MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

THE EFFECTS OF NON PERFORMING LOANS ON COMMERCIAL BANKS

IN ZIMBABWE: A CASE OF BancABC.

By

LOVEMORE MANYIKA

STUDENT NUMBER: R111830R

This dissertation is submitted in partial fulfilment of the requirements of the Bachelor of

Commerce Honours Degree in Accounting at Midlands State University.

Gweru, Zimbabwe

November 2014

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

APPROVAL FORM

The undersigned certify that they have supervised the student Registration Number R111830R dissertations title **"The effects of Non Performing Loans on commercial banks in Zimbabwe: A case of BancABC"**. Submitted in partial fulfilment for the requirements of the Bachelor of Honours in Accounting.

…………………………..   ………………………………

Supervisor   Date

……………………………   …………………………….

Chairperson   Date

……………………………   …………………………….

External Examiner   Date

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

RELEASE FORM

STUDENT REG NUMBER: R111830R

DISSERTATION TITLE: The effects of Non Performing Loans on commercial Banks in Zimbabwe: A case of BancABC.

DEGREE TITLE: Bachelor of Commerce Accounting Honours Degree.

YEAR DEGREE GRANTED: 2014

Permission is hereby granted to the Midlands State University Library to produce single copies of this dissertation and to lend such copies for scholarly and research purposes only. The author reserves other publication rights and neither the non-extensive extracts from it may be printed or otherwise reproduced without the author's permission.

SIGNED: .... DATE: ....

Permanent address: 1 Hillcrest Road Ridgemont, Gweru.

DEDICATION

I dedicate this dissertation: To my ever supportive parents, who brought me up and taught me the value of hard work and love; it is to them that I owe my very existence. To my brothers Bostone, Webster, Renda, Joab and Emson, sisters Sipho and Catherine. Special mention goes to my best friend Tracy, for the love and unwavering support throughout the project and above all; To God the Almighty without whom nothing is possible.

ACKNOWLEDGEMENT

ABSTRACT

The purpose of the research was to evaluate the effects of Non Performing Loans on commercial banks Zimbabwe examining a case of BancABC. A background of a continuously rising trend in the bank's Non Performing Loans has been has been a major cause for concern an questions have been raised as to whether or not the causes are known. In order to achieve this objective the research reviewed and consulted literature from several authorities to access in-depth knowledge of the research subject. The research used a sample size of thirty two employees from BancABC and two bank managers, as well as making use of both primary and secondary sources of collecting data. The respondents whether or not the determinants of Non Performing Loans were known and also the strategies they best thought could curb on the Non Performing Loans. The research found that weak risk management had severely cost BancABC as this had been reflected by its Non Performing Loans. The research also looked at the various strategies that can be adopted to come out of the problem. The results showed that procedures and policies, despite being in place, are not being properly observed internally. The research recommends that there be formal meetings of the bank and the borrower so as to facilitate communication and bridge the gap between the two parties.

LIST OF FIGURES

LIST OF TABLES

LIST OF APENDICES

Appendix

TABLE OF CONTENTS

DEFINITION OF TERMS

Non Performing Loan: Non performing loans are loans that are past due and unpaid for more than 90 days (usually equally to three dates of payments) (Manoharan; 2010).

Performing loan: A performing loan is that which is serviced as agreed between the financial institution and the client (Manoharan; 2010).

Default risk: Is the exposure to loss due to non payment by a borrower of a credit or financial obligation when it becomes due (Wong; 2011).

Credit worthy: An assessment of the likelihood of the borrower to default on their obligations to pay when payment is due (Kumar; 2011)

LIST OF ACRONYMS

RBZ   Reserve Bank of Zimbabwe

NPLs   Non Performing Loans

BAZ   Bankers Association of Zimbabwe

CABS   Central Africa Building Society

CBZ   Commercial Bank of Zimbabwe

CHAPTER ONE

INTRODUCTION

1.0   Introduction

This research proposal seeks to analyse the effects of non performing loans on commercial banks in Zimbabwe. This section aims to lay out the background of the study clearly citing the research problem, giving an insight of the problem statement, research questions, main objectives, limitations of the study, definitions of terms as they are used in this study as well as the summary.

1.1   Background of the study

The biggest income source for most Zimbabwean commercial banks involves the granting of credit lines to individuals and companies. In general terms a bank's Statement of Financial Position is made up of a significant portion of loans as assets. According to Deloitte (2013) the Albanian banking system, credit loans make up for most of the bank's assets and they reach 50% of total bank assets. The bank's major role has been noted as lending and making available other lines of credit which ensures the health and smooth functionality of a country's macro economy (Nomura, 2013).

However, according to the Independent newspaper by Robertson of 18 October 2013 on the levels of non-performing loans and an update on banking sector capitalization (2012:1) there has been a worrisome development in the banking sector in general as some of the loans issued out are unfortunately becoming non-performing and hence resulting in impairment losses which eventually negatively affects the financial performance by diminishing the liquidity and lending capacity. Across the world, non-performing loans (NPLs) have always been a source of distress to the financial sector and have led to the collapse of many banks and still threaten the survival of a sizeable number.

Zimbabwean banks are not spared from the problem of Non or under Performing Loans (bad loans as they are popularly known). Non Performing Loans have negatively affected the growth of the banking industry and the economy as a whole as the financial sector plays a

crucial role in the growth of every economy. The idea that well performing financial institutes- banks included help to stimulate economic growth and conversely, poorly performing ones hinder progress and aggravate poverty has been supported by a prominent Zimbabwean economic analyst John Robertson in his weekly column of the Independent newspaper of 14 June 2013.

According to the Monetary Policy Statement of 2013 some banks such as Interfin were liquidated in 2012. Royal bank voluntarily surrendered its license on 27 July 2012 after failing to navigate around operational challenges and recently Trust Bank had its license revoked in December of 2013 and being placed under curatorship, MPS (2014:15).The collapse of these banks has been significantly attributed to their non-performing loans. The most disturbing fact is that non-performing loans continue to be on the rise in Zimbabwe's banking sector as banks are continuously increasing their loan portfolios despite efforts by banks to curb their non performing loans.

According to MPS (2014:20), the NPL rate for commercial banks stood at 15.92% by December 2013 and is expected to reach 25% come December 2014.

Table 1.1 Non-Performing Loans: 2009–2013

Year	Industry %age	Banc ABC %age	Variance
2009	1.8	1.2	0.6
2010	3.1	2.8	0.3
2011	5.9	5.8	0.1
2012	10.9	14.2	(4.3)
2013	15.92	16.3	(0.38)
Projected 2014	25	27.5	(2.5)

Source: Monetary Policy Statement (2013)

Table 1.1 is a comparison of BancABC NPLs percentage against the industry NPLs. In the year 2009 BancABC was still below the industry average showing signs of good loan portfolio management. This trend was continuously decreasing and by the year 2012, the

NPLs at the bank were above 4.3% above industry average. This trend is expected to continue as the projected rate of NPLs at BancABC is 27.5% compared to the industry percentage average of 25%.

BancABC, one of the leading registered commercial banks in Zimbabwe has not been left out to threats posed by the continued growth in NPL portfolio which could negatively affect its operations in terms of liquidity, profitability, debt servicing capacity, lending capacity as well as the ability to raise additional capacity especially in Zimbabwe where the capital threshold for banks currently stands at US25million and is expected to rise to US100 million by 2018, MPS (2012).

According to BancABC's audited financial statements for the year ended 31 December 2012 the gross Non-Performing Loans increased from 5.8% to 14.2% and have been projected to reach 27% by December of 2014. This has mainly been exacerbated by the liquidity crunch thereby resulting in higher net impairments charges having increased by 32% to $4.1 million from 2011 thereby reducing the profits.

BancABC's goal of being the biggest and most profitable commercial bank in Zimbabwe can be achieved by improved revenue lines in its loans and advances which are viewed as the goose that lays the golden eggs. Therefore the problems of NPLs at BancABC have to be looked into so as to reduce the NPLs to an acceptable level. Therefore the study focuses on identifying the causes of NPLs, its implications on the bank's operations and strategies to reduce the incidence of NPLs to acceptably reasonable levels.

Problem statement

According to the Mid-Year Fiscal Policy Statement (2013) the upward trend in non-performing loans and recent bank failures in Zimbabwe is a cause for concern. Despite lessons obtained from the 2004 financial crisis in Zimbabwe, banks are still suffering from non performing loans.

1.3   Main research question

What are the effects of non-performing loans on commercial banks in Zimbabwe?

1.4   Research objectives

- To determine the effect of NPLs on interest income, operating profit and loanable funds.
- To identify the factors accounting for the incidence of NPLs at BancABC.
- To identify the sector with the highest incidence of NPLs.
- To recommend strategies that effectively address the problem of NPLs at Banc ABC.

1.5   Sub research questions

This research is going to major on the causes of non-performing loans in commercial banks in Zimbabwe, however it will be specifically aimed at:

This research seeks to answer the following questions:

- What is the impact of non performing loans on interest income, operating profit and loanable funds?
- What factors account for the incidence of non performing loans?
- What areas (sector of the economy) of lending have had the highest default rate?
- What strategies effectively address the problem of non performing loans?

1.6   Justification of the study

To the Researcher

The research is mandatory in the fulfilment of the Bachelor of Commerce Honours Accounting degree and the researcher gains more analytical skills on the performance of financial markets.

To the University

This study will act as library content to scholars who may in future wish to research on the

subject

To BancABC

The results would enable BancABC to adopt workable strategies in order to try to curb the problem of the ever increasing NPLs portfolio and in the end improve its financial performance. The research would also help other commercial banks in Zimbabwe with similar problems..

1.7   Delimitation of the Study

The study is only limited to the period from 2011 to 2013, of which part of the time the writer was attached to BancABC. Time has been a constraint as the study had to be carried out in the specified period of time.

1.8   Limitations of the study

➢ The willingness on the part of BancABC staff to release some information which may be classified as confidential. This writer has thus adopted the use of questionnaires and published financial statements in the study.

➢ Since the researcher is based in Gweru, mobility may hinder as there shall be need to visit the head offices which are based in Harare, cheaper and affordable modes of transport have been the only option in carrying out the research.

➢ Time of study limits the researcher's depth in the subject. The researcher has to go an extra mile to complete this quality analysis in time.

➢ The possibility of using distorted information cannot be ruled out and it may result in a biased findings. This research is thus mainly based on published financial statements.

1.9   Definition of terms

Non performing loan

Non performing loans are loans that are past due and unpaid for more than 90 days (usually equally to three dates of payments) Manoharan (2010:67).

Performing loan

A performing loan is that which is serviced as agreed between the financial institution and the client Manoharan (2010:68).

Default risk: Is the exposure to loss due to non payment by a borrower of a credit or financial obligation when it becomes due (Wong; 2011).

Credit worthy: An assessment of the likelihood of the borrower to default on their obligations to pay when payment is due (Kumar; 2011)

1.10 Summary

This chapter highlighted the background to the study, problem statement, objectives of the study, justification of the study. Also included were the delimitation of the study and the limitations of the research and definition of terms. The next chapter reveals the literature used for the research.

<div align="center">**CHAPTER TWO**</div>

<div align="center">**LITERATURE REVIEW**</div>

2.0 Introduction

In the previous chapter the problem of non performing loans at BancABC was introduced. This chapter reviews literature on the effects of non performing loans in the commercial banks of Zimbabwe. Machi (2009) asserts that literature review serves in identifying new ways to understand, and shed light on any gap in the previous research and position on the way forward for further research. In other words the main purpose of a literature review is to demonstrate the scholarly capacity, identify information, outline the presented knowledge and give a summary.

2.1 THE EFFECTS OF NPLs ON INTEREST INCOME, OPERATING PROFIT AND LOANABLE FUNDS

2.1.1 Reduced Profits, interest income and loanable funds

According to Masoom (2013:6) "Credit losses are equivalent to capital losses. An increase in non-performing loans (NPLs) has the multi-pronged adverse impacts on bank's balance sheet having consequential effect of erosion of capital impairing earning streams, profitability, liquidity and solvency." Any slight compromise with the quality of assets at the sanctioning process will indirectly contribute towards enhancement of NPLs. The management of banks have no choice but to stay focused on the issue of keeping the credit portfolio performing to its potential.

Any minor shift or lapse of concentration will lead to a depleted bank's capital structure in the form of its major asset which happens to be the loans. Once loans become non performing, the total interest income earned on them is depleted. An erosion in the interest income leads to reduced operating profits since interest income is a major contributor to increased profits as noted by Frank (2009:83). Loanable funds are also not spared by the depleted interest income. This is caused by the fact that banks usually do a once off investment in loans and simply plough back the profits realised from the investment in the form of interest so that it grows in time. However, if the results are negative the loanable funds are depleted as they can only be increased by interest income.

Jimenez and Saurina (2013) examined the Southern African banking sector from 1999 to 2013; they provided evidence that nonperforming loans are determined by high real interest rates and lenient credit terms. This study attributes the latter to disaster myopia, herd behaviour and agency problems that may entice bank managers to lend excessively during boom periods. Meanwhile, Cifter (2009) utilised panel regression analysis to report that favourable macroeconomic conditions and financial factors such as maturity, cost in the form of interest rates and terms of credit, banks size, and credit orientation impact significantly on the non performing loans of commercial banks in Africa.

