AN ASSESSMENT OF THE IMPACT OF NON-PERFORMING LOANS ON THE PROFITABILITY OF THE BANKING SECTOR. A CASE STUDY OF NMB BANK.

BY

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.....................................................                                     ............................................
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DEDICATIONS
This piece of work is dedicated to my family who brought me into this world and made me understand the meaning of banking and finance.
ABSTRACT
Non-performing loans have been known as one of the main factor distressing the profitability and survival of banks and microfinance companies in Zimbabwe. Most banks are incapable to endure competition in the blustery banking industry due to high level of non-performing loans. In denial of this background the study scanned the effect of (NPLs) non-performing loans on the profitability of NMB Bank. Secondary data traversing the period of nine years (2009-2017) was track down from the annual reports of the designated bank. Moreover, primary data was collected from the 20 selected employees of NMB Bank through questionnaires to help scrutinize the major causes of non-performing loans in the banking sector. Descriptive statistics and Pearson’s Moment Correlation Analysis were conducted to survey trends and relationships. The study further discovered that non-performing loans (NPLs) has a negative effect on the bank’s profitability. The study further found major causes of bad loans within the banking sector include negligence in credit monitoring, lack of effective credit management policy to govern the disbursement of funds to borrowers and poor appraisal system. The study recommends that banks must take measures to reduce their non-performing loans since it has negative impact on their financial performance.
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LIST OF ACRONYMS
CBN – Central Bank of Nigeria
IMF – International Monetary Fund
MPS – Monetary Policy Statement
NMB – National Merchant Bank
NPLs – Non-Performing Loans
OLEM - Other Loans Especially Mentioned
RBZ – Reserve Bank of Zimbabwe
ROA – Return On Asset
SMEs - Small to Medium Enterprises
ZAMCO – Zimbabwe Asset Management Company
CHAPTER I

INTRODUCTION

1.0 Introduction

This study looks at the impact of non-performing loans (NPL) on NMB bank profitability for the period 2009-2017. Non-performing loans are those risk assets not generating income. As a first step, loans are often considered to be nonperforming when principal or interest on them is due and left unpaid for 90 days or more. Loan classification and provisioning entails much more than simply looking at amounts overdue (Ugoani (2015). According to Hou & Dickinson (2007), definition of non-performing is a loan that is not earning income and: full payment of principal and interest is no longer anticipated, principal or interest is 90 days or more delinquent, or the maturity date has passed and payment in full has not been made.

Non-performing loans are the major causes of the economic stagnation problems in the financial sectors, which is viewed as a reflection of an unprofitable enterprise. Therefore, the exclusion of non-performing loans from financial statement is a necessary condition to improve the economic status of an enterprise. The bad loan kept in a specific sector will continuously rolled over, the resources are sealed in lossmaking sectors; thus, depressing the economic growth and ruining the economic efficiency (Karim et al, 2010).

Huge non-performing loans portfolio erodes the ability of banks to make profits. In the 1990s and beyond many Nigerian banks became weak and highly unprofitable due to excessive non-performing loans portfolio accumulated by bank promoters and management that led to their demise. Insider dealing was the major cause of large non-performing loan portfolio in Nigeria, involving over-extension of loans to promoters, directors and significant others that became bad and irrecoverable. To clean up the mess in the banking sector and return the banks to the paths of sound management and profitability, the Central Bank Nigeria (CNB) had to inject about N700bn in a bailout exercise while purging the system of bad and irresponsible management teams (Ugoani, 2015).

Zimbabwean banking sector was under pressure due to a growing number of non-performing loans from 2009-2014. This cause a concern in terms of the health of the banking sector. Based
on figures released by International Monetary Fund (IMF) in 2012, non-performing loans were 9.9 percent as at June 30, 2012. Bad Loans has been on the raise in Zimbabwe from 2009 to 2014, the reason was that bank doesn’t have sound credit policy. The government through its treasury established the Zimbabwe Asset Management Company to acquire non-performing loans from banks in order to have a sound financial system (IMF, 2012).

After establishment of ZAMCO, the quality of the banking sector loan portfolio continues to improve as reflected by the ratio of non-performing loans (NPLs) to total loans ($3.78bn) of 7.06% as at 31 March 2018, from high levels of 20.45% in September 2014. The combined impact of continued enhancement in the banks’ credit risk management systems, use of the Credit Registry, as well as, disposals of NPLs to ZAMCO largely explains the improvement in asset quality (Monetary Policy Statement, 2018).

Loan default is always a major concern for global banking industry specifically in developing countries as their NPL rate is higher. The NPLs reduce bank’s ability to refinance the loan, eventually hamper the bank to operate smoothly. Many well recognized researcher identified that asset quality is a statistically significant predictor of insolvency (Dermirgue-Kunt, 1989), and that failing banking institutions always have high level of non-performing loans prior to failure.

1.1 Background to Study

According to Amoako (2015), most of the financial institutions’ revenue is generated through loan grants. Therefore, banks can maximize profitability through credit growth. Non-performing loans have added growing attention in the last decade which is a concern to most financial institutions including banks. The Zimbabwean banking sector has experienced failure of banks and other non-banking institutions for example Allied Bank, Genesis Bank, Trust Bank and AfrAsia (Kingdom Bank). Non-performing loans contributed immensely to failure of these financial institutions in Zimbabwe.

Non-performing loans are not ultimately yearly events but mostly happen at different series of the year and they are often pretentious by periodic performance of economy but significantly by macro-economic variables such as short period inflation, interest rate, lending rates, and exchange rates among others. An efficient and effective bank should not only be assessed by the robustness of its financial statements but the inclusion of its return on assets (ROA). Therefore the earning power of a financial institution is a vibrant indicator of the performance of a bank (Bruck, 1997).
Amoako (2015), mentioned that some key causes of non-performing loans are poor administration skills and experience, non-existence of an efficient and effective loan policy, deficient loan analysis, documentation errors, much emphasis on earnings as against the quality of the credit facility to be granted, dishonest practices and attitudes, political and economic challenges in terms of depression and instability, unhealthy competition, inconsistent policy and regulation on the management of the banks.

Moreover, other adverse economic and market factors ranging various recessionary circumstances, regulatory variations and others such as lack of effective supervision and unresolved labour relations have obstructed on the well-being of businesses and mostly leads to non-payments of such credit facilities because of their default risks. Non-performing loans are credit risk to banks and it is the risk of loss arising as a result of inability of debtors in honouring their payments obligation (Okpara, 2009).

1.2 Statement of the Problem

Many banks in Zimbabwe have been realizing small profit margins due to NPLs creeping most of their activities. This study seeks to evaluate the impact of non-performing loans on profitability of the banking sector examining a case of NMB Bank.

1.3 Research objectives


2. To analyze the factors accounting for non-performing loans in NMB Bank.

3. To examine the effect of non-performing loans on the profitability of NMB bank.

1.4 Research Questions

1. What has been the trend of non-performing loans of NMB Bank in the past 9 years from 2009-2017?

2. What are the factors leading to non-performing loans in NMB bank?

3. What effect do these non-performing loans have on the profitability NMB bank?
1.5 Significance of the Study

Results of this study will help the banking industry to detect and develop methods and measures to reduce the consequence of non-performing loans to maximize profit, thereby increasing recovery rate as well. The management of NMB Bank could also use the outcome of this research in their operations so as to gain edge over their competitors within the industry.

To the University

If the study is accepted it will contribute to the existing stock of knowledge on non-performing loans and the magnitude to which these loans affect the financial performance of banks in terms of profit maximization. It will therefore serve as a useful material for forthcoming research work by other related researchers at Bindura University of Science Education and the world at large.

To the Zimbabwe banking industry customers

The study is aimed at assisting banking industry customers to know that non-performing loans are dangerous because they can adversely affect performance of financial institutions. If customers know the implications of bad loans on the performance of financial institutions, I think they will be motivated to repay their loans.

To the Student

This research, which is a basic requirement for the completion of the Bachelor of commerce Honours Degree in banking and finance offered by Bindura University of Science Education, will add value to the researcher’s educational achievements and knowledge through the business research practices. The study will also prompt appreciation of the researcher in the area of non-performing loans and profitability of banks within the commercial world, particularly banking sector, which will help form forthcoming career relationships.

1.6 Assumptions

The researcher assumed that respondents were provided with accurate and right information. The researcher got favourable co-operation from proposed respondents. It was also assumed that the data from respondents was adequate to deduce findings and conclusions. The researcher assumed that the findings attained at the organisation apply to most banks in Zimbabwe. Also it was assumed that the limitations encountered did not affect negatively the validity of the research.
1.7 Delimitations
The research study has a limited time frame from the year 2009 to 2017 since the economy was stable. The research is centred and limited to Harare Metropolitan Province as it harness many of NMB bank’s branches. The research’s focus will be on the impact of non-performing loans on NMB bank profitability. The research is also focused on respondents comprising of management and Credit personnel. The research will also be based on preceding studies carried out on the effect of non-performing loans on bank profitability.

1.8 Limitations
There were a number of limitations to this study. The data collection was restricted to only in Harare, which may fail to represent the actual scenario of the whole country. In dealing with these limitations, the study adopted objective questionnaires and interview guides for all respondents to reduce their personal perceptions. Again, respondents were assured of their privacy in order to enable them give information that represented the facts and figures on the ground. Every effort was implemented so as to lessen the effect of the expected limitation on the credibility of the results of the study.

