ECOBANK, the excessive rate of expenses is likely to annihilate the good values of the net interest margin. The study demonstrated that the effective way to improve ROA in BK and BCR is through the PM. Considering then the ROE as a function of ROA and EM, i.e. ROE=f(ROA, EM); the findings indicated that for the Bank of Kigali, the EM can improve the value of ROE more effectively compared with the EM, while for the BCR, the ROA is most likely to improve more effectively ROE compared with EM. The study recommended that the commercial banks in Rwanda should improve their profitability by focusing attention on proper cost control and operating efficiency. The commercial banks in Rwanda should be prudent in providing credit and lend to the productive sectors with proper monitoring systems and sound credit management. The commercial banks in Rwanda should comply with the capital adequacy requirements, and improve the quality of their services and thus enhance their creditworthiness.