The principal agency problem has been a matter that has been subject to debate when it comes to nonperforming loans. According to Andrews (2010:10), an agent is an individual who has the implied or actual authority to act on behalf of another. The owners whom the agents represent are the principals. Since the agents represent principals, they have a legal and ethical responsibility to make decisions that further the interests of the principals as with Andrews (2010:11). The principal agency problem arises when there is conflict of interest between agents and the shareholders who are the owners.

"If a financial institution has too many nonperforming loans the leader of the organisation will be fired," Thompson (2009:83). The study notes that most bank managers (agents) have performance related contracts that condition their compensation and stay at work upon their performance. Several legal and ethical challenges influence bank managers as they pursue their main objective of wealth maximisation for the shareholders. Andrews (2010:10) notes that the legal considerations include civil rights laws that must be observed and workplace standards that ought to be met. The ethical concerns include the fair treatment of employees at the workplace, customers, the community and the society as a whole.

Andrews (2010:12) suggests that in the case of credit borrowings the solution on the agency problem lies on collapsing the agency relationship to ensure that that the borrower and the payer are the same as is the case of consumer borrowing or borrowing by a sole proprietor and or a partnership. Braga (2010:232) suggest the solution of enforcing shareholder protection laws such as those requiring the disclosure of information including those that create criminal and civil liability for bank managers that provide false or misleading statements.

Norris (2013), in an IMF working paper, explores the relationship between several macroeconomic variables and financial soundness indicators (capital adequacy, profitability,

and asset quality) based on country aggregate data. She explained the cross-country heterogeneity by differences in interest rates, inflation, and other macroeconomic factors. However, the study does not consider the impact of industry specific drivers of problem loans. Most empirical studies examine the influence of the macroeconomic environment on non performing loans (Louzis et al, 2011).

2.2 THE FACTORS ACCOUNTING FOR THE INCIDENCE OF NPLs

2.2.1 Weak Risk Management Portfolio

'The bank's risk management level is not high, risk prevention capability is not strong, leading to Non Performing Loans increase." Khitinji (2010:13). In some organizations, the concept of credit is not strong, and in Southern Africa their lack of strict and effective sanctions related to the solvency of the firm has a direct relationship.

"Prevention is better than cure," were the words of Masoom (2013:4) in his article named the strategies to recovery of nonperforming loans. Under the present overall socio economic dynamics the banks should prioritize to extend purpose-oriented credit facilities with required security/collateral support as their policy priority since diversion of fund is one of the identified causes of loan default. Banks have to play the role of business partner rather than a conventional lender. A bank has to ensure that utilization of credit is in accordance with the purpose for which it is lent i.e. end use of the lending has to be ensured. The bank has to monitor the performance of the borrowing unit to verify whether the assumptions on which the loan was sanctioned continue to hold good with regard to operation and environment. It is also to be observed whether the promoters are adhering to the terms and conditions of sanction and this is done by devising a mechanism for obtaining information at regular intervals from the borrowing units.

A British banker Simmons (2011:14) argued that Non-performing loans that turn into bad debt or dead loans are a problem for the banking industry. To some extent, this is unavoidable.

Banks usually give the impression that their risk controls for loans are unsuccessful because the banks own a disproportionate number of bad loans. These banks are now paying more

attention to the supervision and management of the risks, with this effort reducing the amount of bad debt in banks.

Benton (2011:12) notes that before and during the execution of a loan agreement, the bank should evaluate any potential risk that may cause the borrower to default on its loan obligation. These risks include the ability of the borrower to repay the loan, and the validity and enforceability of the guaranty. Based on the bank's analysis and evaluation of the potential risks, it will decide whether to issue the loan and what conditions and protection measures should be stipulated in the loan agreement.

As for loans without any guaranty - namely credit loans - when the borrower is an enterprise, firm, or other entity, the bank will prefer a borrower with good credit standing or with a good business relationship with the bank as noted by Pustejovsky (2012:13). In some cases, if the bank deems necessary, the borrower will need to prove its qualifications by providing its financial report to the bank before the loan is issued.

Pustejovsky (2012:15) stresses that it is easier for the bank to know the borrower's financial condition if the borrower is an entity, especially a listed company. But for an unsecured loan to an individual, because China has not yet set up a nationwide individual credit system, there is no way to comprehensively assess an individual's financial credibility by tracking historical records. Domestic banks resolve this problem by creating their own credit record of customers as a basis for evaluating an individual's financial credibility.

However, different banks have different assessment criteria. Dhiman and Sharma, (2013: 75) noted that, the elements considered include: academic level; job titles; financial capability; housing conditions; depositing status in the bank where the loan application is made; past credit record; and even marital status. Some banks require that the borrower's employer to be recognized and have a sound relationship with the bank, and that the bank is authorized for salary payment on behalf of that organization. Some banks will only issue unsecured credit loans to public clerks, teaching staff, medical professionals and bank employees for ease of follow up and risk minimisation according to Dhiman and Sharma (2013:77).

Benton (2011:74) notes that in the case of a loan involving a guarantor, the bank also faces risks of bad credit, even if the guarantor is provided for security. For example, the borrower and guarantor may conspire to illegally take out a loan, or breach the guaranty agreement by claiming the guarantor to be financially insolvent or bankrupt, to avoid payment.

Fried (2009;18) concedes that in practice, apart from examining the credit rating of the guarantor as well as examining the credit level of the borrower, the bank also imposes certain restrictions on the guarantor. For example, some banks may allow applications for housing loans with a guarantor, but only if the guarantor is a corporate organization with a high credit rating and a deposit at that bank. In the case of individual guarantors, some banks prohibit a mutual guaranty between a wife and husband.

2.2.2 High youth defaults

The headline of the Herald newspaper of 12 November 2013 screamed, 'Banks hit by high youth loan defaults. The Zimbabwean government availed US$10 million for youth empowerment most of which was accessed on partisan grounds. The major chunk of these proved to be failing to hit the mark as most of them were being abused. "About 78 percent of the loans are non-performing," CABS managing director, Kevin Terry.

Another bank, Commercial Bank of Zimbabwe (CBZ), which also happened to be administering youth loans had to immediately stop the disbursements as the NPLs had reached 45% and continuously rising. "The trustees have asked us to suspend giving out more loans until they have looked at whether this is an appropriate mechanism," said Never Nyemudzo, the group Chief Executive Officer during a public lecture at the University of Zimbabwe.

He said there was need for capacity building for the youths to enable them to handle the funds properly. "The performance has generally been very bad with a default rate of close to 45 percent," he said. The bank's managing director, Peter Zimunya also said a 45 percent default ratio was "very bad" compared to a normal level of five percent. He said most defaults were in the manufacturing, poultry and cross border sectors and attributed them to poor management and general unwillingness to pay back the loans.

"Most of our youths are not well vest with these monetary issues as they turned to panic whenever their accounts are credited with such huge sums," said Mr Matemera. Stanbic bank which set up a youth fund after entering into a Memorundum of Understanding with the youth ministry to avail fund for youth empowerment has also been hard hit by the high youth default rates. "We expect that if the facility is performing we should not have non performing loans going beyond 5% but for this particular facility we have experienced an upward of

30%," said Partson Mahachi, the head of business banking in an interview with reporters. He said in most cases youths were diverting the funds for other uses while others provided false details to avoid repaying. "Where we pay to the supplier and youths are supposed to go and collect the goods, some of them would go and demand the money and use it for other purposes."

To make it worse for banks these youths have no assets for the bank to attach making it difficult for the banks to recover whatever sum they would be due to them while some would hide their equipment to prevent the bank from repossessing it. The high non performing loans come as a 'wakeup' call for banks to tighten their screws especially in the verification phase to ensure that only deserving applicants are credited so as to reduce future non performing loans.

2.2.3 Absence of a credit bureau

"In the absence of a credit bureau, individuals are borrowing all over the show and are now overwhelmed from servicing the loans," Mr Matemera told a media and analysts briefing, adding that "a major chunk of NPLs that banks are faced with are personal borrowings". he further stressed that a lot of individuals are overburdened and now constitute a significant part of the non-performing loans (NPLs).

A major chunk of NPLs that banks are faced with are personal borrowings. In 2012, Banker's Asociation of Zimbabwe (BAZ) president George Guvamatanga said the country must establish a credit bureau to curb the growth of "toxic" loans and avoid malpractices in the banking sector.

"The sector must take on all players to create the bureau so that the collapsing sector is saved from further collapse, members must be engaged even on interest rates," said Guvamatanga. He said NPLs had greatly affected the banking sector and immediate action was needed, adding that "at the moment banks do not have the capacity to determine who is borrowing from whom, some of them are choking"

George Guvamatanga said the country must establish a credit bureau to curb the growth of "toxic" loans and avoid malpractices in the banking sector. The bureau comes as an aid to the operations of the banks in Zimbabwe because most of the information they would wish to know about borrowers will be readily available from the bureau. This would go a long way in

the reduction of the problem of non performing loans because borrowers would be to go about borrowing from different banks.

The bureau's main focus would be to keep a consolidated record of all those borrowers in each and every bank in the country and also other micro finance lenders. This would enable banks to make informed decisions based on true information on the ground. Most people usually misrepresent information so as to get a higher credit rating which puts them in a better position of getting loans and more often than not they don't disclose that they have active loans with other financial institutions. "The setting up of a credit bureau will reduce the vulnerability of banks to risky borrowers according to players in the sector," said Ronald Mutandagayi, a bank chief executive at a stakeholders meeting held to campaign for government support in launching the bureau.

2.3   THE SECTOR WITH THE HIGHEST INCIDENCE OF NPLs
Personal loans

The Sunday Mail, 1June 2014 headlined, "Barclays to overlook SMEs and individuals in new loan scheme." The move was necessitated by the drive towards reducing the ever rising defaults in the sectors. Barclays managing director Mr George Guvamatanga said the lender has adopted a robust business model that excludes Small and Medium Enterprises (SMEs) and individuals in order to reduce non-performing loans.

"By June we should have accessed offshore lines of credit of about US$100 million which we will use to support those companies that will be doing well," said Mr Guvamatanga in a stakeholders' press conference on credit issues. "We want to do business with people whose cash flows we understand. On the SMEs, we want to deal with suppliers of companies such as Delta (Corporation) and Innscor (Africa Limited) because we know that they will pay."

In general terms banks are risk averse and wish to deal with businesses which involve less risks so that their assets are kept safe thereby reducing the risks of incurring Non Performing Loans. Neil (2012:45) noted that is as regards individuals wanting loans, banks prefer to deal with those working for trusted organisations because everyone knows that in struggling or thriving firms a payslip is just a promise to pay. The question is, 'does the money indicated on the payslip hit the individual's bank account?" The prevailing economic situation in a country makes it even more risky and difficult for banks to use individual's payslips in their

vetting process. This is because most companies in hard times fail to meet or honour their obligations. To that end banks end up adopting the option of relating individuals' payslip to the employer. Well performing companies have a higher credit rating as compared to the struggling lot. It is easier for the bank to know the borrower's financial condition if the borrower is an entity, especially a listed company because they have an obligation to publish their financial statements.

2.4   STRATEGIES THAT EFFECTIVELY ADDRESS THE PROBLEM OF NPLs

2.4.1   Tight risk management principles

Most financial analysts believe that the trick that lies behind overcoming NPLs is vested in the bank's Risk Management departments. Unsettlement of loans or a loan which has been in default for 90 days or 3 months will grow NPL's, these loans caused by non payment or failure in payment and unrealized mark up will also be added to NPL's. Earlier than the financial crisis of Africa, finance experts believed that the Bank should be treated as supplementary administration reserves and in order to manage growing liquidity problems and non performing loans in the banking system, Lavelle (2013:75). Nonperforming loans contain principle payments, interest and additional financial data.

The study has shown that high income earners have superior access to property and mortgages while low income earners have inferior as with Lawson (2013:45). Lawson further argues that the credit endorsement rates is greater than before for the usually discarded households, mostly low income earners, inflation, taxes and younger households. Terry (2011:37) noted that youths' have higher rates so as to discourage them from accessing credit loans. The bank's prior experience usually causes them to take such measures. Lending methods for low income earners, non white and younger households separate them from the financial system which is not socially acceptable.

The default risk of lenders evaluation often depends on the loan arrangement, which is obviously depends on the employment, income and credit history of the borrower at issuing loan, household has connection or linked with marginal risk. Failure on the part of management in adjusting the credit risk will increase the loan default risk. The task is to maintain the loan, recover it, reduce credit risk and to reach at a low cost credit. This could be achievable or enhanced by ethical risk obstacles that households face while claiming or

requesting for a loan. Collateral security requirement control the all risk in a better way. Risk management and this diversified strategy will accumulate the huge demand of credit of different sector of financial system but also minimize the nonperforming loans as with Santamaria (2011:45). The bank should have to disburse the loan where chances of risk are considered to be low. Before issuing out loans the credit history of the borrower must be viewed and considered to be satisfactory. The chances of liquidity risk, solvency risk and earning risk are high during issuance of loans. The new credit culture, certainly, has some negative impact as credit officers have turned more risk reluctant in recommending new loans and the potential borrowers have turned more alert in contracting new loans. Credit is based on a trust; it's not an issue that borrower and lender have trust on each other and it could not reduce the value of loan selection analysis, this trust could be dishonoured consciously or unconsciously, its includes sound credit analysis.