1.9 Definitions of terms
**Non-performing loans:** This is any loan facility granted to a borrower that is not current in terms of repayment of its principal and interest as against the agreed repayment schedule (Amankwah, 2011)

**Financial institution:** This is an establishment that conducts financial transactions such as investments, loans and deposits (Merritt, 2009).

- An enterprise such as a bank whose major business and function is to collect money from the public and invest it in financial assets such as stocks and bonds, loans and mortgages, leases, and insurance policies (Laurin et al, 2002).

**Profitability:** It shows how efficiently the management can make profit by using all the resources available in the market (Amoako, 2011).

**Current/performing loans:** This type of loan facility take place when the debtor is up to date in honouring the loan commitments in terms of settling both the principal and the interest component as stipulated in the agreement (Amankwah, 2011).
1.10 Organisation of the study
The rest of the study comprises of four chapters. Chapter two contains literature; chapter three explains the methodology used. Chapter four deal with data presentation, analysis and interpretation. The last chapter, five, focuses on summary of findings, conclusions and recommendation of the study.

1.11 Chapter Summary
This chapter provided the introduction, background to the study, and also the statement of the problem. Objectives of the research are outlined preceding the research questions. It also provided with the importance of the study to the university, customers and researcher. It also outlined the delimitation and lastly the definition of key terms.
CHAPTER II

LITERATURE REVIEW

2.0 Introduction
In the previous chapter, the discussion was on reflecting and contextualising the research problem by raising the main aspects surrounding it. This chapter examines theoretical, conceptual framework, empirical evidence guided by research objectives and research gap.

2.1 Theoretical framework
Some of the theories relating to this study are discussed in this section, namely asymmetric information and stakeholder theory.

2.1.1 Asymmetric information theory
There is asymmetric information in a financial contract when the borrower has information that the lender ignores or does not have access to. This asymmetry concerns the lender whenever the borrower can use this information profitably and at the lender’s expense, and is connected with three circumstances: the borrower violates the contract by hiding information about the characteristics and revenues of the project, the lender does not have sufficient information or control over the borrower to avoid cheating and there is debt repayment risk with the borrower having limited liability. Asymmetric information in financial markets can thus adopt adverse selection, moral hazard or monitoring costs (Bebczuk, 2003).

Bofondi & Gobbi (2003) postulates that a lender suffers adverse selection when he is not capable of distinguishing between projects with different credit risk when allocating credit. Given the two projects with equal expected value, the lender will prefer the safest one while the borrower the riskier one thus those undertaking risky activities will find it convenient to hide the true nature of the project and exploit the lender’s lack of information. Moral hazard occurs when the borrower has the ability to apply the funds to different uses than those agreed upon with the lender, who is hindered by his lack of information and control over the borrower. As in the case of moral hazard, monitoring costs are tied to a hidden action by the borrower who takes advantage of his better information to declare lower-than-actual earnings.
According to Bebczuk (2003) adverse selection appears before the lender disburses the loan whereas moral hazard and monitoring costs appear after the capital has been conceded. Information asymmetry generally gives lenders a harder time in distinguishing between good credit risks and bad credit risks which in turn gives both an equal chance of being lent to. This may make the firms which are good credit risks more averse to borrowing due to the higher interest rates whereas the bad credit risks will be more willing to borrow as they would have expected to have been charged a much higher interest rate. This will in turn have an effect on the lender’s portfolio as a larger proportion of the loans will consist of loans with a greater risk of default and in turn result in higher non-performing loans.

2.1.2 Stakeholder theory
The theory argues that that apart from stockholders there are numerous groups that have an interest in the running and management of corporations called stakeholders. Stakeholders are groups that have a direct interest in the running of an institution and have got rights that may be respected or violated by management of corporations. The major stakeholders may include shareholders, customers, creditors, employees, suppliers and the local communities. The theory of Stakeholder holds that businesses organizations have an obligation to the society. They are expected to take into account the interests of all stakeholders affected by their actions. According this theory, the management should consider all individuals affected by its action in addition to shareholders when making decisions pertaining to the organization. The theory of Stakeholder postulates that the goal of any institution should always be the prosperity of the organization as well as its key stakeholders (Freeman et al., 2004). Stakeholder theory is relevant for the current study as one of the stakeholder to a bank are the customers who borrow loans. When the customers fail to pay loan on time due to reasons like loan over prising, level of nonperforming loans raises hence poor financial performance of commercial banks.

2.2 The conceptual framework of loans
A loan is usually accessible on a fixed and spot basis and it can be secured or unsecured. Loans are granted for specific amounts for specified periods. Mabvure et.al, (2012), pronounces loans in general are part of, or main component of the total assets of every financial institution. The moneylender cannot seek repayment prior to expiration of the period unless there have been some default. In a legal sense, a loan facility is a contractual agreement between a lender and a borrower where the lender consent to the granting of an amount to a borrower, who intend undertakes to resettle same to the lender either in bulk/in installments within a specified period of time. A loan may be classified as current/performing and NPLs.
2.2.1 Current/Performing loans

A current loan facility takes place when the contract in terms of the payments of the principal amount and the interest component between the lender and the borrower are up to date. Again to the Central Bank, an overdraft could also be classified as current loan if there has been a consistent action on the facility with no indication of a liability building up. This classification indicates that current loans are loan facilities that have the interest and principal amount repaid within the stipulated period. This category therefore constitute huge part of the quality asset portfolio of most financial institutions mostly banks in terms of the interest income that are generated by such assets (Amoako, 2012).

2.2.2 Non-Performing Loans (NPLs)

NPLs are loans that are uncertain whether the defaulters would be able to often honour their loan commitments. According to Goldstein and Turner (1996, the build-up of NPLs is usually accredited to many factors such as economic recession, extreme dependence on overly high-priced inter-bank borrowings, macroeconomic instability, moral hazard, high interest rate, and insider borrowing. Bad loans are as a result of inability by borrowers to settle the principal amount and the interests within the agreed time frame, resulting in negative effects on the financial profitability of the lender (Aballey, 2009).

Fofack (2005), argues that NPLs are credit facilities which has not been producing any income within a reasonable period of time, that is either the principal and or the interest on the facility have not been repaid for a period of ninety days or more. Alton and Hazen (2001) postulates that NPLs are loans which have its ninety days or which have no longer accumulating interest from it. This thought was supported by (Karim et al, 2010), who also agrees in the form of an argument that NPLs are loans having no revenue generating from it.

Most often credit facilitates that have both its principal and interest in arrears for a long period of time as against the specified repayment schedule agreed upon by both parties are classified as bad loans. Thus any loan facility granted to a debtor that is not current in terms of repayment of its principal and interest as against the agreed repayment schedule is termed as non-performing (Fofack, 2005).

There have been contradictory views by researchers in various countries on the descriptions of non-performing loans. Some embraced quantitative criteria such as number of days that the loan scheduled payments were due but to which it was not honoured while others used qualitative means such as the background information about the client’s financial base and the
management conclusion about future payments of the debt. Non-performing loans take their name from the fact that they are practically in disagreement to the credit policy of the bank. By the time they are referred to as “non-performing loans”, there is the fear that the amounts involved and their interest cannot be fully recovered by the bank. In this regard, a financial loss is encountered instead of a profit, leading to adverse effects on the commercial bank, corporations and individuals who would like to borrow from the commercial bank in future (Amankwah, 2011).

The Reserve Bank of Zimbabwe (2014) categorisation of loan advances in the banking sector in June that year, shows that out of the total loan portfolio 20.45% of it was not paid back within the stipulated time or not paid at all. These loans comprised loans that fall within the substandard, doubtful and loss classification. The Central Bank reported that these loans had exceeded ninety days period in terms of repayment.

There is an evidence in the fact that many private sector business failure to pay loans in time, despite the overall NPLs in the banking industry dropping from 20.45% in June 2014 to 6.22% in June 2018. This is attributable to the combined impact of the various policy measures instituted by the Bank and initiatives by banking institutions during the year 2016. These measures include enhanced credit management systems and collection efforts, as well as disposal of qualifying NPLs to the Zimbabwe Asset Management Company (ZAMCO), among other measures. The graph below shows the trend in NPLs from 2011 to 31 December 2018 (Monetary Policy Statement, 2018).

Fig 2.1: Trend in Non-Performing Loans 2011 – June 2018
2.3 Classification of loans

Loan classification assists lending institutions to evaluate the loan portfolio so as to be able to disburse loans to grades based on the perceived risk and other appropriate features of the loans. Goldstein and Turner (1996), postulate that regular evaluation and categorization of credit facility makes it possible for banks to monitor the quality of their loan portfolio and then take corrective action whenever possible to curb decline in the credit quality of their loan portfolios. According to Amoako (2015), banks should use multifaceted internal control classification systems to do away with the more standardized systems that the watchdogs of bank require in order to evaluate and report on the purposes which are intended to enable excessive monitoring.

Loan advances portfolios of lending institutions are classified into several categories to determine the level of provisions to be made in conformity with the banking regulations stated in the Basel code II. Kone (2006), classified the 10 various loans as current, OLEM (other loans especially mentioned), substandard, doubtful and loss.

2.3.1 Current
This loan facility takes place when the borrower is up to date in honouring the loan obligation in terms of repaying both the principal and the interest component as specified in the agreement. The suggestions that an overdraft facility is current would mean that there has been a consistent action on the said account with no signs that a hardcore of debt is accruing (Amoako, 2012).