2.4.2   Monitoring the Borrower during the Loan Tenure

According to IFLR an international organisation that analyses financial issues, "The loan agreement will generally stipulate that a borrower must provide the bank with a report regarding its assets, business or other financial conditions from time to time." The agreement often states that the loan can be declared immediately due and the borrower must repay the loan immediately - or the mortgaged property will be auctioned for repayment upon the occurrence of certain events. These events include: the borrower's repeated failure to fulfil its obligations of repayment, installments, for this loan as well as any other loans due, criminal prosecution for the borrower, relocation of the borrower's assets; or any other event that the bank deems necessary to be included in the agreement.

The agreement may also include a condition that would limit the borrower's ability to conduct certain activities. "It is common for the bank to stipulate in a mortgage agreement that the borrower shall not lease the mortgaged property without the bank's consent," Saunders (2011:65). If the mortgagee does lease the mortgaged property without consent, then it will be deemed to be in breach of the mortgage agreement. However, in practice, the mortgagee or borrower of funds can, in most cases, always secretly lease the mortgaged property to a third party to evade its repayment obligation. The bank is thus supposed to be wary of such threat from individuals.

Mayor (2011:76) notes that it will be difficult for the bank to keep track of every borrower in its credit data base during the term of the agreement, and this is usually the case with banks using manual systems. The borrower will sometimes default on its loan repayment obligation even before the bank becomes aware of it. The bank must then resort to a collection or follow up procedure to recover the unpaid debt.

The monitoring of borrowers during the loan period is ideal as some of the individuals turned to divert the borrowed funds for ventures which are not consistent with the terms they would have agreed with the bank as with Todd (2009:78). This is usually the case where the bank credits the borrower and sits back to expect repayments to start coming without assessing how the borrower is progressing and whether the funds are being used as agreed between the two parties.

2.4.3 Set up a national asset management corporation

Saunders (2009:44) defines a national asset management corporation as a set up structure that reduces the burden of those institutions which play a part towards national development. Such a set up is a positive step as it relieves banks of the hassles of making follow up to nonperforming loans which may also prove costly. Wong (2011:204) insists that under this system the Finance Ministry, through the Reserve Bank, acquires the nonperforming loans from banks, or put differently carves bad debts from banks.

According to Wong (2011:204) there are basically three main reasons of setting up a national asset management corporation namely:

- To ensure that the banking sector recapitalisation process is commercially driven and investment decisions are made according to market based principles;
- To avoid delays in addressing recapitalisation to curb NPLs which would slow down the financial system and economic recovery; and
- To avoid direct capital injection by government in banking institutions as this is deemed undesirable and could lead to conflict of interests in the future.

Under this system the finance ministry assumes the title of "creditor" from the bank by buying the NPL from the bank. This, the ministry does through its arm of the Reserve Bank which play the function of the lender of last resort. Wong (2011:205) argued that this system provides a platform for both the borrower and creditor to work out feasible corporate debt

restructuring schemes without having to resort to legal proceedings. Put differently, the corporation's main objective is to minimise losses to shareholders, creditors and other stakeholders through coordinated voluntary workouts that sidestep the bankruptcy procedure.

After purchasing the NPLs from the banks the national asset management then sets up and agrees the payment plans with the defaulting borrowers. The payment plan is a compromised deal and usually does not consist of strict conditions offered initially by the banks as it seeks to benefit both parties as with Frost (2010:66). This also allows banks to recover their investment although the incentive of profit is minimal. The reduction of NPLs helps in credit growth, spurs the activity of previously over borrowed clients and frees resources tapped in unproductive uses. This has the effect of bolstering the supply side of the economy as according to Simmons (2012:67).

2.5   SUMMARY

This chapter examined the concept of non performing loans. The researcher also analysed the factors that effected and affected by the performance of loans in an economy. This was achieved by referencing and looking into the views of major authors and scholars on the same topic. In the next chapter the researcher looked at research methodology and the research design.

<center>**CHAPTER THREE**</center>

RESEARCH METHODOLOGY

3.0 Introduction

The previous chapter reviewed the literature on the critical effects of non performing loans in the banking sector. This chapter dwells on the methodology used to examine the problem under study. Drafted in this chapter are research design, population, and sample and research instruments used to gather various types of data during study. A summary section will conclude the chapter.

3.1 RESEARCH DESIGN

According to Saunders et al (2011:136) a research design is "the general plan of how you will go about answering your research questions". The research design had the main purpose of providing for the gathering of relevant data with minimum costs of time, money and effort. The research used the most suitable research design for answering the problem of the study within the given constraints. The design made it possible for the research to distinguish the population under study into reasonable proportions. The research design conceptualized a set of plan so as to undertake the various procedures and tasks required for the completion of the study and also ensured that the implemented procedures were adequate to obtain valid, objective and accurate information to answer the research question. In order to achieve this, the research used both qualitative and quantitative methods.

3.1.1 Descriptive research design

Saunders et al (2011; 590) defined descriptive research as "the research for which the purpose is to produce an accurate representation of persons, events or situations." Data collection techniques which were adopted for descriptive research include questionnaires, personal interviews, mail surveys and telephone interviews. The study was descriptive in nature as it sought to investigate how non performing loans affect the performance of the banking sector in the country

Advantages

Descriptive research is often used as a pre-cursor to quantitative research designs, the general overview giving some valuable pointers as to what variables are worth testing quantitatively. It gives researchers the opportunity to use both quantitative and qualitative data in order to find data and characteristics about the population or phenomenon that is being researched as noted by Jones (2010:24). The data collection for descriptive research presents an advantage of a very multifaceted approach, data can include case studies, observation or surveys and give several angles on the information. The researcher has opted to use descriptive research because data collection may be spread over a large geographical area, McNabb (2009:78).

Disadvantages

Although descriptive research is highly accurate it does not gather the causes that underlie a given situation. In terms of confidentiality and objectivity this method can be disadvantageous. During interviews, participants may decide not to answer the questions they feel are too personal confusing or difficult. Descriptive research results may change over time.

3.1.2   Case study

According to Kendrick (2009:56) a case study is a way of capturing concrete details of a real or fictional situation, and presenting these details in a structured and compact way. It is a study that aims at analysing people, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. The case that is the subject of the inquiry will be an instance of a class of phenomena that provides an analytical frame within which the study is conducted and which the case illuminates and explicates. A case study involves an in-depth examination of a single instance or event. It provides a systematic way of looking at events, collecting data, analyzing information and reporting the results.

Hill (2010:45) defined a case study is defined as a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. It is an in-depth study of a particular situation rather than a sweeping statistical survey and is used to narrow down a very broad field of research into one easily researchable topic.

The case study research method was used in this research. A case study research is appropriate where a contemporary phenomenon is to be studied in its real-life context, and is useful where research and theory are at their early, formative stages. The major aim of this case study is focusing on Non Performing Loans at BancABC. The purpose of the case study was based on the research objectives and research questions.

Representatives from each of the four stakeholder groups were interviewed about their views on Non Performing Loans using structured questionnaires. Additional information was obtained from annual reports, minutes from meetings as well as financial statements for the company.

3.2   POPULATION

Castillo (2009: 85) defines a research population as "a well-defined collection of individuals or objects known to have similar characteristics." Individuals or objects within a certain population in most cases have a common, binding characteristic or trait. It is the interest set from where the information is to be obtained. The population in the study comprised of the loan officers, credit analysts, recoveries officers and managers from BancABC which is the case under study.

3.3   SAMPLING

Kumar (2011: 193) notes, sampling is "the process of selecting a few (a sample) from a bigger group (the sampling population) to become the basis for estimating or predicting the prevalence of an unknown piece of information, situation or outcome regarding the bigger group." The selected sample must be a true representation of the total population.

3.3.1 Sample

Monoharan (2010) defined a sample as "a portion of a population that is selected to be the representative of the target population." From the definition a sample ought to be a true reflection and true representative of its parent population. The large population size was the reason behind the researcher's idea of using a sample as an option.

3.3.2 Sample size

The case study design was employed in this study. The study was based on BancABC which is one of the largest commercial banks in Zimbabwe. The sample was constructed at two levels; the first level of sampling being choice of sample bank and the second level of sampling was the choice of respondents. At the second level of sampling choice of respondents, questionnaires were sent to 30 staff employees who are involved in credit management intended to participate in the study and focused on members that have been involved in corporate lending activities for at least five years. In addition, four senior managers from four different banks involved in lending activities will be interviewed.

Table 3.1: Target population and samples of the study

Target	Population	Sample	%age of total
Loan officers	20	8	17
Recoveries officers	15	4	9
Credit analysts	8	4	9
Managers	4	2	4
Total	47	18	39

3.3.2.1 Justification of sample size

The research opted for the sample size due to the time that was at hand to complete the study, a bigger sample size would not have been possible within the stipulated time period by which the research should have been completed. The other factor that influenced the choice was the time that would have been spent at the data analysis stage if a bigger sample size was chosen. The sample size chosen had 4 banks out of the 15 registered banks in Zimbabwe representing 27% of the total population. This sample was appropriate since not all of the registered banks are issuing out loans or offering lines of credit.

3.3.3 Sampling methods

In this research both probability and non- probability sampling were exploited. These methods enabled the researcher to use both statistical and own personal judgment of who to include in the sample.

3.3.3.1 Non-Probability sampling methods

"It provides a range of alternative techniques to select a sample based on your own subjective judgment," (Saunders et al 2011; 233).This technique requires the use of personal judgement to select a sample that will best answer the research questions. After the sample was chosen using random sampling, the researcher used his own personal judgement to determine which individuals to interview and which ones to give the questionnaires out of the number that each stratum contributed to the sample size so as to maximise the quality of information obtained.

3.4   SOURCES OF DATA

Primary and secondary data was used in data collection.

3.4.1   Primary data

This is data collected in the research using methods such as interviews, observations and questionnaires. The primary data is original data and usual captured at the point where it is generated especially for solving the problem at hand and the data collection methods are ideal for the study. The research made used of interviews and questionnaires to employees at the chosen banks in an investigation into the effects of Non Performing Loans on commercial banks. The data collected was relevant and up to date and the use of primary sources enabled the research to have a complete set of information on issues that the study seeks to find out.

Advantages of Primary data

Primary sources provided material that let the researcher build their own theories from a specific population. There was also an advantage in that there was original data collection thereby making the facts more accurate and suitable for the problem at hand Piepenburg (2009:57)

Disadvantages of Primary data

As target population was spread across the country primary data became expensive and timeous to collect. Primary data could not help in forming deductions unless statistical methods were used to refine it Piepenburg (2009:58). Therefore data was deduced and represented graphically and diagrammatically.

3.4.2 Secondary data

Saunders et al (2011: 233) noted that secondary data is a collection using data previously collected for some other purposes. The research made use of data that already existed and collected for other purposes. The research used the internet, newspapers, journals and published financial statements. Secondary data helped the research to have a platform on which to extract objectives, the problem in reality and the best solution thereof. It also enabled the study to obtain data at a relatively low cost since it was readily available.

Advantages of Secondary data

Working with secondary data was economic as someone else had already collected the data. This lowered research costs. There was also easier access to secondary data as it allowed investigation of topics that could not be studied in any other way. Using secondary data helped in the clarification of the research question as it was normally used prior to primary data collection, Koziol and Arthur (2010:42).

Disadvantages of Secondary data

There was a possibility that data may be outdated and inappropriate for current purpose. The reliability and validity of the inferences made from the data available was usually difficult to check. The researcher used journals, text books, external audit reports, internal audit reports, research articles and financial statements, Koziol and Arthur (2010:43).

3.5 RESEARCH INSTRUMENTS/DATA COLLECTING TECHNIQUES

3.5.1 Interviews

Creedy (2005:33), defines interview as, "an occasion when a person is asked questions by one or more investigators to find out his/her opinions/ideas relating to a particular subject matter." Interviews were made in the form of oral questioning of respondents either individually or as a group. They can be contacted face to face or over the telephone. The researcher interviewed a manager from the chosen registered banks, respective employees from these banks. The research asked questions pertaining to the performance of the loans in banks. Interviews enabled the researcher the opportunity to have in depth discussions with some members of the listed companies. The interview approach was adopted because it permits a higher degree of confidence in the respondents.

Advantages of interviews

They provided the opportunity to acquire in depth responses and this better helped the researcher to understand better the behaviour and motivation behind the interviewee. Interviews were more flexible as the researcher could make up new questions that were more appropriate as the interview progressed. Facial expressions were also be noted for face-to-face interviews.

Disadvantages of interviews

Interviews were time consuming to carry. Interviews were also considered intrusive by other respondents. There was also the problem of interviewer bias hence the interviewer needed to know the many ways that they could inadvertently bias the results, so as to avoid it.

3.5.2 Questionnaires

"A questionnaire include all techniques of data collection in which each is asked to respond to the same set of questions in a predetermined order," (Saunders et al 2011; 360). This research instrument comprises of a set of questions sent to a chosen sample to be completed under supervision or at the respondents' time. This research exploited self administered questionnaires and made use of both open ended and closed questionnaires in the process of data collection.

a) **Open- Ended Questions**

These types of questions offer respondents the chance to express themselves freely as they are not confined to a strict format. In this way respondents give answers in their own way which leaves them a satisfied lot.

Advantages of open ended questions

Open-ended questions would solicit additional information from the respondent Richardson (2009). They allowed for an unrestrained response and may have been quite useful with an articulate respondent.

Disadvantages of using open ended questions

Analysis of the information is very difficult and the researcher may fail to interpret it.

They also may have resulted in unnecessary information.

Closed questions

This type of research involves the use of structured questions. According to Ranjit Kumar (2011:151) the possible answers are not set out in the questionnaire and the respondent ticks the category that best describes the respondent's answer in accordance with the parameters given.

Advantages of closed questions

According to Kadushin (2009:59) closed ended questions are easier to analyse more specific. Information required by the researcher is obtained as they involve ready made questions.

Disadvantages of closed questions

The information obtained lacks depth and variety. In these type of questions where the respondent failed to   understand the question they could not give an opinion on the issue as in Kadushin (2009:59)

3.5.3 Likert scale

A Likert scale is a psychometric scale normally involved in research that employs questionnaires. The scale is named after its inventor, psychologist Rensis Likert. When responding to a Likert questionnaire item, respondents specify their level of agreement or disagreement on a symmetric agree-disagree scale for a series of statements. Thus, the range captures the intensity of their feelings for a given item, while the results of analysis of multiple items reveals a pattern that has scaled properties of the kind Likert identified as according to Earl (2009:174). The odd numbered scale was used for this research and the rating scale was as shown in table 3.2 below.

Table 3.2 Rating of Likert scale

Strongly agree	5
Agree	4
Uncertain	3
Disagree	2
Strongly disagree	1

3.6 Data Triangulation

According to Peters (2011:89) data triangulation is the process of cross checking data from multiple sources to search for regularities in the research data. Triangulation appears when a piece of data, a finding or a generalisation is able to be verified with different research methods. This method aids in credibility and also ensures that the researcher's findings are stronger. Triangulation is a powerful technique that facilitates data validation through cross verification from more than two sources. In specific terms, it applies and combines several research methodologies in the study of the same phenomenon as in Monger (2009:76).

The instruments used to collect data were valid and ensured that the information collected provided accurate results. It aims to ensure that the questions asked are properly answered and do not have bias to the research results obtained. The information obtained is only valid to the extent to which the questions are valid.

3.7   DATA PRESENTATION

Bar graphs, pie charts and tables were the data presentation methods used. These methods were considered because they are simple to interpret and data can easily be presented

3.7.1 Graphic Display Data

This form of display allows for a more summarized presentation of data where any reader can quickly make sense of the meaning of the data collected. A very short explanation of the graph presented would follow thus helping readers to easily follow through the presentation.

3.7.2 Bar Chart

Saunders et al (2011:588) defined a bar chart as "a diagram for showing frequency distributions for a category or grouped discrete data variable, which highlights the highest and lowest values." This research also used bar charts in presenting data for the purposes of this study.

3.8   DATA ANALYSIS

This section briefly describes the approach that was used to organize, describe and analyze the collected data. The research organized and presented the data in a tabular format and making use of graphs. Statistical mean and mode were used to interpret data which was quantitative. Secondary data was also analysed, extracts were made and presented and a brief explanation given.

3.8.1   Percentage Calculations

These make it easier for readers to follow the computed data and its presentation. For example, where respondents gave their responses; these would be expressed as a percentage of the whole population to improve on clarity.

3.9   SUMMARY

This chapter looked into the methodology to be used by the researcher to collect data. To be specific it highlighted the research design, types of research methods and the sampling techniques adopted. The size of the sample was also highlighted and so were the sources of data, their merits and demerits noted as well. The advantages and disadvantages of questionnaires and interviews were also looked into.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter is aimed on presenting and analysing research findings from survey questionnaires and interviews through the use of tables, graphs, pie charts and descriptive summaries congruent with the research objectives and questions.

4.1. RESPONSE RATE

Table 4.1: Questionnaire and interview response rate

	Distribution	Response	Response rate
Questionnaires	32	28	87.50%
Interviews	2	2	100%

The researcher utilised 32 questionnaires which were distributed to BancABC employees and there was a 100% response from the loan officers, 80% of the recoveries officers responded, there was also 66.67% response on the approached credit analysts. In total out of 32 questionnaires distributed 28 questionnaires, representing 87.5%, were responded and 4 questionnaires, representing 12.5%, were not returned, failure was attributed to time and commitments on the part of the respondents.

Nevertheless responses obtained reflect a fair representation (87.5%) of BancABC's employees' views. This response rate is satisfactory for conclusions to be drawn.

Interviews

Interviews involved individual oral questioning of respondents by researcher. Two bank managers were interviewed. Table 4.1 shows questionnaire and interview response rates.

DEMOGRAPHICS OF RESPONDENTS

Table 4.2: Gender of respondents

Gender	Number	Percentage
Male	20	71
Females	8	29
Total	**28**	**100**

Table 4.2 shows that the sex of the respondent who managed to return the questionnaires which were distributed to them. 28 questionnaires representing 87.5% were returned and 4 were not returned representing 12.5%. Out of the 28 questionnaires that were returned, 20 of them, with a percentage of 71% were responded by males and 8 with a weight of 29% were females.

Profile of respondents

Table 4.3: Positions of respondents

Position	Number	Percentage
Loan officer	16	57
Credit Analyst	8	29
Recoveries Officer	4	14
Total	**28**	**100**

Out of the 28 respondents who took part in the research, 16 were loan officers, with a percentage of 57% whilst 8 out of 28 were credit analysts, representing 29%. 4 out of the 28 respondents, representing 14% held the position of recoveries officer.

The positions held by the respondents are relevant enough for them to be highly knowledgeable and effective of the questions outlined on the questionnaires.

Respondents' experience in the credit department

Table 4.4: credit experience of respondents

Credit experience	Number	Percentage
Less than 1 year	4	14
1-2 years	8	29
3-4 years	6	21
5 years and above	10	36
Total	28	100

Table 4.4 shows that 4 respondents out of the total of 28 respondents have less than 1 year experience in the credit department, these are usually students on internship. 8 respondents out of 28 respondents have between 1 and 2 years experience in the credit section whilst 6 respondents of the total of 28 respondents have between 3 and 4 years experience. Out of the 28 respondents, 10 respondents have 5 years and above in the credit department of BancABC.

The bulk of respondents who took part in the research have more than 5 years experience in the credit section of the bank. Their experience is a reflection that the sample is a satisfactorily knowledgeable of the issues questioned in the questionnaires.

4.2: Presentation and analysis of data from questionnaires and interview responses

Question 4: The NPLs have not had a negative effect on the bank's operating profit.
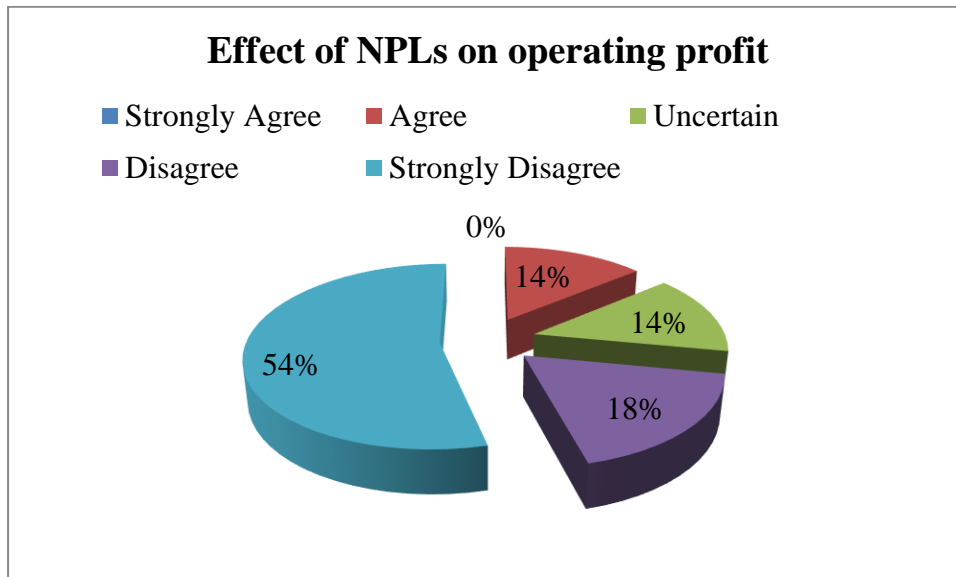
Figure 4.1: Effect of NPLs on operating profit

Figure 4.1 depicts that out of the 28 respondents none strongly agreed that NPLs have not had a negative effect on the bank's operating profit whilst 4 respondents, representing 14% of the 28 agreed that NPLs have a negative effect on BancABC's operating profit. Out of the 28 respondents, 4 respondents representing 14% were uncertain of whether NPLs had any negative effect on the bank's operating profit or not. These were mainly those who have not yet amassed experience in the credit department.

The graph shows that 5 respondents with 18% representation disagreed that NPLs do not have a negative effect on the bank's profit whilst 15 respondents with representation of 54% strongly disagreed. Most of those who disagreed were the senior staff that has been in the department for years.

The analysis of figure 4.1 shows that NPLs have a negative effect on the bank's operating profit as the bulk (72%) of the respondents disagreed that NPLs do not have a negative effect on BancABC's operating profit. These findings are in line with Masoom (2013:54) who noted that NPLs negatively affect the bank's operating profit.

Question 5: NPLs have not had a negative effect on the bank's loanable funds
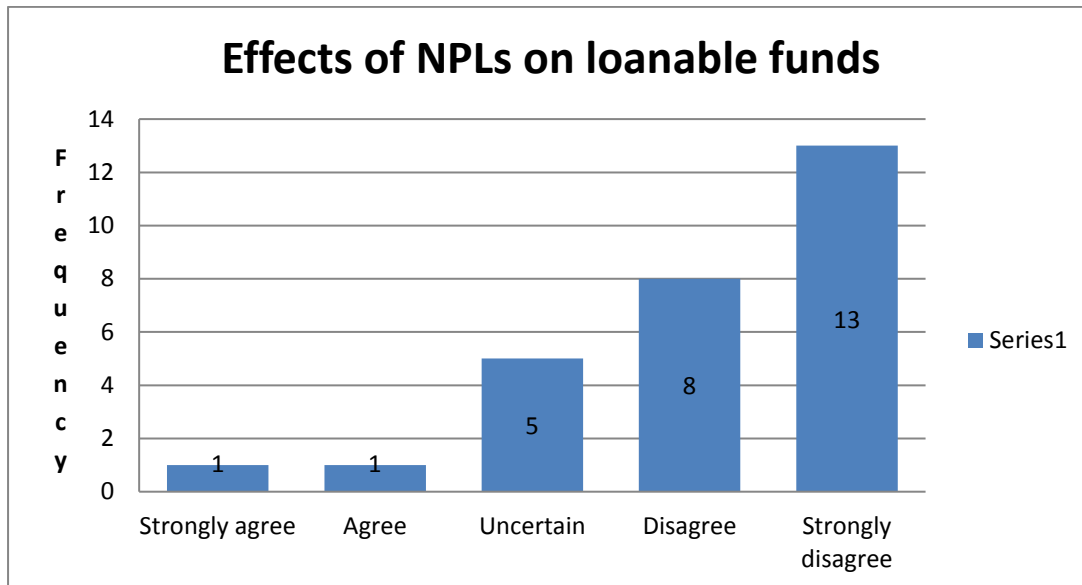
Figure 4.2: Effect of NPLs on loanable funds

Figure 4.2 below shows the responses of respondents on whether or not NPLs have not had a negative effect on BancABC's loanable funds. 1 respondent out of 28 respondents strongly agreed that NPLs have not had a negative effect on the bank's loanable funds while 1 respondent of the total respondents also agreed on it.

Out of the 28 respondents 5 respondents were uncertain if NPLs had not had a negative effect on loanable funds or not. The graph shows that8 respondents disagreed and 13 respondents strongly disagreed that NPLs have not had a negative effect on the bank's loanable funds.

In conclusion, it may be noted that NPLs have had a negative effect on the bank's loanable funds. This has been shown by a total of 21 respondents who have disagreed that NPLs do not have a negative effect on loanable funds against 2 respondents who agree to this. The statistics were in harmony with the remarks of Masoom (2013:55) who noted that NPLs have the effect of depleting the bank's liquidity and diminishing its loanable funds.