2.3.2 OLEM (other loans especially mentioned)
According to Kone (2006) this is a loan that is presently secured by enough security, both as to the principal and the interest component, but its frail potential could produce an undeserved credit risk, although not to the level of moderating this category as substandard.

2.3.3 Substandard
This loan advance displays a distinct loan weakness that compromises the bankruptcy of the debt incurred. It normally take account of loans granted to borrowers who have cash flow that is insufficient in meeting the current maturing debt, loans to debtors which are considerably undercapitalized, and loans to borrowers with insufficient working capital to meet their operational needs. Substandard loan advances are not secured by the current sound worth and paying capability of the borrower. Substandard loans are more than ninety days outstanding but not up to the 180 days unpaid (Kone, 2006).
2.3.4 Doubtful

Amankwah (2011) propounds that this loan facility shows all the weakness features revealed in the substandard loan type with other extra features that the loan is not well-secured and the limitation creating the liquidation in full on the basis of the evidences currently prevailing together with the conditionality, principles which could be highly doubtful. Even though the possibility of loss is very high, the existence of certain strong indicative factors may work to the advantage and underpinning the repayment, deferring its projected loss categorisation until more exact status determined. NPLs and receivables having 180 days unpaid period but not up to the 360 days unpaid period are categorized as doubtful loan advance.

2.3.5 Loss

These are purported to be irrecoverable and of such little value that their continuation as recoverable advances is not warranted. However, this does not shows that there is no recovery value of the loan advance, but the operability to defer writing off this type of loan even though fractional retrieval may be hampered in the future. This type of loan contains liquidated companies with bad cash flow and current asset. Banks should however not keep this loan within their books no matter the long term effort made in recovery of the balance overdue. Losses should be taken in the period in which they are deemed as uncollectible. The NPLs and the receivables having the 365 days unpaid period or more are all characterized as a loss (Kone, 2006).

2.4 Loan provisioning

Amankwah (2011), advocates that one major factor considered by most of the financial institutions in making loan accessible to the debtors is the capacity to honour the loan commitment. To minimize the risks of loan default, most lenders try as much as possible to ensure that the debts are well secured. Even though credit facilities are normally advanced based on the capacity of the borrower to pay back the loan, and not on the ability to secure it with enough security in the event of failure to pay, it would be commendable if facility granted out to all customers and employees of the banks are well secured. This situation will guarantee that various financial institutions could utilise the property secured for the loan in the events of defaults to reduce the impact of the financial loss.

Financial institutions ought to take into consideration the value of the asset which is being used as collateral in procuring the loan to establish the level of provision to be used. The regulations of the Reserve bank of Zimbabwe shows that certain amount of provisions are made on the
total arrears of all current advances, and the total net unsecured balance of all other categories. The table below shows the ten categories which will help to determine the level of provisions required in this direction (Monetary Policy Statement, 2017).

Table 2.1: Level of provisions under the Supervisory Rating Scale (SRS)

<table>
<thead>
<tr>
<th>Rating</th>
<th>Descriptive classification</th>
<th>Risk level</th>
<th>Level of allowance</th>
<th>Old five grade/tier system</th>
<th>2012 Grading and level of allowance</th>
<th>Type of allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prime grade</td>
<td>Insignificant</td>
<td>1%</td>
<td>Pass</td>
<td>A (1%)</td>
<td>General</td>
</tr>
<tr>
<td>2</td>
<td>Strong</td>
<td>Modest</td>
<td>1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Satisfactory</td>
<td>Average</td>
<td>2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Moderate</td>
<td>Acceptable</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Fair</td>
<td>Acceptable with care</td>
<td>4%</td>
<td>Special Mention</td>
<td>B (3%)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Speculative</td>
<td>Management attention</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Highly Speculative</td>
<td>Special mention</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Substandard</td>
<td>Vulnerable</td>
<td>20%</td>
<td>Substandard</td>
<td>C (20%)</td>
<td>Specific</td>
</tr>
<tr>
<td>9</td>
<td>Doubtful</td>
<td>High default</td>
<td>50%</td>
<td>Doubtful</td>
<td>D (50%)</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Loss</td>
<td>Bankrupt</td>
<td>100%</td>
<td>Loss</td>
<td>E (100%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: FBC Annual report 2014

2.5 Assessment of loan portfolio quality

The parameters applied in assessing loan portfolio quality include the following:

2.5.1 Overdue Loan ratio

Amoako (2015), suggested that this measures the fraction of defaulted loans in the gross loan portfolio outstanding. A decreasing ratio is desirable but this should not emanate from new loan facilities granted. A healthy situation ought to be from recoveries of overdue loan.

2.5.2 The NPL ratio

The NPLs are summative of substandard, doubtful and loss categories, which pose high degree of difficulty for recovery. The ratio is also referred to as High Risk and is derived by relating the impaired loans to total loan portfolio. An increasing trend portrays development of a hardcore portfolio, ascending from weakness in the credit management procedure. A tolerable prudential limit is 5% (Amoako, 2015).

2.6 Causes of non-performing loans

According to Ahmad (1997), some of the major factors that lead to non-performing loans are unconvinced in loan resettlement together with diversifying the funds by financial institutions and lack of appropriate appraisal of the credit facility by Loan Officers. Kwakwa (2009) shown that loan facilities approved to corporate organizations tend to result in high loan default as real
GDP falls, and that the weakening of the domestic currency compared to the major foreign bureaus in the exchange rate, have a direct consequences on the repayment ability of debtors.

A research conducted by Nishimura et al (2001) in Japan discoursed that one of the key factors constraining an efficient economic evolution in that country was the problem of non-performing loans. The study alleged that some of the loans granted to organizations by the financial institutions during the period of bubble turned out to bad loans when the bubble burst. Most of the defaults occurred due to inefficient management, loan diversion and unwilling by debtors to repay their financial obligation. Kohansal and Mansoori (2009) add on to this by saying that government enforced interest rate ceilings, high transaction cost on loans, the issue of moral hazard and the monopolistic power creditors on the markets usually influenced by the informal lenders as some of the major causes of non-performing loans.

Olomola (1999), have also assumed that loan disbursement lag and the issue of high interest rate are prospective to add up to the transactional cost on loan acquisition which may perhaps end up in upsetting the repayment schedule. Berger and DeYoung, (1995) specified that, the issue of recovery and overdue of loans is the key factor affecting financial institutions in India. Even though the reasons mentioned varies from one money-lender to the other due to the different nature of loans disbursed, the problem conversely cut across. From the industrial sector perspective as the study point to, the causes of non-performing loans are bad selection of the businessperson, lack of feasibility study to determine the viability of the project, insufficient collateral security that is equitable mortgage against the loan granted, and other natural happenings beyond the realm of both the lenders and the borrowers.

Other researchers have given other causes of bad loans as the following:

2.6.1 Grace Period
Several lending practices revealed that grace periods have been too short to serve their intended obligations. Especially this can be left in the start-up phase of the business. The grace period also affects repayments of loans although it is intended to protect the lending institution. (Lassort and Clavier, 1989).

2.6.2 Insider Lending
According to Amoako (2015), non-performing loans accounted for most lending institutions which were in distress and the main causes of these impaired loans were insider lending, macro-economic instability and high risk appetite. Insider lending was recognized as the major factor of bad loans that led to downfall of local banks. The study determined that insider lending
posed hazard to soundness of the lending due to the fact that most of these loan facilities were employed in speculative schemes such as real estates which were not able to produce short term returns to pay back the loans.

2.7 Loan repayment
According to Bruck (1997) the capacity of banks to recover the amount granted is the contributing factor for the bank to sanction more credit facilities. Financial institutions must therefore be careful in the management of loans. The probability of clients hiding their real identity should not be taken for granted as the information about them is to be used to determine the ability to repay the loan. Absence of this important information about the customer will make it very problematic for banks to determine the client’s true identity in terms of repayment ability.

Nyarko (2005) postulates that most enterprises including corporations and SMEs ability to honour their loan commitments often depends to some extent on their receivables from their debtors which sometime influence repayment pattern to a number of financial institutions. Banks should therefore consider the trend and the business lines of customers of these small business units during loan acquisitions. Therefore as noted by Bruck (1997), loan maintenance ought not to be allowed beyond the agreed loan facility. Thus effective mechanism and regular supervision of the arrears should be taken into consideration to ensure quick repayments.

It is a common phenomenon that most loans disbursed to civil workers who are on the government payroll received a higher rate of repayments. Nyarko (2005) have recognized that the employer guarantee loans disbursed to these type of employees coupled with monthly deduction at source plays a pivotal role in this type of process, nevertheless it is subjected to due diligence in terms of effective pre-lending practices and procedures.

2.8 Effects of non-performing loans on the banking institutions
Financial institutions derive most of their earnings from the interest they charge on loan facilities they disburse which contribute to the profitability of these banks. In relation of this, when such loans end up in default, the financial strength of the bank is affected. As specified in the banking regulation, banks undertake sufficient provisions and charges for non-performing loans that is impairment charges and therefore the effect is undesirably on the financial performance these financial institutions (Karim etal, 2010).