Question 6: BancABC's interest rates

Table 4.5: Employee's view of the bank's interest rates

Opinion	Number	Percentage
Too high	5	18
High	11	39
Fair	8	29
Low	4	14
Too low	0	0
Total	**28**	**100**

Table 4.5 presents the different views that were noted regards the interest rates of BancABC. Out of the 28 respondents that returned the questionnaires 5 respondents representing 18% were of the opinion that the rates of lending at BancABC are too high whilst 11 respondents representing 39% noted that the interest rate is high. The number of respondents who thought that the interest rates at the bank were fair was 8 representing 29%. A paltry 4 respondents out of 28 respondents representing 14% noted that the interest rates were low and none of the respondents thought the interest were too low. Masoon (2013:56) was of the opinion that high interest rates have the effect of demoralising clients to pay back their loans.

In conclusion the majority of the respondents were of the view that the bank's interest rates were high.

Question 7: An increase in NPLs increases interest rates

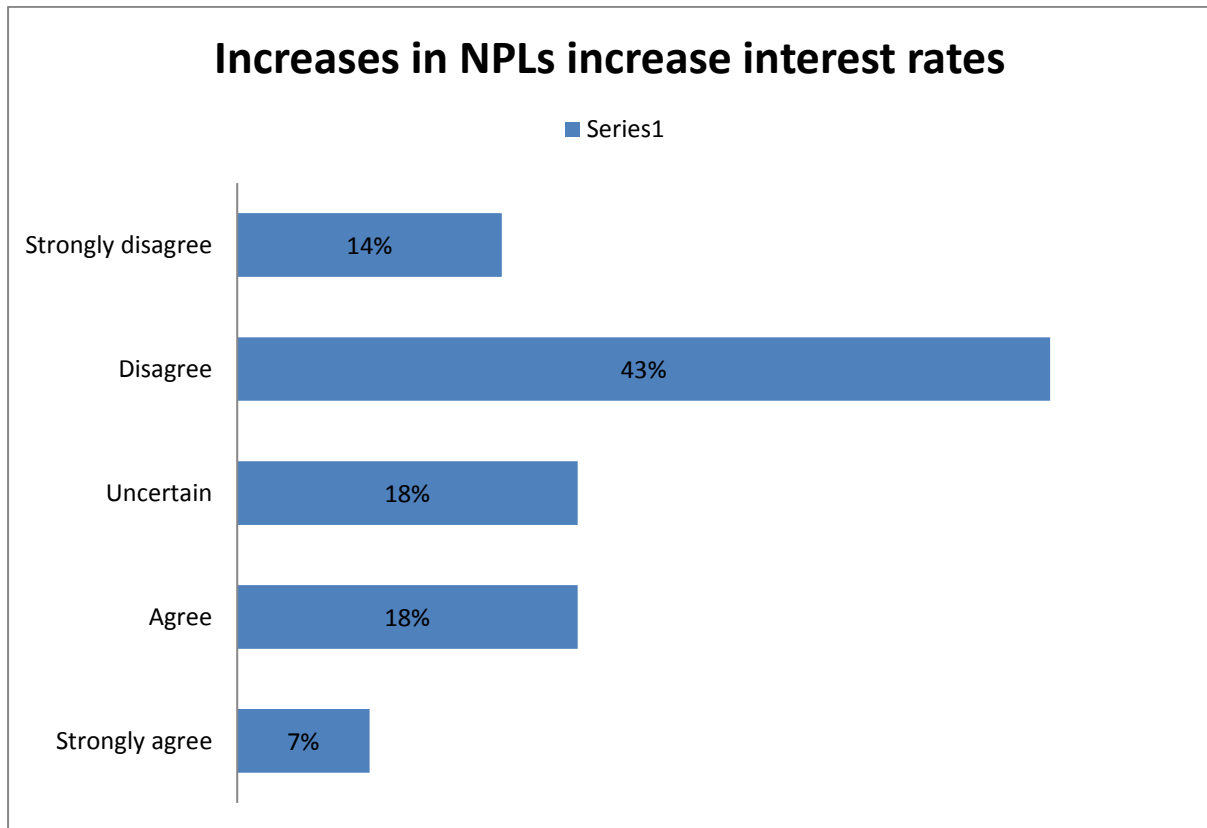**Figure 4.3: Increases in NPLs increases the interest rates**

Figure 4.3 is a graphical presentation of whether or not increases in NPLs result in the interest rates increasing as well. The graph shows that 7% of the respondents strongly agreed to this point whilst 18% also agreed that an increase in NPLs would in turn lead to an increase in the cost of lending.

A total of 18% of the respondents were uncertain whether or not increases in NPLs would cause interest rates to be reviewed upwards. Out of the respondents who took part, 43% of the respondents disagreed that it was automatic for increases in NPLs to increase interest rates whilst 14% strongly objected to this point.

Conclusively it can be drawn that it is not always the case that increases in NPLs result in increases in the interest rates at BancABC. According to the statistics presented above a total of 57% did not subscribe to this fact whereas 25% noted that increases in NPLs resulted in rises in the interest rates. Jimenez and Saurina (2013:89) that most banks usually try to mitigate the effects of NPLs by increasing the costs but this in most cases usually result in more and more NPLs.

Question 8: What are the main factors that lead to the rate of NPLs?

Figure 4.4: Causes of NPLs
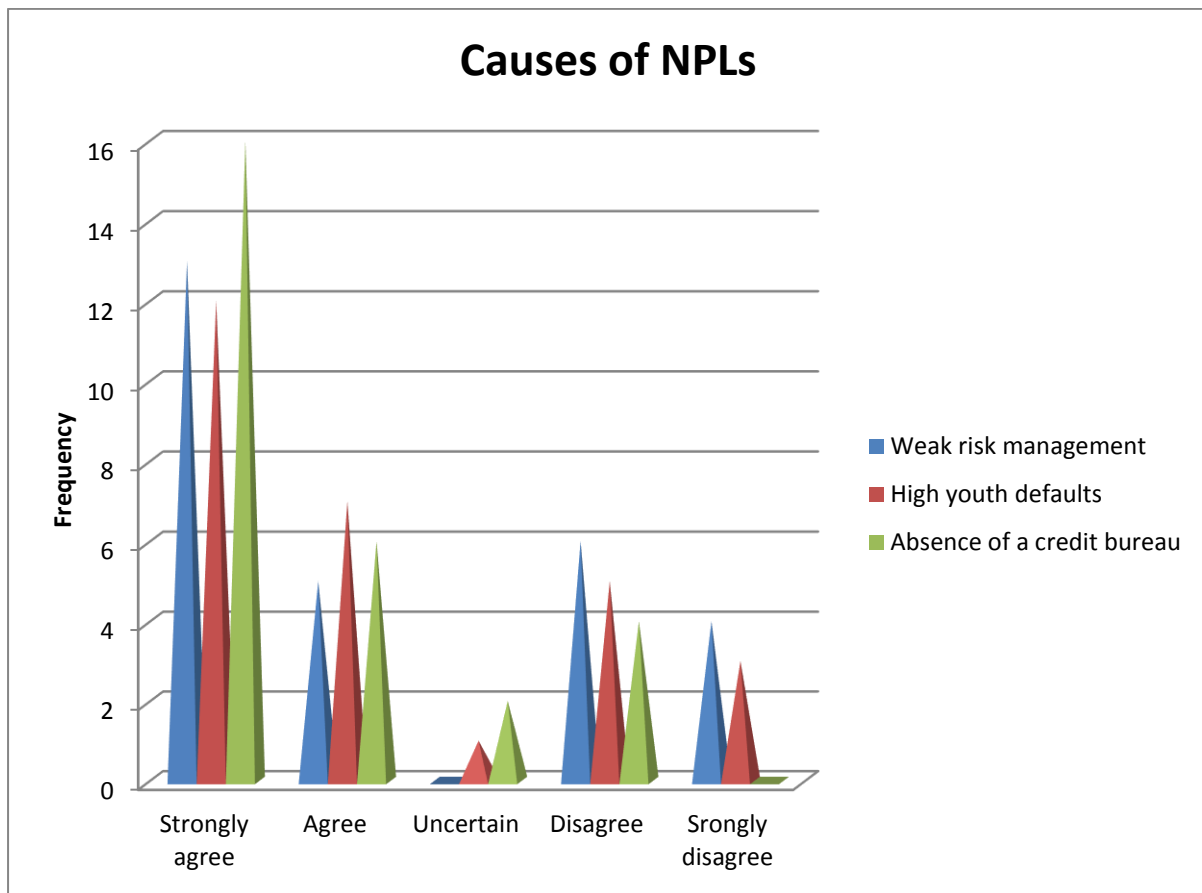
Figure 4.4 depicts the various causes of NPLs at BancABC, the following is an analysis of the statistics that have been presented and the various conclusions that can be drawn from them.

a) Weak risk management

The graph above shows that 13 respondents out of the 28 representing 47% strongly agree that weak risk management at BancABC is a cause of NPLs whilst 5 respondents representing 18% agree to this. None of the respondents is uncertain and 6 respondents with a representation of 21% disagree that weak risk management is the cause of NPLs at the bank. 4 respondents out of 28 respondents representing 14% strongly disagree that the weak risk management at BancABC are being reflected by the NPLs.

A conclusion that weak risk management are a cause of NPLs at BancABC can be drawn since a total of 18 respondents representing 64% subject to this against 10 respondent representing 36% of the respondents who object to it. Pustejovsky (2012:35) noted that the bank needs to devote most of their attention towards risk management in order to fully realise the benefits of lending.

b) High youth defaults

The graph above shows that 12 respondents out of the 28 respondents representing 43% strongly agreed that high youth defaults are a cause of NPLs at the institution whilst 7 respondents representing 25% of the total also agreed to high youth defaults by youths as a cause to NPLs. 1 respondent out of 28 respondents representing 4% was uncertain and 5 respondents representing 18% disagreed that the high default by youths were a the reason behind the rate of NPLs at the bank. 3 respondents out of the total of 28 respondents representing 11% strongly disagreed that NPLs were being caused by high youth defaults at BancABC.

At the end of the day, it maybe concluded that high youth defaults are a cause of the rate of NPLs at BancABC. According to Norris (2013:67) youth need to be educated on the importance of paying back loans and the related consequences of not doing so. This is derived from the statistics which show that a bulk of respondents, 19 representing 68% have agreed against 8 respondents representing 29% who object.

c) Absence of a credit bureau

Figure 4.5 shows that out of 28 respondents who took part on the survey, 16 respondents representing 57% strongly agreed that the absence of a credit bureau was a cause to the rate of NPLs at BancABC. 6 respondents representing 21% also agreed that the absence of a bureau contributed immensely towards the rise of NPLs at the bank. 2 respondents out of a total of 28 respondents representing 7% were uncertain of whether the absence of a credit bureau was also a cause of NPLs at the bank. 4 respondents representing 14% disagreed that the rate of NPLs at BancABC was caused by the absence of a credit bureau. None of the respondents strongly disagreed to this.

In conclusion, the absence of a credit bureau maybe be said to be a major cause of NPLs as highlighted by the statistics of responses presented on figure 4.5 which shows that a total of 22 respondents representing 79% subject to this point against 4 respondents representing 14% who were against it. Lavelle (2013:104) notes that the absence of a credit bureau promotes NPLs as borrowers have the unethical opportunity of borrowing from many banks without them noticing.

Question 9: Is there any monitoring after funds have been disbursed?

Table 4.6: Monitoring after issuing of funds

	Frequency	Percentage
Yes	8	29
No	20	71
Total	28	100

Table 4.6 represents the responses of 28 respondents from BancABC on whether there are any follow ups that the bank devotes to as means of monitoring borrowers after funds have been credited to their accounts.

As presented above 8 respondents out of the total of 28 respondents who took part agreed that there is monitoring that the bank devotes to after the disbursement of funds whilst 8 respondents disagreed to this.

In conclusion, the bank is seen not to be adequately involved in the monitoring phase as table 4.6 shows that 20 out of 28 respondents noted that there was no monitoring against 8 respondents who noted that there was adequate follow ups. According to Neil (2012:89) loan management goes beyond disbursement of funds as it also includes monitoring the borrower after funds have been credited.