According to Bloem and Gorter (2001), even though NPLs tend to affect adversely all the lending institutions, the impact is however felt more by those within the mortgage financing
institutions and commercial banks which usually hold large portion of loans. This ultimately slow down the ability of these financial institutions to disburse further loans to respective applicants. Large chunk of bad loans could lead to declining confidence level of both savers and foreign financiers who may embrace strange position against those banks which might end in liquidity problems. NPL policy tends to decrease total loan portfolio of the lending institutions thus distressing the interest incomes on such assets. Non-performing loans could end up in financial challenges which might ultimately lead to liquidation of banks having unprecedented bad loans as confirmed by some of the existing literary works. Berger and De Young (1997) proclaimed that banks undergoing failings might have high amount of NPLs prior to failure and therefore the quality of loan portfolio at its disposal is a statistically enough predictor of bankruptcy.

2.9 Ways of minimising non-performing loans
To Kohansal and Mansoori (2009) lending institutions ought to institutes additional practical ways to reduce the high occurrence of loan defaults. These could be done through third-party credit guarantee, issuance of collateral security, embracing credit rating mechanism, and the use of collection agencies. Again as noted by Aballey (2009), these defaults could be controlled and minimized through adoption of policy that ensures loans are disbursed to clients with a good position who are capable to honour their obligation to the end. Application for credit facility by the potential borrower should be subjected to thorough loan analysis so as to determine credit risk of the applicant in order to reach a firm decision before disbursement of funds.

Moreover proper monitoring mechanisms should be employed so that whenever a client fails to honour the loan terms and conditions, necessary action could then be taken and if possible renegotiate with the borrower on the loan when the need arises (Nguta & Huka, 2013).

2.9.1 Proper management monitoring and control mechanisms
Many administrators of the financial institutions do not consider the necessity to put in place a proper loan repayment mechanism even though it is one area of prospect in circumventing the incidence of non-performing loans, Rouse (1989) have emphasized this as the most effective way to avoid these nuisance. These measures which he recognized as frequent visits, interviews, an efficient audited and management accounts could be implemented as a form of monitoring and control mechanism. Some of the effective mechanism which may possibly be adopted to shrink the incidence of bad loans is safeguarding that the loan acquired is used for
the proposed purposes. Karim et al. (2010) argues that other measures such as identifying indicators that might serve as early warning signals of issues within the operations of the debtor which could disturb the payment schedule, sticking to the loan obligations as postulated in the loan requirement and then taking time to identify together with the borrower the likely challenges of the business.

2.9.2 Security
Demand for security as a precondition for disbursing of loan is very crucial as it has the tendency of serving as a form of cushion for moneylenders in the event of failure to pay by the debtor. Due to the uncertain financial statements which are presented to acquire credit facility, various banks nowadays insist on security before offering a loan facility. Every effort essential must be taken in terms of legality of every loan by credit managers of these banks to help reduce the incidence of non-performing loans (Goldstein and Turner, 1996).

Borrowers who might not afford the provision of collateral security mostly do not avail themselves at all to apply for credit facility which serves as a way of minimising loan default. Tshriibi (1996), suggested that the provision of security as a condition for loan application stresses the need by which financial institutions consider the issues of collateral security deliberately knowing that the security to be used as a guarantee for loan application stands the chance in covering the arrears of the loan should the unfortunate thing materializes. Furthermore, other indispensable provisions such as accessibility, valuation, realization in case of default, ownership title and controls must be addressed. As a regulatory and a legal requirement for lending, moneylenders ought to be vigilant in their consideration of such security so as to help reduce occurrence of impaired loans.

2.10 Pre-lending information
In order to help safeguard settlement of loan, sufficient checks about the applicants have to be undertaken before the facility is disbursed. This detail information about the applicants must emphasized on business and personal affairs so as to determine the repayment ability. Rouse (1989), have identified seven principles such as character, ability, margin, purpose, amount, repayment and insurance (CAMPARI) in lending which should be embraced. This CAMPARI is discussed below:

2.10.1 Character
According to Rouse (1989) the debtor must possess a high integrity and must be faithful no matter what. Borrowers have to know that financial institutions are custodians of money
entrusted to them by the various investors and do not possess any money of their own. Usually creditors prefer documents to support whatever prerogatives made by the debtor, but sometimes banks rely on what is expressed by the borrower and their own judgment of the person. Emphasis must be put on the borrower’s existing account with the bank as an evidence, however if the debtor is new, experience in interviewing ought to be used to identify the credit worthiness of the debtor/a credit reference bureau may perhaps be used to identify the credit history of the applicant.

2.10.2 Ability
The debtor must own some form of expertise even if not proficient on their field of operation. The question which needs to be addressed is what crucial expertise is possessed by the corporation’s management based on the proposal presented? Indications in any form of imperfections in the management team of the organization should be identified if possible (Nsobilla, 2015).

2.10.3 Means/Margin
This falls under the interest, commissions and other fees that signify the risk involved in the lending process. The financial institution must see to the success of the venture and to receive interests on the loan and not as a share profits. Therefore the purpose in applying for the credit facility must be known to the financier. Whether the loan is anticipated for personal/business loans, the purpose of the credit facility should be one of the basic necessity before approval is granted. Therefore the bank must not grant any forms of credit unless its purpose is made known (Amoako, 2012).

2.10.4 Amount
Amankwah (2011) postulates that one question in determining amount is to find out how much the borrower really qualifies to receive. Usually good borrowers make allowances for unforeseen event. Therefore the amount which has been applied by the applicant ought to be in proportion to the possessions of the debtor.

2.10.5 Repayment and Term
This is all about how the loan if acquired is to be resettled. There are two major ways by which the loan could be repaid back that is either from the debtor’s revenue or through the sale of asset belonging to the insolvent (Amoako, 2012).
2.10.6 Insurance and Security
This is the security that the lending institutions must get to serve as collateral against any unanticipated circumstances in the event of failure to pay back the loan. This is a safety measure to the bank and reduces the risk of default (Rouse, 1989).

2.11 Lending
Lending is defined as the giving of an asset with the expectation that an equivalent value will be retuned at a future point of time. A loan is an asset to the lender and a liability to the borrower. It is also a deal of money to an individual or institution with the hope of resettlement with an added interest to be paid in either bulk payment or by instalment based on the specified scheduled period. Collateral security are demanded to cover the asset given out whenever the situation demand so. Due to competition within the banking industry, some banks have adopted the habit of granting credit to applicants without request for any form of collateral as a way of winning the customers into the bank operations. This is normally done on the blank side of the law regulating the issues of credit acquisition (Ribeiro, 2006).

According to Rouse (1989), lending is an art rather than science as it instils in its operation skillfulness and common sense. To him methodology such as accounting procedures, credits and risk’s analysis and regulatory framework as science are employed in determining the ability of the client ability to repay the loan, however these are never enough as the lender instinctive sense and skillfulness are the major key factor to discern the repayment ability. Therefore prudent and sound approach ought to be employed by banks as lending is the main avenue for generating revenue by them so as to be able to meet the expectations of their stakeholders. Every effort must be taken by the lender with the objective of determining the extent of the associated risk on the loan so as to reduce the doubt that comes along with the prospect of repayment. Lenders must not bow to any form of pressure from client but should rather use sound judgmental process in granting loan to borrowers as loan default is costly (Amoako, 2015).

2.12 Empirical evidence on the impact of non-performing loans on the performance of the banking sector
Asantey & Tengey (2014) studied the effects of bad loans on banks’ lending ability and financial performance using secondary data from the annual reports of four listed commercial banks (Eco bank, GCB Bank, CAL Bank, and Agricultural Development Bank) for a-5 year period covering 2008 to 2013. The aim of the paper was to examine the effects of bad loans on
the lending ability and net profit (return on investment) of the banks. Pearson correlation test and OLS were used to examine the data. The study discovered that bad loans make a major negative effect on banks’ lending potential and financial performance in terms of return on investment. This conclusion is made by retaining the two alternative hypotheses of this paper. The evidence is that there is a high negative correlation between bad loans and amount allocated each year by banks for lending to small to medium enterprises (SMEs) at 5% level of significance, \( r (20) = -0.824, p = .000 \). This means that as the banks encounter a higher amount of bad loans; their annual financial allocation for SME lending reduces at a large extent. Also, bad loans make a high negative correlation with return on investment or net profit at 5% significance level, \( (20) = -0.917, p < .05 \). This relationship is further expressed in a regression analysis. In this respect, bad loans significantly predict annual loan size at 5% significance level \( (t = -6.174, p < .000) \), where bad loans account for 67.9% of the variation in annual loan size. Since the relationship between the two variables is negative, this implies that bad loans account for 67.9% of a negative effect on annual loan size. Moreover, bad loans significantly predict net profit at 5% significance level \( (t = -9.77, p < .000) \), with 84.1% of the variation in net profit accounted for by it. Comparatively, bad loans make a larger negative effect on net profit relative to lending potential (i.e. annual loan size given to SMEs).

Mwangi, (2014) carried out a study on the effect of non-performing loans on the financial performance of commercial banks in Kenya. The study aimed at establishing how non-performing loans portfolio impacted on the financial profitability of commercial banks in Kenya. The study focused on all the 46 commercial banks in Kenya for the period 2005 – 2011. Secondary data was obtained from the banks relating to two variables; Return on assets (ROA) which were the dependent variable and NPL which was the independent variable. The study adopted simple linear regression model of the form \( Y = a + bx \) to establish the effect of nonperforming loans on commercial banks financial performance. The results obtained from the study confirm that during the earlier years of the study, there was a high amount of NPLs resulting to a very low ROA. Later years however showed a different trend where ROA was higher and NPLs were low.