Question 10: The bank constantly holds stakeholders' meetings to hear borrowers' pleas

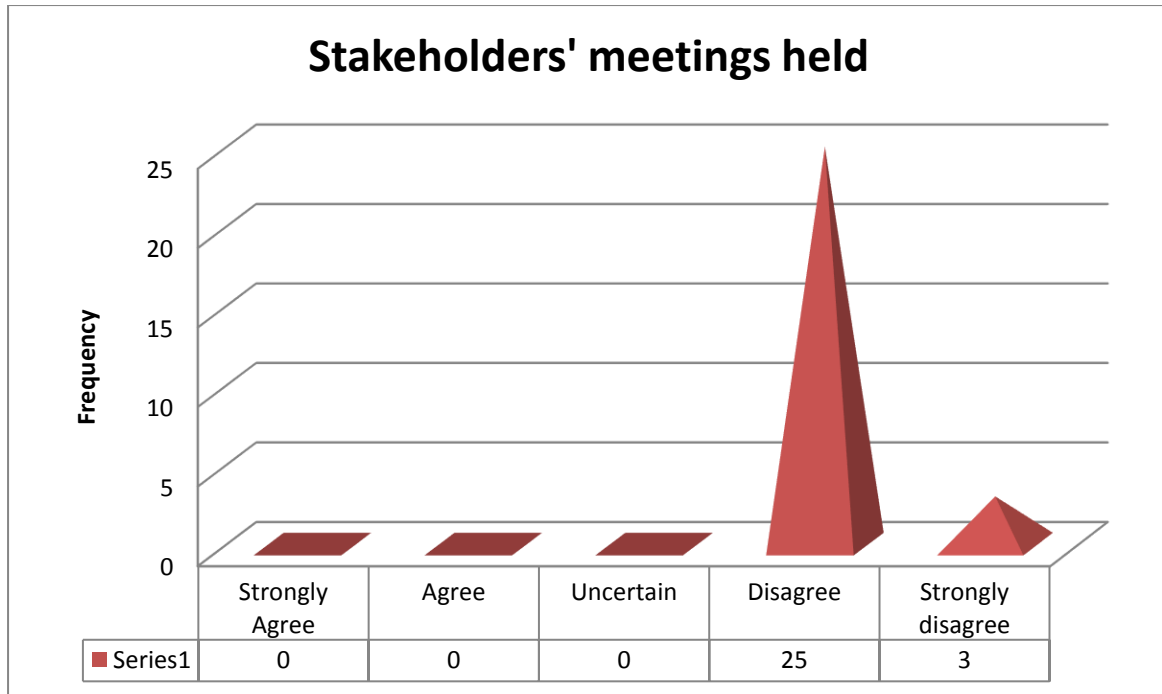**Figure 4.5: Stakeholders' meetings held at the bank**

Figure 4.5 is a graphical presentation of the findings that were made on whether BancABC holds stakeholders' meetings with its stakeholders so as to bridge the communication gap which may be viewed as a cause to the rising NPLs.

25 respondents out of the 28 respondents representing 89% disagreed to the fact that the bank holds any meetings with stakeholders, borrowers included. A further 3 respondents of the 28 respondents representing 11% strongly disagreed to this. None of the respondents agreed that any stakeholders' meetings were being held and neither respondent was uncertain nor strongly agreed to it too.

From the results on figure 4.5, a conclusion can be drawn that BancABC does not engage its stakeholders by way of holding meetings with them. There was an overwhelming response to this effect as 28 respondents representing 100% all disagreed that no such meetings were being held by the institution. Benton (2011:78) notes the importance of communication between the bank and its clients towards reducing NPLs as they also do not feel alienated in this way.

Question 11: Which sector has the highest NPLs?
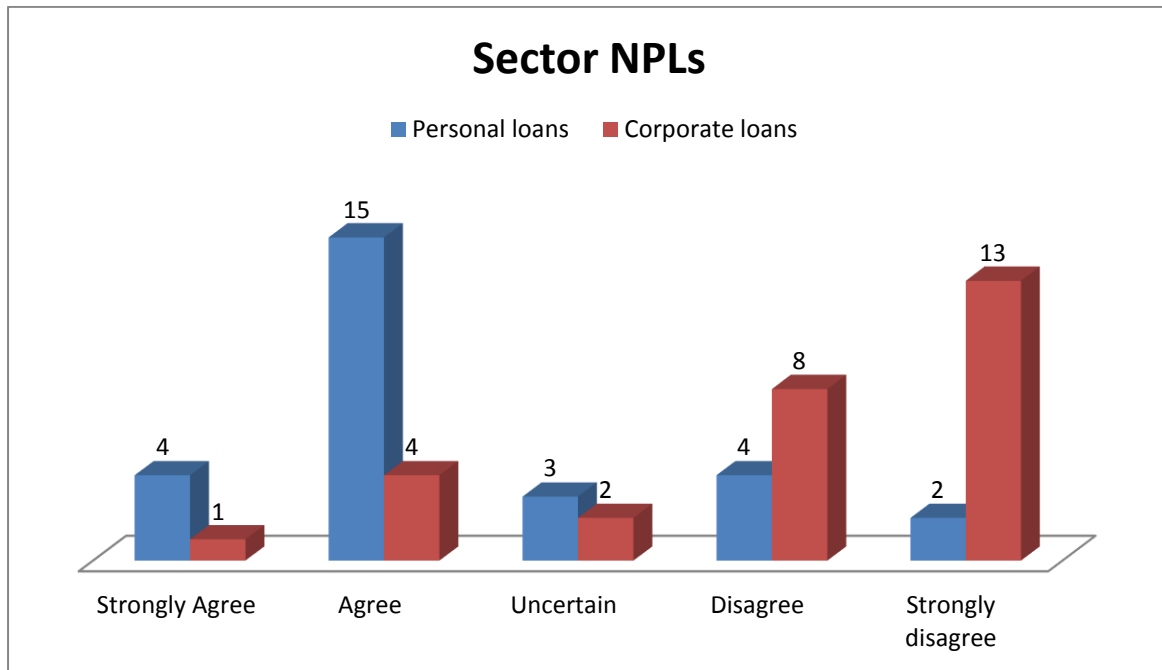
Figure 4.6: Sector NPLs

Figure 4.6 depicts the various responses that were obtained on which sector contributed the highest NPLs at BancABC, following is an analysis of the findings.

a) Personal loans

The graph shows that 4 respondents out of a total of 28 representing 14% strongly agreed that personal loans contributed the highest number of NPLs at the bank whilst 15 respondents representing 54% agreed to this as a fact. A further 3 respondents representing 11% were uncertain as to whether personal loans had the highest NPLs or not whilst 4 respondents out of 28 respondents representing 14% disagreed to this and 2 respondents representing 7% strongly disagreed that it was the bank's personal loans that contributed the highest number of NPLs.

From the above presentation it may be concluded that personal loans indeed contribute the highest number of NPLs at BancABC since out of 28 respondents that took part, 19 respondents representing 68% subjected to this fact against 6 respondents representing 21% who disagreed. Mayor (2011:79) noted the higher risk involved in issuing personal loans as compared to issuing corporate loans.s

Question 12: Are the determinants of NPLs known?

Figure 4.7: Determinants of NPLs known or not
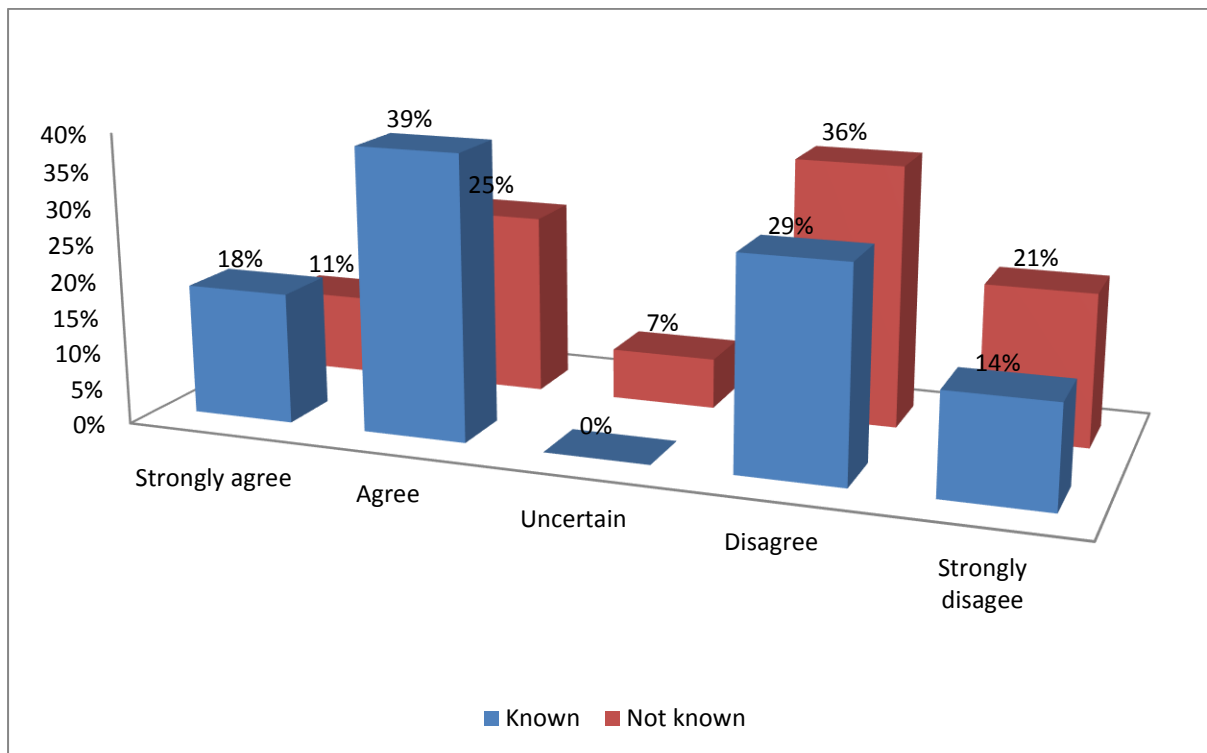
Figure 4.7 is a graphical presentation of responses by respondents on whether the NPLs being experienced at BancABC are known or not known.

a) Determinants of NPLs are known

The graph above shows that 18% strongly agreed that determinants behind NPLs at the bank were known whilst 39% of the respondents agreed to this as well. None of the respondents was uncertain on the issue, 29% of the total respondents disagreed that the determinants of NPLs were known and 14% of the respondents strongly disagreed to the fact that the determinants which were causing NPLs were known.

Conclusively, the bulk of respondents pointed at the fact that NPLs are being caused by known factors as 57% of the respondents subjected to this as a fact as opposed to 43% who objected to this. These findings were in harmony with those of Todd (2009:103) who noted that banks are usually haunted by known factors in most cases.

Question 13: BancABC is selective on whether to issue loans to individuals or corporate

Figure 4.8: Response on whether the bank is selective o not
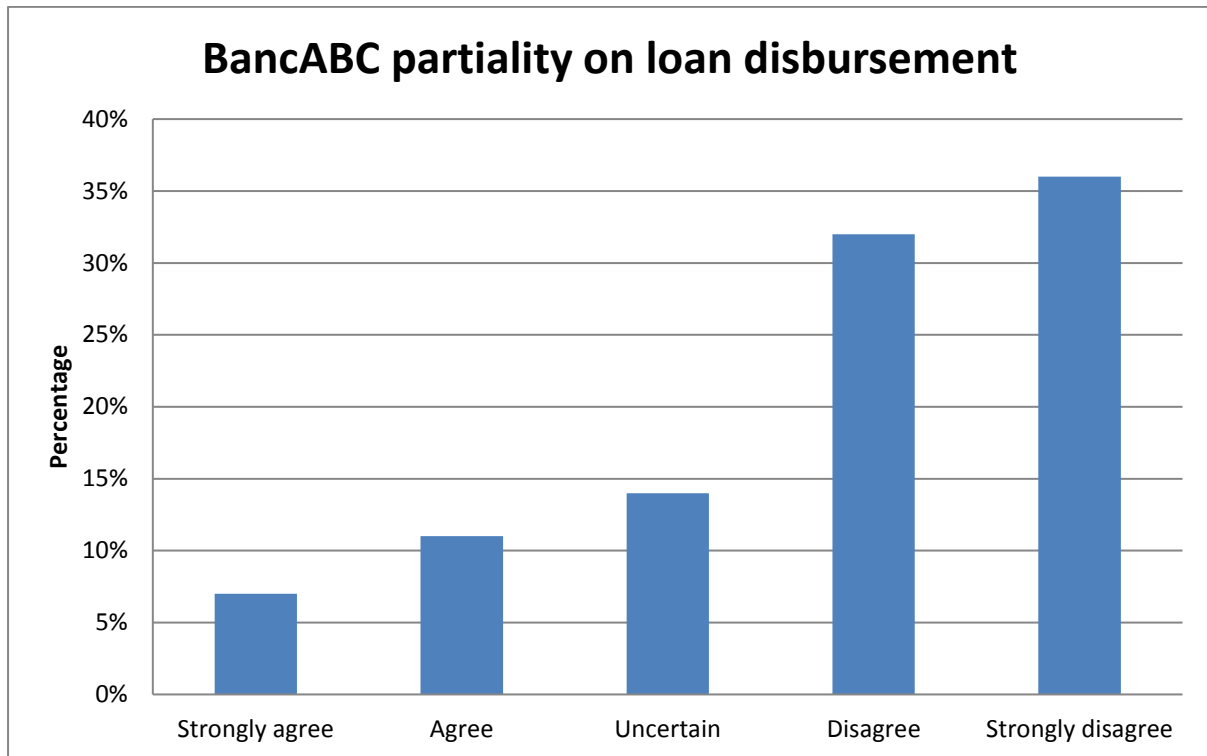
Figure 4.8 is a depiction of the responses that were obtained from the respondents on the question of whether or not BancABC is selective on whether to issue out loans to individuals or corporates.