Olawale (2014) studied how commercial banks in Nigeria performances are affected by credit risk during the period of 2008 to 2012. The study used a secondary data collected from the companies audited annual accounts published in their websites and also from the publication of the Central Bank of Nigeria. OLS method of analysis was employed. Profitability was measured with ROA as a function of (non-performing loans ratio) NPLR and Loan and
Advances ratio (LA/TD). The author’s results show a negative relationship but not significant between loan ratio and total advances in terms of deposits and further shown a significant negative relationship between nonperforming loans and advances rate and banks’ profitability. The paper further mentioned that banks profitability could be affected inversely by the levels of non-performing loans and advances, thus affecting greatly the banks’ liquidity.

Wangai et al (2014) also examined how the Financial Performance of Kenyan Microfinance Industry has been impacted by Non-Performing Loans and the effects on the survival of small and medium enterprises. This study aimed at establishing how far microfinance banks (MFBs) in Nakuru, Kenya have been affected by non-performing loans over a period of time. They used primary data which was collected from the respondents with a structured questionnaire. The paper analyzed data collected both descriptively and inferentially. It was established that risk associated with credit significantly affected MFBs in Nakuru town’s financial performance. The authors further concluded that, increase in credit risk would significantly reduce the financial performance of the MFBs.

Kargi, (2014) evaluated the impact of credit risk on the profitability of Nigerian Banks. Financial ratios as measures of Bank performance and credit risk were collected from the annual reports and accounts of sampled Banks from 2004-2008 and analysed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian Banks. The study concluded that Banks’ profitability is inversely influenced by the levels of Loans and Advances, Non-Performing Loans and deposits thereby exposing them to great risk of illiquidity and distress.

Nsobilla (2015) conducted a research on the effect of non-performing loans on the financial performance of selected rural banks in the Western and Ashanti regions of Ghana. The aim of the study was to find the effect of NPLs on financial performance of selected rural banks in Ghana. The study used a secondary data collected from the companies audited annual accounts published in their websites and also from the publication of the Central Bank of Nigeria. The researcher concluded based on the empirical results that NPLs have a negative statistically significant influence on the financial performance in the selected rural banks. This signifies that the greater the NPL, the lower the profit of the selected rural banks. The results of the OLS revealed that non-performing loans, cost-income ratio, loan recovered and total revenue were all statistically significant at 1% significance levels respectively. The liquidity risk was not statistically significant. The non-performing loans and cost-income ratio had a negative
influence on financial performance whereas total revenue and loan recovered had a positive
effect on financial performance. The polynomial trend analysis revealed that non-performing
loans in all the selected banks showed an increasing trend.

Ugoani (2015) conducted a study on non-performing loans portfolio and its effect on bank
profitability in Nigeria. The aim of the study was to find out the effect of non-performing loans
on the profitability of banks in Nigeria. The study used a secondary data collected from the
companies’ respective audited annual accounts published in their websites. The researcher
found that although there may be other causes of bank losses and failures, the bank failure
phenomenon in Nigeria in the 1990s, and beyond was caused mainly by huge non-performing
loans portfolio created by bank promoters and management which had negative effect on the
profitability of the banks. To clean up the banking system and return banks to the paths of
sound management and profitability the Central Bank of Nigeria had to replace some bad
management teams with Interim Management Boards (IMBs) among other regulatory actions.
With the regression result of \( Y = 78.353 - 4.04x \) it was found that non-performing loans portfolio
has negative effect on bank profitability.

Gizaw et al. (2015) also in their paper examined how far the profitability performance of
commercial banks in Ethiopia has been affected by risk associated with credit. The study used
a secondary data collected from the companies’ respective audited annual accounts published
in their websites and also from the publication of the Central Bank of Ethiopia. The authors
were collected from eight commercial banks from a period of twelve year (2003 to 2014). The
data was then analysed using descriptive statistics. Their results showed that variables such as
non-performing loans, loan loss provisions and capital adequacy which were used as proxy for
credit risk had a significant impact on commercial banks profitability performance in Ethiopia.
A panel data model was adapted by the paper in line with Kolade et al. (2012). Return on Asset
(ROA) and Return on Equity (ROE) were used by the paper as the indicators of profitability
performance. The study recommended that commercial banks in Ethiopia need to institute
policies and programmes to check credit risk to ensure their profitability and survival.

2.13 Justification of the study
The majority of empirical studies on the impact of non-performing loans on banking sector
profitability were carried out in Central and Western Africa countries. Having identified this
gap the researcher sought to undertake the research in Zimbabwe using a case study of NMB
Bank.
2.14 Summary

This chapter looked at the literature that confirms the impact of non-performing loans on the banking sector profitability. In addition, the chapter looked at conceptual framework and the previous research findings in relation to the topic. Chapter three analysed the research methodology in relation to the topic.
CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the research design, target population, sampling techniques, sample size, research instruments, reliability and validity of data, data collection procedure and data presentation and analysis. This chapter gives a framework on how the research was carried out in an aim to meet the objectives of the study. Primary and secondary data was used as a source of data.

3.1 Research Design

According to Keller (2007) research design is an overall plan for gathering the information needed to address a research problem. The researcher used descriptive research design. A descriptive survey design was used because it dealt with questions and opinions of existing issues. In this part both qualitative and quantitative information were needed to answer the research questions. Both primary and secondary data were consulted (Amankwah, 2011).

Descriptive research design involves the collection of data in order to understand research objectives on the subject of the study. Awoyemi and Quartey (2002), indicated that the descriptive survey design does more than uncovering data for its synthesis but incorporates data and points to implication and interrelationships. The study was basically a fact finding exercise and so the researcher drew samples from the populations of interest and make generalizations, taking into consideration the responses. The research design helped the researcher to collect evidence to describe the issue, mentioned in the case of NMB Bank Limited.

3.2 Target Population

Target population denotes to any group of individuals that have one or more characteristics in common that is of interest to the researcher (Lancaster and Reynold, 2005). The identification of the target population was necessary in order to facilitate the selection of the sample units and subsequently the sample size. A target population of NMB Bank headquarter’s employees in Harare was used in this study. It included management and the staff in the Credit Department. The researcher chose these categories of people because most of them have been working with
the bank for a long time and therefore have rich experience in loan defaults and its impact on the profitability of the bank and can respond better to the questionnaires.

### 3.3 Sampling Technique and Sample size

Saunders, Lewis and Thornhill (2007), propounds that, sampling is the deliberate choice of people who are to provide data from which conclusions about some larger groups are to be made. In this research, the researcher used probability sampling method for the questionnaire survey. Lancaster and Reynolds (2005) defined probability sampling as, “a random process to select population elements for the sample and gives every population element a known, non-zero chance of selection.” For the purpose of this study stratified sampling technique was used.

In selecting employees, the researcher used a stratified random sampling technique, a probability sampling method, which is “a process by which the sample is constrained to include elements from the segments” (Hankinson and Lomax, 2006). In terms of employees, they were sub grouped into two, which are management and loan officers. This was done because of the differing characteristics; thereby this aided the researcher in increasing his sample’s data efficiency and effectiveness. This sub grouping also enabled the researcher to apply respective methods and procedures in each stratum.

**Sample Size**

According to Saunders (1997), sample size refers to the number of elements in a sample. As the sample increases the accuracy of the findings also increases. As the size of the population increases, progressively smaller proportion of subjects can be selected. With the population being 50 (personnel in the credit department) the sample size to be used in this survey is 20. Out of twenty respondents, 75% of the sample size was Credit Officers and 25% were management of NMB Bank. A sample size of 20 respondents was used so that data can be effectively collected.
3.4 Research Instruments

Keller (2003) advocates that these are techniques used to collect much needed information of primary nature. Hence, the collection tools which the researcher employed were; a structured questionnaire and interviews.

3.4.1 Questionnaire (See Appendix B)

Sanders et al (1997) defined a questionnaire as “a term that includes all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order”. This instrument was used to gather data from Credit Officers. This allowed the researcher to collect data from a relatively large number of respondents while maintaining uniform responses. This instrument enabled the researcher to gather qualitative data from the Loan officers. These questionnaires included both open and close ended questions were used. Open ended questions were meant to encourage employees to widen up their own responses thereby providing greater room for opinions in the spaces provided. Close ended questions provided a basis for respondents to choose a category that matched their views.

This instrument enabled Credit Officers to give well thought out responses since the researcher give them a period of one week to complete the questionnaire. More objective responses with greater uniformity are elicited with the way questions were asked. This allowed for easier comparability of data obtained. There was also a high degree in attaining true and unbiased information or facts as the researcher had to ask respondents not to disclose their identity and promised to treat the information confidential and only used for the purpose of this study. This reduced the fearing of disclosure of some information deemed confidential which could also contribute much to this research study (Keller, 2003).
3.4.2 Interviews (see Appendix C)

According to Kotler (1997), interviews are interactions between a researcher and a subject who is identified as a potential source of information and can be used to obtain in-depth information on a specific topic. Face to face interviews proved effective as they were directed to management who were key decision makers and they gave reliable information on the study. The method was directed to top management because they are few and have more information about the company. The researcher had to secure an appointment with management. Placing of the appointments and securing them took at least three days and was quite enough to make preparations. They were briefed on the issues to be discussed hence they had to prepare and gather relevant information before the interview date.