Figure 4.8 shows that 7% of the respondents strongly agreed that there was selective application when it came to deciding on whether to issue loans to individuals or corporates whilst 11% agreed to this as a fact. A further 14% of the respondents were uncertain on the subject and 32% of the respondents did not agree that the bank used any form of selection when it came to making a decision on whether to issue personal loans or corporate loans. Out of the total respondents, 36% strongly disagreed that they were selective in issuing loans to individuals or corporate bodies.

The analysis of the data on figure 4.8 brings a conclusion that there is no selection at BancABC when it comes to the issue of disbursing funds to individuals or corporate as 18% of the respondents subjected to the fact that the bank had some form of selection when it

came to issuing funds between individuals and corporate against the majority of 68% who objected to any sort of selection being applied by BancABC.

Question 14: Credit applications are being adequately assessed.

Figure 4.9: Credit application assessment
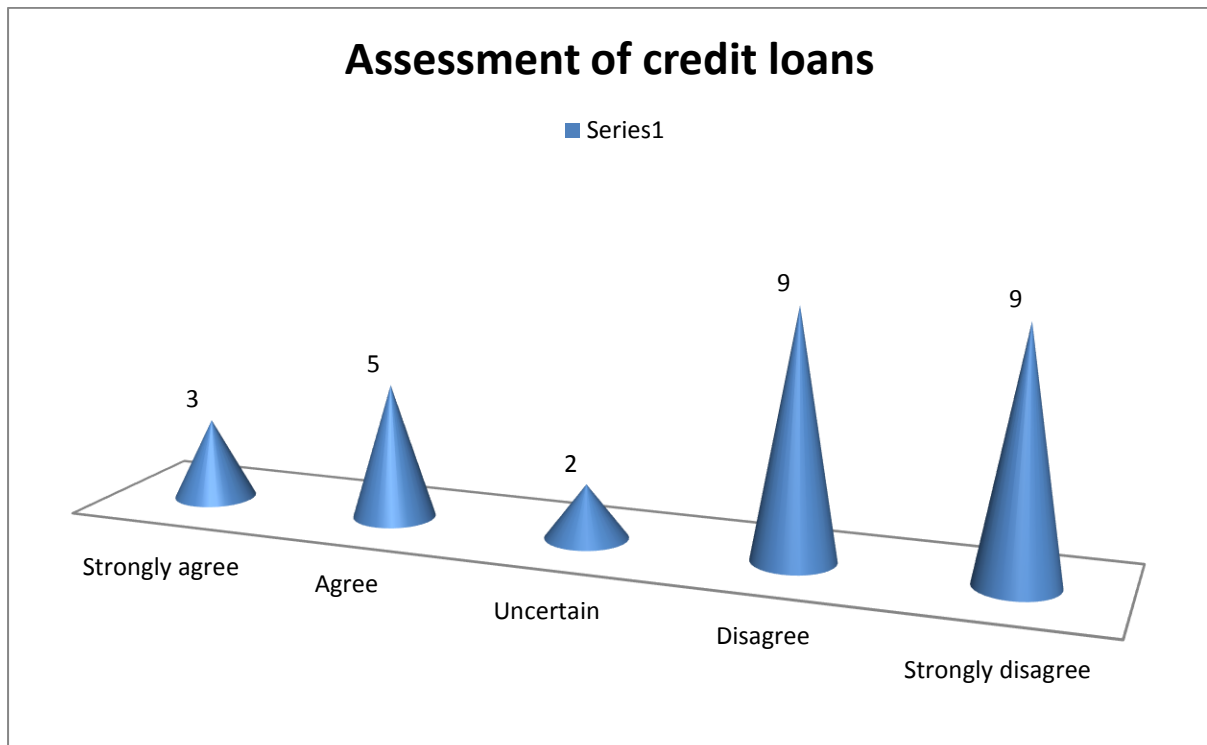
Figure 4.9 represents the statistics that were obtained as regards to whether BancABC adequately assesses its loan applications to verify on capacity of the borrower before disbursement of funds is made.

The above graph shows that 3 respondents out of 28 respondents representing 11% strongly agreed that the bank is adequately assessing credit applications whilst 5 respondents representing 18% also agreed to this. Out of 28 respondents, 2 respondents representing 7% were uncertain on whether or not the bank was adequately assessing its applications to curb on NPLs.

A further 9 respondents out of 28 respondents representing 32% disagreed as they did not subscribe to the fact that BancABC was adequately assessing the credit applications that were

made before concluding applicants to be credit worthy and 9 respondents out the 28 again representing 32% of the total also strongly disagreed to this.

In conclusion, BancABC may be said not to be adequately assessing its loan applications as a total of 18 respondents representing 64% of the total disagreed to the belief that credit applications were undergoing adequate assessment against 7 respondents representing 25% who were of the opinion that the enough assessment was being done. Benton (2011:99) concluded that the bank is supposed to use a known criterion when assessing loan applications of their credit worthiness.

Question 15: The bank has adequate policies and procedures in place to reduce NPLS

Figure 4.10: Policies and procedures in place at BancABC
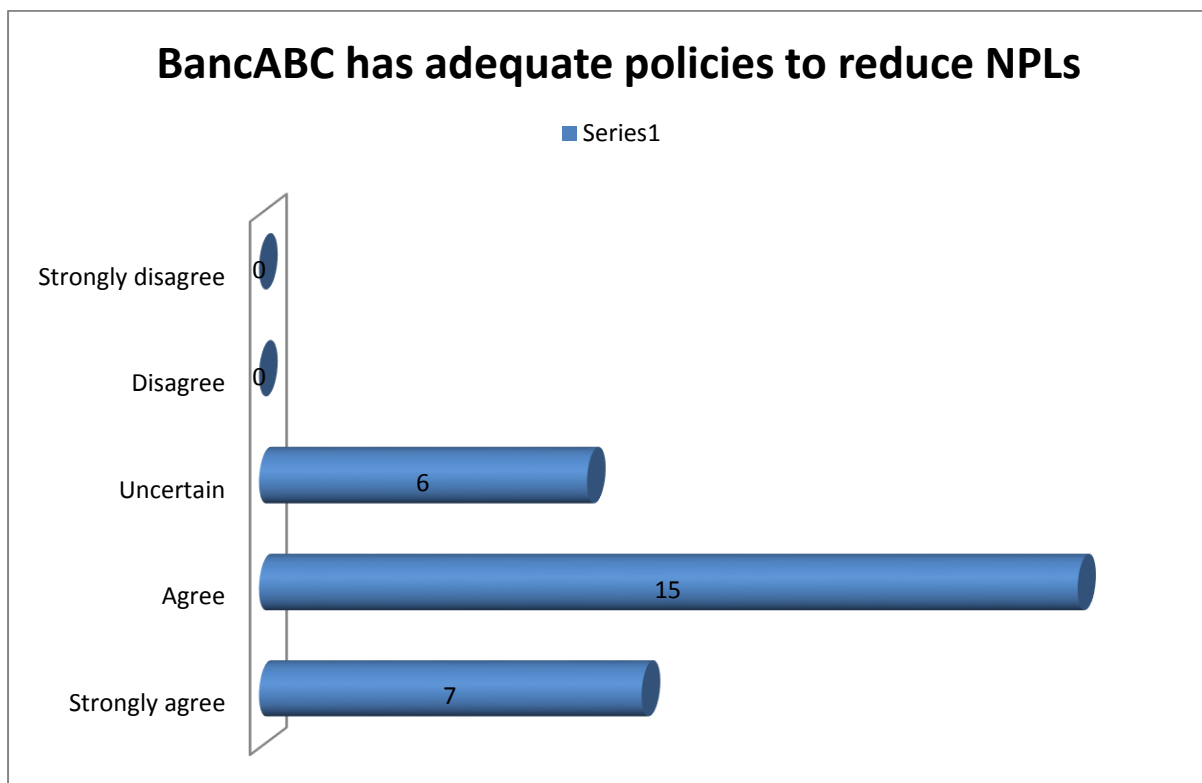
Figure 4.10 is a presentation of the statistics that were obtained in the field research on whether there were adequate policies and procedures in place to reduce NPLs at BancABC.

Figure 4.10 above shows that 6 respondents out of 28 were uncertain on whether the policies in place were adequate to reduce the rate of NPLs. A total of 15 respondents out of 28 who managed to take part agreed that there were adequate policies and procedures in place whilst 7 respondents strongly agreed to this and endorsed it as a fact. None of the respondents neither disagreed nor strongly disagreed that the policies and procedure in place were adequate.

Conclusively, the analysis of figure 4.10 entails that the policies in place at BancABC are adequate to reduce NPLs as a total of 22 respondents out of the total of 28 respondents were all in agreement that the policies were adequate and in place against none who objected to this fact. Saunders (2009:107) noted that management should not only formulate strategies but also go a step further to ensure that implementation is enforced within the organisation.

Question 16: What should be done to curb NPLs?

Figure 4.11: Strategies of curbing NPLs

Figure 4.11 is a presentation of the suggested strategies that may best suit the needs of BancABC and how the respondents perceive these strategies.
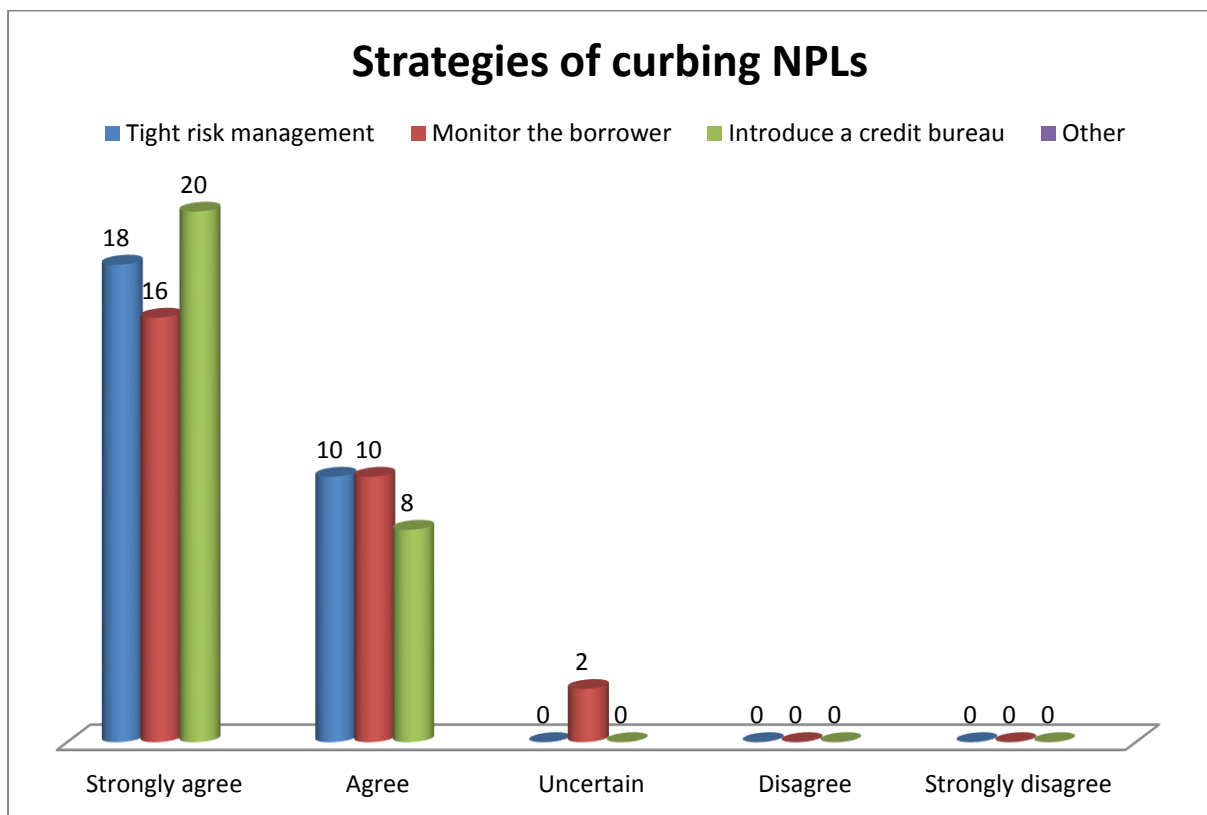
a) Tight risk management

The graph above depicts that 18 respondents representing 64% strongly agreed that tight risk management was an ideal tool to curb NPLs at BancABC whilst 10 respondents out of a total of 28 representing 36% also agreed to this as an ideal strategy. None of the 28 respondents was uncertain whether tight risk management as a policy would curb NPLs and none disagreed this fact neither was there any of the respondents who strongly disagreed.