The interviews provided the researcher with relatively large amount of information in a relatively short time as it allows the interviewer to observe as well as listen. Interview also provides clarity that is it ensures respondents fully understand. Interviews enable the interviewer to establish rapport with the respondents. Finally, they provide the options to persuade for answers from the respondents. However, the researcher noted that interviews were time consuming to make with arrangements being difficult to make and some scheduled interviews being cancelled due to tight schedules on the part of management. There was also a tendency of the interviewer to seek out the answers that support his preconceived notions, that the researcher asks leading questions (Kotler, 1997).

Despite the disadvantages of interviews, the researcher overcame these limitations by adopting the triangulation approach which involved the use of quantitative technique in the form of a questionnaire (Saunders, 1997). This means, the limitations of interviews as a qualitative technique were set off by the strengths of the quantitative technique-questionnaires.

3.4.3 Secondary data

The secondary data was collected from the RBZ, NMB Bank financial reports, financial institution administrative manuals, annual reports, lending procedures and policy manuals.

3.5 Reliability and validity of data

Lancaster (2005) promulgated that reliability refers to stability and consistency of results from research. During the research study, reliability was ensured through carrying out a test-retest to refine the questions so that respondents would not have problems in answering questions as well as recording the data.
Validity means to which extent the survey measures what it is purported to measure (Lancaster, 2003). To ensure constructive validity, the researcher used expert advice and help in the design, presentation and suitability of the questions. Content validity was ensured through studying literature review of the previous studies in line with present research.

3.6 Data Collection Procedures
Kotler (1997) suggested that data collection procedure entails how the primary and secondary data was collected. The researcher used both questionnaires and interviews for data collection. The researcher personally distributed the questionnaires to respondents who had been conveniently selected. The questionnaires were distributed Credit Officers. Questionnaires were collected after five days; however, it took ten days to collect all the questionnaires for results, presentation and analysis. Managers were contacted for appointment bookings for face to face direct interview. Having given an appointment slot, the researcher would conduct the interview within time limits using interview questions guidelines. The time limits ranged from 10 to 20 minutes. All respondents were recorded on the interview question papers. The researcher used secondary data from company records.

3.7 Data Presentation and Analysis Procedures
The data collected was evaluated with the aid of Excel and Statistical Package for the Social Scientist (SPSS) descriptive and Pearson correlation analysis. Hence, implications were made from the data collection analysis.

3.8 Summary
In this chapter, the researcher focused on research design mentioning the different designs which were used. The target population was identified, and the method of sampling was explained. These sampling methods was the foundation to come up with the sample size as cited. Different sources of data were also stressed in this chapter. Also, the research mechanisms used are explained and justified, as well as how they were administered. The next chapter focuses on the presentation of data, description and analysis. It will also focus on the discussion of the findings.
CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.0 Introduction
This chapter focuses on data presentation and analysis of results. Both the primary and secondary data are analysed in this section. Non-performing loans and return on assets were gotten from NMB Bank’s yearly financial reports. These data are on yearly basis for a period of nine years (2009-2017). Questionnaires were also administered to gather information from Credit Officers and management of NMB Bank regarding the impact of NPLs in their institutions.

4.1 Causes of non-performing loans

4.1.1 Factors that cause non-performing loans by clients
The factors that cause clients to default in their loan repayment were given to Credit officers to determine which factor is the major cause of non-performing loans in NMB Bank Limited. As shown in table 4.1, 8 out of the 20 that is 40% respondents selected ineffective monitoring by Loan Officers as the major cause of non-performing loans by clients. This was followed by unwillingness to repay loans (20%), then delay in recovery (15%) and poor credit appraisal (15%). Diversion of loans was mentioned as a last cause of non-performing loans with 10%.

Table 4.1: Factors that cause non-performing loans

<table>
<thead>
<tr>
<th>Causes of NPLs</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor credit appraisal</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Diversion of loans</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Delay in recovery</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Ineffective monitoring</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Unwillingness to repay</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data
4.1.2 Interest rates as a contributory factor of loan default

From the figure 4.1 below, 15 (75%) out of the 20 respondents were of the view that, high interest rates can cause non-performing loans whereas 5 (25%) of respondents were of the opinion that, high interest rates cannot cause a client to default in the repayment of his/her loan since credit analysis is done to determine the cash flow of a project before loans are advanced. This is shown in the figure below;

![Figure 4.1: High Interest rates and loan defaults](chart.png)

Source: Primary data

4.1.3 Factors that cause delayed loan approval

Respondents were asked contributory factors which cause delay in approval and disbursement of loans to clients. Rigid approval procedures was mentioned 7(35%) times followed by customer’s inability to meet approval conditions 6(30%), poor credit appraisal report 5(25%) and lastly liquidity problems 2(10%). These are factor which cause delay in approving and disbursing loans.
The researcher is of the opinion that, if all these factors are addressed, approval process shall be improved which shall in turn positively affect the default rate of the Bank by reducing default.

### 4.1.4 Non-Compliance of Credit Policy and non-performing loans

Of all the Credit Staff interviewed, 16 (80%) of the respondents answered that, non-compliance of Credit Policy of the Bank can also cause loan default whereas 4 (20%) answered on the contrary. This is illustrated in Figure 4.3 below.

![Figure 4.3: Non Compliance of Credit Policy and Loan Default](image-url)
4.1.5 Factors accounting for non-compliance of Credit Policy by Credit Officers

The respondents were required by the researcher to determine the main factor which accounts for the non-compliance of the Credit Policy by the Credit Officers. It can be seen from the figure that, Management pressure is the major factor which accounts for the non-compliance of the Credit Policy by the Credit Officers with a score of 40%. Customer pressure (30%) was also the second major factor for non-compliance of the Credit Policy by the Credit Officers. Staff Pressure and Selfish Credit Officers account for 20% and 10% respectively for the Non-compliance of the Credit policy by the Credit Officers.

![Figure 4.4: Factors accounting for non-compliance of Credit Policy and Loan default](image)

4.2 Impact of non-performing loans on the profitability of NMB bank limited

4.2.1 Analysis of the trend of non-performing loans in the Bank

This analysis is to establish the trend of non-performing loans during the period under examination. Table 4.2 and Fig 4.5 depict the trend of non-performing loans percentage of the bank over the past nine years from 2009-2018.
Table 4.2 Non-performing loans ratio

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NPLS</th>
<th>LOANS GRANT</th>
<th>NPLS ratio(=) npls/loans grant*100</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>106 105</td>
<td>13 004 099</td>
<td>0.82%</td>
</tr>
<tr>
<td>2010</td>
<td>1 685 952</td>
<td>60 315 397</td>
<td>2.80%</td>
</tr>
<tr>
<td>2011</td>
<td>10 294 437</td>
<td>122 260 663</td>
<td>8.42%</td>
</tr>
<tr>
<td>2012</td>
<td>23 996 312</td>
<td>146 599 994</td>
<td>16.37%</td>
</tr>
<tr>
<td>2013</td>
<td>38 730 878</td>
<td>181 316 271</td>
<td>21.36%</td>
</tr>
<tr>
<td>2014</td>
<td>38 581 699</td>
<td>203 363 052</td>
<td>18.97%</td>
</tr>
<tr>
<td>2015</td>
<td>32 092 184</td>
<td>235 088 981</td>
<td>13.65%</td>
</tr>
<tr>
<td>2016</td>
<td>22 015 828</td>
<td>199 617 095</td>
<td>11.03%</td>
</tr>
<tr>
<td>2017</td>
<td>16 848 747</td>
<td>210 483 221</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Financial statements 2009-2017

**Fig: 4.5 Trend of non-performing loans**

Source: Financial Statements 2009-2017

Fig: 4.5 shows the trend of non-performing loans percentage of NMB Bank’s entire loan portfolio during the nine–year period under review. Non-performing loans ratio refers to the total amount of non-performing loans expressed as a percentage of the total loan portfolio during the period. The ratios for non-performing loans for 2009, 2010, 2011, 2012, and 2013 are 0.82%, 2.8%, 8.42%, 16.37% and 21.36% respectively. The ratios indicate that, non-performing loans have been worsening. The table further revealed that, 2013 recorded the highest rate of NPLs by loan clients while 2009 recorded the lowest ratio. The increase in the default rate in 2013 (21.36%) was as a result of failure of SMEs to settle their overdue loans.
and this was followed by a decline in NPLs ratio in 2014 because the Central Bank established Zimbabwe Management Company (ZAMCO) to take non-performing loans. ZAMCO put in place to restore the soundness of the financial system because a lot of banks like Allied bank and Trust bank failed because of non-performing loans in their loan book and resulted in depositors losing their money. NPLs ratio declined from a peak of 21.36% in 2013 to 8% in 2018.

4.2.2 Analysis of the effect of loan default on interest income

Banks generate most of their income from loans and NMB Bank is no exception. This analysis is to establish the effect of loan default on loan interest income as shown in Table 4.3 below.

**Table 4.3 Effect of loan default on interest income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Income</th>
<th>Charge for Bad debt</th>
<th>Per cent of Bad debt to loan interest income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1 526 722</td>
<td>92 887</td>
<td>6%</td>
</tr>
<tr>
<td>2010</td>
<td>10 014 636</td>
<td>971 803</td>
<td>10%</td>
</tr>
<tr>
<td>2011</td>
<td>22 517 188</td>
<td>2 296 111</td>
<td>10%</td>
</tr>
<tr>
<td>2012</td>
<td>27 543 784</td>
<td>3 985 062</td>
<td>14%</td>
</tr>
<tr>
<td>2013</td>
<td>33 181 704</td>
<td>US$16 645 810</td>
<td>50%</td>
</tr>
<tr>
<td>2014</td>
<td>30 072 461</td>
<td>US$5 017 362</td>
<td>16.15%</td>
</tr>
<tr>
<td>2015</td>
<td>35 761 355</td>
<td>9 496 601</td>
<td>26.56</td>
</tr>
<tr>
<td>2016</td>
<td>33 860 139</td>
<td>8 059 726</td>
<td>23.8</td>
</tr>
<tr>
<td>2017</td>
<td>32 061 931</td>
<td>3 853 149</td>
<td>12.02</td>
</tr>
</tbody>
</table>

Source: Financial statements 2009-2017

The analysis shows that there was a consistent increase in the interest income generated by the Bank’s loan portfolio. However, the Bank recorded 50% ratio of bad debt to interest income in 2013. This was reduced to 16.15% in 2014 and increased to 26.56% in 2015 then followed by 23.8% and 12.02% respectively in 2016 and 2017. The study showed that as non-performing loans increases they reduce the loan interest income. Percentage of bad debts to loan interest depicts that loan interest income was reduced by 6%, 10%, 10%, 10%, 14%, and 50% in 2009, 2010, 2011, 2012 and 2013 respectively. The percentage of bad loans to interest income decline in 2014 to 16.15% from 50% in 2013 because NMB Bank’s NPLs were acquired by ZAMCO. Charge for bad debt reduce the profit of the bank, they negatively affect the profitability of the bank since the amount equivalent to charge for bad debt is deducted from interest income. If the bank want to be profitable it must keep the figure of non-performing loans in their lowest levels.
4.2.3 Analysis of the effect of Non-performing loans on profitability

This analysis is to bring to the fore the effect of Non-performing loans on the profitability of the Bank. Table 4.5 shows the effect of loan loss provision on operating profit of the Bank over the last nine years (i.e. 2009-2017).

Table 4.4 Effect of non-performing loans on profitability

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Income before provision of NPLs</th>
<th>Provision for NPLs</th>
<th>Operating Income after Provision for NPLs</th>
<th>percentage of NPLs to operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1034069</td>
<td>92 887</td>
<td>941 182</td>
<td>8.98%</td>
</tr>
<tr>
<td>2010</td>
<td>1,914,359.00</td>
<td>971 803</td>
<td>942 556</td>
<td>50.76%</td>
</tr>
<tr>
<td>2011</td>
<td>8,489,764.00</td>
<td>2 296 111</td>
<td>6 193 653</td>
<td>27.05%</td>
</tr>
<tr>
<td>2012</td>
<td>13,987,286.00</td>
<td>3 985 062</td>
<td>10 002 224</td>
<td>28.49%</td>
</tr>
<tr>
<td>2013</td>
<td>13,323,987.00</td>
<td>US$16 645 810</td>
<td>(3 321 823)</td>
<td>127.93%</td>
</tr>
<tr>
<td>2014</td>
<td>7,442,884.00</td>
<td>US$5 017 362</td>
<td>1 657 067</td>
<td>67.41%</td>
</tr>
<tr>
<td>2015</td>
<td>17,405,739.00</td>
<td>9 496 601</td>
<td>7 909 138</td>
<td>54.56%</td>
</tr>
<tr>
<td>2016</td>
<td>14,268,630.00</td>
<td>8 059 726</td>
<td>6 208 904</td>
<td>56.49%</td>
</tr>
<tr>
<td>2017</td>
<td>16 870 839</td>
<td>3 853 149</td>
<td>13 017 690</td>
<td>22.84%</td>
</tr>
</tbody>
</table>

Source: Financial statements 2009-2017

The analysis indicated that, operating profit has been reduced by 8.98%, 50.75%, 27.05%, 28.49% and 127.93% for the years 2009, 2010, 2011, 2012 and 2013 respectively. As can be seen from the table, the percentages point to the fact that in 2014 and 2015, loan loss provision reduced the Banks operating profit of the bank by 67.41% in 2014, 54.56% in 2015, 56.49% in 2016 and 22.84% in 2017. The year 2009, recorded the lowest percentage of non-performing loans to operating profit which resulted in the higher profit level during the period compared to the interest income earned. Table 4.4 also shows that, there was a sharp increase in the provision for non-performing loans in 2013 which resulted in negative profit.

The Bank recorded the highest bad debt provision of $16,645,810 in 2013 which significantly reduced the operating profit of the Bank by 127.93%. This implies that, if the Bank’s loan portfolio doesn’t have non-performing loans, the Bank could have declared a huge profit in 2013. It was also gathered from Management that, the huge loan loss provision made in 2013 was due to overdue loans in the SME sector.
### Table 4.5 Effects of non-performing loans on profitability: Pearson Correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>Operating Profit before Provision for NPLs</th>
<th>Provision for NPLs</th>
<th>Operating Profit after Provision for NPLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit before Provision for NPLs</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for NPLs</td>
<td>-0.599</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Operating Profit after Provision for NPLs</td>
<td>0.596</td>
<td>-0.285</td>
<td>1</td>
</tr>
</tbody>
</table>

From table 4.5, Operating profit before and after provision of NPLs depend on non-performing loans since the significant figures of the Pearson's Correlation co-efficient are -0.599 and -0.285 respectively. Operating profit after charge for bad debts is negatively correlated to operating profit after provision for NPLs because they reduce the profitability of the bank. These imply that, to get more profit, the Bank must recover most of its non-performing loans.

The significance of this analysis is to bring to the fore the factors that result in high provision of NPLs which is as a result of failure by clients to pay back the credit facilities advanced to them which impact negatively on the bank’s profit. If the bank want to make more profit it must recover money tied up in non-performing loans.

### 4.2.4 Relationship between the non-performing loans and its effect on the Bank’s operations

### Table 4.6 Non-performing loans and its effect on the Bank’s operations

<table>
<thead>
<tr>
<th>Default Rate</th>
<th>Affected operations of the bank</th>
<th>Has not affected the operations of the bank</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td>Moderate</td>
<td>8</td>
<td>0</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>7</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

9 (45%) of the respondents indicated that, the loan default rate of the Bank is high, 8 (45%) indicated that the default rate is moderate, whereas only 3 (15%) of the respondents indicated
that the default rate is low. From the table, 13 respondents out of the 20 interviewed saw that, the loan default rate has affected the bank’s operations whereas 7 out of the 20 respondents indicated that, the default rate has not affected the Bank’s operations.

4.3 Ways of reducing loan default in NMB Bank limited

4.3.1 How non-performing loans are recovered

The majority of the respondents interviewed responded in the way presented below. 5 (25%) responded through calling on guarantors who guaranteed the facility to come and settle the debt, 8 (40%) through court action, 4 (20%) through seizure of client’s company assets pledged as collateral and 3 (15%) responded sale of collateral provided by clients.

Table 4.7 How bad loans are recovered

<table>
<thead>
<tr>
<th>Ways of recovering bad debts</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Court Action</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Seizure of Company Assets pledged as security</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Call on Guarantors</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Sale of Collateral provided by clients</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

The above statistics indicates that, most of the non-performing loans are recovered through the court action to pay the facility which has been unpaid by the principal debtor.

4.4.2 Improving loan recovery

Responses on how loan recovery can be improved are analysed in table 4.10. 8 (40%) responded effective monitoring by the Credit Officers, 5 (25%) responded proper and simplified credit appraisal report preparation, 4 (20%) responded timely disbursement of loans. Finally, 3 (15%) responded provision of logistics to the Credit Department for the monitoring of loans.
Table 4.8 Improving Loan Recovery

<table>
<thead>
<tr>
<th>Ways of Improving Loan Recovery</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Monitoring</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Proper and Simplified Credit Appraisal Report</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Timely Disbursement</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Logistics provision</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

4.4 Category of loan clients who default

The Bank has several loan products: Commercial loans, Individual loans, Mining Loans, Agricultural loans, etc. Of all the various types of loans, 9 (45%) of the respondents responded that Individual loans have the highest default rate. This was followed by Commercial loans, 5 (25%), then 4 (20%) Mining loans and Agriculture loans 2 (10%) as illustrated in figure 4.5.

Figure 4.6: Category of loan clients who default
Source: Primary data
4.5 Chapter summary

The above data presentation and analysis provide the study findings in relation to the research questions. The next chapter covers the summary of findings, conclusions and recommendations.
CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter entails a summary of the research outcomes and the methods used in obtaining the data for the study. It further provides conclusions and recommendations relating to the study objectives. This is very crucial as it gives the consequences of the findings and the possible measures that could help to decrease the problem of non-performing loans being experienced by NMB Bank.

5.2 Summary of Findings
The subject of this study was descriptive and quantitative to find out the impact of non-performing loans on the profitability of NMB Bank Limited. The findings of the study exposed several factors that causes non-performing loans, ineffective monitoring of loans and delayed loan approval were emphasized by all respondents as major causes of the non-performing loans in NMB Bank Limited.

The findings show that the bank recorded huge amount of non-performing loans, especially in 2013 and 2014 as shown by 21.36% and 18.97% of total loans respectively, during the period. The non-performing loans ratios for the past nine years, however, indicated an increasing trend from 2009–2013, started declining consistently from 2014 to 2017. This means that management of the bank has to improve upon its loan monitoring and recovery activities to bring down bad loans to the barest minimum.

The study further indicated that, operating profit has been reduced by 8.98%, 50.75%, 27.05%, 28.49% and 127.93% for the years 2009, 2010, 2011, 2012 and 2013 respectively. The findings show that 2013 recorded the highest while 2009 recorded the least. The overall reduction of operating profit by 127.93% is very high signifying that NPLs charges consumed a chunk of the bank’s operating profit during the period. Non-performing loans therefore impacted negatively on the financial health of the bank over the past nine years under consideration. The study also revealed that, non-performing loans can be reduced drastically through effective monitoring of loan, timely disbursement of loans and extension of the loan repayment period.
for clients. It is also worth noting that among the sectors of the bank’s lending activities, the Agricultural and Commercial sectors recorded the highest frequency of NPLs.

5.3 Conclusion
The findings as briefly summarized above give rise to some conclusions that could be drawn from the analysis. It is evident from the research findings that the bank’s loan portfolio contained huge amounts of NPLs since little attention is given to the monitoring and recovery of loans by Credit Officers of the NMB Bank.

The researcher conclude that the factors that account for non-performing loans as revealed by the research findings are ineffective monitoring of loans and delayed loan approval were emphasized by all respondents as major causes of the non-performing loans in NMB Bank Limited.

Non-performing loans reduce a portion of the loan interest income and operating profit, it can be concluded that they affect the profitability of the Bank negatively through the following: increased provision for bad debts, creates liquidity problems which can lead to bank closure and increase in expenses in the form of stationery used in writing demand letters.

5.4 Recommendations
The outcome of the study showed a troublesome situation about non-performing loans and its effects on the profitability of the bank during the period under assessment as a result of loan defaults by customers. A careful examination of loan default shows that non-performing loan provision reduced the huge financial gains the bank has made over the years especially in 2013. Indeed, it shows that the problem has deeply affected the financial profitability of the bank during the period. It is crucial for all stakeholders, especially management to adopt practical and proactive measures to minimize the problem of NPLs in NMB bank. The following recommendations are therefore made with the hope that they will decrease the causes of loan defaults by clients.

It is recommended that management should organise regular training programmes for credit staff and Department Managers in areas like credit management, risk management and financial analysis. This would sharpen the knowledge and skills of credit officers so as to improve on the quality of credit appraisal, prevent delayed loan approvals, enable credit officers appreciate the need to comply with credit policy and further enhance monitoring of credit. It is also believed that through training programmes, credit staff would be able to conduct effective analysis of loan portfolio structure of their branches and give much attention
to loans with warning signals. Besides, another important way of minimizing loan defaults is through regular and effective monitoring and supervision of loan facilities granted to clients. This would prevent diversion of funds into business ventures other than the agreed purposes, help credit officers assist customers who are facing some business management problems such as improper records keeping, and overtrading that affect their business operations.

Customers who have overdue loans but operate profitable enterprises can be refinanced to surge their cash flow generation capacity to be able to repay the outstanding loan balance. The outstanding loan balance should also be reorganised to match the new cash flow from the business. This will bring back the facility to current and also reduce the high provision for bad and doubtful debts made on non-performing loans.

The current study was limited to effect of nonperforming loans on financial profitability of commercial banks in Zimbabwe. Another study should be carried out that looks at effect of non-performing loans on financial performance of micro finance institutions and deposit taking Sacco’s in Zimbabwe to see if results hold also in such institutions.


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Monetary Policy Statement 2018


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www.rbz.co.zw
APPENDIX A: QUESTIONNAIRE COVER LETTER

Bindura University of Science Education
P. bag 1020
Bindura
10 October 2018

To my valid interviewee

Ref: Request for completion of Questionnaire on an investigation of the impact of non-performing loans on the profitability of the banking sector.

My name is Andrew Dinha, a Bachelor of Commerce Honours Degree in Banking and Finance final year student in the Faculty of Commerce at Bindura University of Science Education. I am currently conducting a Dissertation Research Study to investigate into the impact of non-performing loans on the profitability of the banking sector, a case study of NMB Bank.

I would be most grateful if you could spare sometime to answer this brief questionnaire. There are no wrong and right answers; it is the factual response that is important. All the information and views you give will be treated in strict confidence. If you have any queries or wish to get more information about this project please do not hesitate to call the undersigned. Thank you in advance for your time and assistance.

Yours faithfully

Andrew K Dinha
APPENDIX B: QUESTIONNAIRE

The underneath questionnaire is meant to collect data for academic purposes only. All responses shall be treated strictly very confidential. Your response to the following questionnaire would be highly cherished.

SECTION A (Characteristics of respondents)

1. What is your position in the bank?

   a) Management [ ]

   b) Credit Officer [ ] (tick)

   Other specify.....................................................................................................................

2. What is your level of education?

   a) Secondary Level [ ]

   b) College Diploma [ ]

   c) Degree or higher [ ] (tick)

   Other Specify…………………………………………………………………………………………

3. How long have you been with the bank and in banking as a whole?

   a) Less than 10 years [ ]

   b) 10-15 years [ ]

   c) More than 15 years [ ] (tick)

SECTION B (general knowledge about loans)

4. What types of loan facilities that are normally applied for in your bank?

   a. Agricultural Loan [ ]

   b. Individual Loan [ ]

   c. Commercial Loan [ ]

   d. Mining Loan [ ] (tick)

   Others Specify.................................................................................................................
5. What is normally the duration of your Loan facility?

   a. 6 – 12 months [ ]
   b. 12 - 24 months [ ]
   c. 24 months and above [ ] (tick)

6. What is the application procedure for your Loans?

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7. What documents are normally requested for before the facility is processed? Please state your comments............................................................................................................................
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SECTION C (factors accounting for non-performing loans)

8. In your opinion, which of the following are the factors which cause NPLs in your bank?

   a) Poor credit appraisal [ ]
   b) Ineffective in loan monitoring [ ]
   c) Delayed in recovery [ ]
   d) Diversion of loans [ ]
   e) Unwillingness to repay loans [ ] (tick)

Others please specify.........................................................................................................................

9. Do you think non-compliance with credit policy of the Bank accounts for bad loans?

   (a) Yes [ ]
   (b) No [ ] (tick)

10. If yes above, which of the following account for that?

    (a) Customer pressure [ ]
    (b) Management pressure [ ]
    (c) Board pressure [ ]

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(c) Selfish Credit Officers [ ] (tick)

(d) Others please specify............................

11. What are the causes of delayed loan approval?

(a) Rigid approval procedures [ ]
(b) Customers inability to meet approval requirements [ ]
(c) Liquidity problems [ ]
(d) Poor credit appraisal [ ] (tick)

12. Is interest rates a contributory factor of loan default?

a) Yes [ ]

b) No [ ] (tick)

13. Why ineffective monitoring of loans by Credit Officers?

a) Inadequate Logistics [ ]

b) Lack of Motivation/Incentives [ ]

c) Influence by Directors [ ]

d) Low Capacity of Staff [ ]

e) Poor Documentation [ ] (tick)

14. How would you rank the following factors as causes of non-performing loans?

a) Delayed loan recovery [ ]

b) Poor credit appraisal [ ]

c) Diversion of loans [ ]

d) Unwillingness to repay [ ]

e) Ineffective monitoring [ ] (tick)
SECTION D (loan recovery)

15. What ways can help in improving loan recovery?

   a) Effective Monitoring [ ]
   b) Proper and Simplified Credit Appraisal Report [ ]
   c) Timely Disbursement [ ]
   d) Logistics provision [ ] (tick)

16. How do you recover bad loans from your clients?

   a. Through court action [ ]
   b. Seizure of collateral and company assets [ ]
   c. Call on guarantors [ ]
   d. Sale of collateral provided by clients [ ] (tick)

17. What are the problems faced in your loan recovery?

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SECTION E (Effect of non-performing loans on the profitability and lending potential)

18. How non-performing loans has affected the Bank’s operations?

   a) Affected operations of the bank
      High [ ] Moderate [ ] Low [ ]
   b) Has not affected the operations of the bank
      High [ ] Moderate [ ] Low [ ]

19. Has the non-performing loans affected your bank’s operations in terms of profitability of the bank?

   a) Yes [ ]
   b) No [ ] (tick)
20. Has the bad loans affected your bank’s operations in terms of lending of the bank?
   a) Yes [ ]
   b) No [ ] (tick)

Please give reasons for your answer

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APPENDIX C: INTERVIEW GUIDE FOR THE RESPONDENTS

1. For how long have you been working for this company?
2. What is the application procedure for your Loans?
3. What types of loan facilities that are normally applied for in your bank?
4. What do you understand by the term non-performing loans?
5. What causes non-performing loans in NMB Bank?
6. Does non-performing loans have impact on profitability of NMB bank?
7. What are the causes and effects of non-performing loans on the bank’s operations?
8. How do you recover bad loans from your clients?
9. What do you think needs to be done to curb the issue of NPLs?
10. Any other comments

END OF INTERVIEW
THANK YOU