Conclusively, tight risk management may be viewed as an ideal tool to treat or curb the condition of BancABC NPLs as shown in figure 4.11 where 28 respondents representing a total of 100% were all in agreement to this fact.

b) Monitor the borrower

As shown by figure 4.11, 16 respondents out of 28 respondents representing 57% strongly agreed that monitoring the borrower after they have accessed loan may be used at BancABC to curb NPLs whilst 10 respondents out of a total of 28 representing 36% also agree to having borrowers monitored as a tool of reducing the NPLs. A further 2 respondents out of 28 respondents representing 7% were uncertain of whether or not monitoring borrowers would work in the reduction of NPLs if adopted. None of the 28 respondents objected to monitoring borrowers as an ideal strategy to help the situation of the high NPLs.

In conclusion, the bulk of responses point towards monitoring borrowers as a strategy that may help the situation of NPLs at BancABC as 26 respondents out of a possible 28 respondents representing 93% are in favour of this as a solution and none object to it.

c) Introduce a credit bureau

Figure 4.11 shows that 20 respondents out of 28 respondents representing 71% strongly agreed that the introduction of a credit bureau would go a long way in curbing the level of NPLs at BancABC whilst 8 respondents representing 29% also agree to the introduction of a credit bureau as a solution.

None of the respondents were uncertain on the subject, none also objected to the introduction of a bureau as a solution of curbing NPLs at the bank.

The statistics presented on figure 4.11 draw a conclusion that a credit bureau may be considered as a solution to the problem of NPLs that BancABC is currently facing. A total of 28 respondents representing 100% all agreed that NPLs may be reduced by the introduction of a credit bureau against no objection.

4.2 INTERVIEW ANALYSIS

Interviews were conducted with two managers and the response rate was a 100% as the researcher had targeted two people and managed to interview them all.

Question 1: What effect do NPLs have on the bank's operating profit, interest income and loanable funds?

Both respondents noted that NPLs were adversely affecting the bank's profits, interest income and loanable funds. This sentiments were in line with the findings of Masoom (2013:54) who noted that interest income, profits and loanable funds were all interrelated. The respondents were of the opinion that increases in NPLs led to a nose-dive in interest income which was coming from the loans, this ultimately led to a decline in operating profit of the bank. Loanable funds were also declining because since they could only be increased by the bank realising profits from the loans. This relationship is further cemented by the findings that were made by Walstard (2009:177) who emphasised that profit is a function of interest income.

Question 2: What are the causes of the ever rising rates in NPLs?

Respondent 1 stressed the point that despite the fact that they as management had put in place a number of control measures to curb on NPLs it was on the implementation where they seemed to be not to be getting it right. This was in harmony with the findings of Frank (2009:108) who noted that there was need for management to find effective ways of communicating procedures to the ground as it is in the lower levels were all the activity takes place. Respondent 2 noted that the unfavourable economic conditions which are affecting most people are causing NPLs to be on the increase. He further emphasised that most people who would have accessed loans maybe laid off at work leading to problems when it comes to

servicing the loans. This was supported by Masoom (2013:67) who noted that NPLs could be over by creating employment for citizens not to solely depend on credit.

Question 3: Which sector have you observed to account for the most NPLs?

The respondents both highlighted that the bank was facing most challenges when it comes to personal loans. Individuals who would have defaulted on their payment would change their address thus making it difficult to contact them. They attributed this to the fact that, unlike individuals, corporate bodies had a reputation or good image to protect thus they had a few corporate NPLs in their books. Norris (2013:45) noted that corporate bodies were less risky as compared to individuals as it was almost certain that the loan would be fully serviced.

Question 4: What information do you consider in satisfying yourselves that an individual is credit worthy?

Respondents mentioned that they have a system which calculates the credit rating of applicants when they feed information to it. The system combines everything that that would have been fed into it before giving a credit rating that is used to assess credit worthiness. A pre-requisite of accessing loans at BancABC is to have received one's salary through the bank for at least three consecutive months. Age, marital status, employment status, nationality and reason for applying for credit are some of the information that the respondents said they look for. This information has to be in line with the amount being applied for otherwise the credit worthiness of the applicant is compromised. Benton (2011:97) supports this idea when he states that banks have to come up with clear criteria for crediting individuals with funds.

Question 5: What strategies have you put in place to reduce NPLs?

Respondent 1 noted the fact that in the ever evolving world where almost is becoming computerised and programmed, they too had to upgrade their processes in order to make them effective and more efficient. The major development that the respondent went on to highlight the fact that they had come up with a system that calculates the credit rating of applicants without using any sort of subjective judgement. This has eliminated the risk of unworthy individuals accessing credit through unethical means. Fried (2009:76) in his writings stated that the banking sector has to keep pace with the worlds' expectation so as to maintain the convenience of clients. Respondent 2 said they have since tightened their

verification requirements before funds are credited. Proof of residence is now a requirement and bank personnel now makes a visit to the stated address to actually verify the collateral that would be stated on the application. The verification team goes on to call the person listed as next of kin of the individual in order to satisfy themselves of the worthiness if individuals.

4.3   SECONDARY DATA

The Sunday Mail (8 January 2014) read "BancABC earnings to fall as NPLs rise on sluggish economy. According to the Financial Gazette (11 Jan 2013), "the Non Performing Loans at BancABC are on the increase because of the liquidity crunch which is adversely affecting the economy as a whole.

BancABC's financial statements for the year ended 2013 stated that the NPLs had increased from 10.9% to 15.92%. The increase was attributed to the thriving economy and the rising unemployment rates in the economy. The interest rates had been maintained during the whole year but the rise in NPLs was as a result of a generally increased appetite for credit amongst the general populace.

In an internal handbook, the manager's assessment, the rise in NPLs at BancABC are said to be the shuffling of personnel within the bank. This has been singled out as the new faces need time to settle in their new positions which may involve making mistakes of disbursing funds to unworthy individuals who default in future thereby increasing NPLs.

The New Zimbabwe (5 August 2014) read "BancABC admits to Non Performing Loans." This has had a negative effect on the loanable funds as there has been a notable low activity in lending. The more the NPLs a bank has, the poorer its liquidity position becomes. In other words banks may be worsening their situation by offering unworthy individuals of credit as their liquidity will be compromised.

4.4   SUMMARY

The chapter covered presentation and analysis of the research findings. Data presentation and analysis were done through the use of tables, pie charts, graphs and descriptive summaries. The writer is of the opinion that data provided in this chapter is congruent with the literature

covered in chapter two will lead to practical recommendations that can help in the reduction of NPLs at BancABC. Chapter five covers summary of chapters, findings, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0   Introduction

This chapter summarises the entire research project. It looks at the summary of chapters, the major research findings, and conclusions from the findings obtained from presented and analysed data in the previous chapter, recommendations were given and suggested areas for further research.

5.1   Executive summary

Chapter One highlighted that there was an ever rising trend in the NPLs at BancABC. In 2012 NPLs were 10.9% and increased to 15.92 in 2013. The main research question is the effects of NPLs on commercial banks in Zimbabwe: a case of BancABC. The objectives of the study were to determine the effect of NPLs on interest income, operating profit and loanable funds, to identify the factors accounting for the incidence of NPLs at BancABC, to identify the sector with the highest incidence of NPLs and to recommend strategies that effectively address the problem of NPLs at Banc ABC. The study covers a period between 2010 and 2013 and it bases on the Zimbabwean data.

In Chapter Two, the researcher examined literature on the effects of NPLs on commercial banks in Zimbabwe. The chapter outlined and made an evaluation of what other authors had to say about the effects of NPLs and how they may be reduced or controlled to acceptable levels. Masoom, Jaminez and Saurina were some of the prominent authors who were consulted in literature review.

Chapter Three covered the research methodology. This research was a descriptive focusing on the effects of NPLs at BancABC. The sample of the research was selected from BancABC employees. In an effort to solicit information for the research, the researcher employed questionnaires, conducted selected interviews. Also secondary data was used as the researcher used newspapers and BancABC publications. A sample size of thirty two was used for questionnaires whilst two BancABC managers were interviewed.

In chapter Four, the research findings from chapter three are presented and analyzed and backed with writings of other scholars. The questionnaires were 87.5% successful, whilst the interviews were wholly subscribed with100% success rate. The findings are presented question by question under the broad headings in the sub research questions. Data was presented in tables, graphs and some on pie charts. Also, the chapter findings on the secondary data are revealed.

5.2   Major research findings

The research findings confirmed that NPLs are indeed a major problem at BancABC and that they are continuously on the increase. The research aimed to determine the impact of NPLs on interest income, operating profit and loanable funds. It was noted that these NPLs are negatively affecting the bank's operating profit, interest income and also reducing its loanable funds and that the bank's profits, interest income and loanable funds are all dependant on the performance of the bank's running loans. Another objective of the research was to identify the factors accounting for the incidence of NPLs. Poor risk management portfolio was generally blamed for the increase in NPLs at the bank. The slack verification and improper implementation of policy on the part of the risk management team had haunt the bank. The bank is now facing serious problems of NPLs which can be prevented at source if proper channels of verification and risk management could be implemented. The findings also noted that youths were contributing most NPLs at BancABC. This was a result of the improper monitoring on the part of the bank after funds had been disbursed. The absence of a credit bureau was also found to be a major cause of NPLs as this allowed the borrower to borrow from as many banks as they wish. This would lead to them accessing more than they can service leading to NPLs. Regardless of the fact that this borrowing trend is unethical, it is happening on the ground and BancABC needs to be wary of such borrowers. The study also had the objective of identifying the sectors with the highest incidence of NPLs. NPLs at BancABC have been generally attributed to personal loans over the corporate. It was also found that, although there are higher returns in issuing personal loans to issuing corporate loans, the risk associated with them was vast. Personal loans were found to have the highest number of NPLs at BancABC as compared to corporate loans.

An objective to recommend strategies that effectively address the problem of NPLs at BancABC was an underlying objective of the study. Tight risk management procedures were found to be a major solution in an effort to curb NPLs. These had to be implemented right from the verification of credit applications through the monitoring after disbursement to the point when the borrower makes the final instalment to the bank. A national management corporation was also seen as a way out of the problem of NPLs. This would manage all the NPLs and devote all the necessary attention needed to ensure that the bank would not make losses.

5.3   Conclusion

From the research findings it can be concluded that the prevailing situation of NPLs had liquidity and profitability effects on BancABC. The research was a success as it managed to all the research questions to a large extent and achieved its goals. It was discovered that the NPLs were depleting the banks loanable funds. Personal loans were also found to be more risky and contributed the most NPLs at BancABC. Improper implementation of laid down procedure on the part of risk management was also a factor leading to NPLs at the bank. The study was successful as it managed to address the main research question by evaluating the effects of NPLs at BancABC.

5.4   Recommendations

5.4.1   Set up a monitoring board

A monitoring board needs to be set at BancABC which has to be mobile and ensure that it checks on progress being made by clients with the credit they would have accessed from the bank. This is a necessary control measure as the findings noted that most of the borrowers turned to divert funds into other ventures that are not consistent with what they would have agreed with the bank. Mayor (2011:89) also notes that credit loans have to be protected by the bank personnel through constant checks of the bank's investment to ensure its safety. Strict controls have to be put in place to ensure that these clients invest the funds in exactly what they would have agreed with the bank on application. The monitoring team may also give advice to clients where necessary especially the youths who have little exposure and run out of ideas when problems cripple in.

5.4.2 Screening and verification of collateral

There also need to be a physical verification of the collateral being offered by applicant to back up their credit and not only rely on the documents. This check on existence is important as the papers may be for depleted assets which are of no value even if the borrower defaults payment.

5.4.3 Set reasonable interest rates

Interest rates also have to be set in line with the industry average. The finding noted that high interest rates may be cause for the NPLs at the bank as borrowers find it hard to repay the loans they would have accessed. Masoon (2013:109) notes that banks need to consider the prevailing market conditions in coming up with their interest rates because too high a rate would result in increased NPLs.

5.4.4 Maintain a two way communication with clients

The bank also has to meet up with it stakeholders so as to inform them of the new developments so that they feel part of the whole setup. This also provides a platform for them to air their grievances which may be useful for the bank to consider.

5.5 Suggested areas for further research

The researcher proposes further researches to focus on the role that can be played by the Reserve Bank as a tool to overcoming NPLs as it has been noted that most banking sectors in developing countries including Zimbabwe are generally suffering from NPLs. Further research is also suggested on the effect that NPLs have on other macro economic variables and the economy as a whole.

REFERENCES
Books:

Hill K(2010:45) **Basics of Social Research**, Belmont CA Thonson, New York: Wiley

Kumar R (2011) **Research Methodology** (2011), 3rd Edition, London Sage.

Machi S (2009) **Research Methodology**, 3rd Edition, London Sage.

Manoharan P K (2010) **Research Methodology** (2010), APH Publishing; New Delhi

Norris J (2013) **Conducting Educational Research**, 4th Edition, Harcout Brace, San Diego

Saunders M, Lewis P and Thornhill A (2011) **Research Methods for Business** (2011), 5th Edition, Dorling Kindersley India Pvt Ltd

Wong G(2011:204) **Starting Research and Writing a Research Paper**

Journals:

Nomura A (2013) **A study on the effect of interest rate on performance of stock exchange: A case study of Tehran Stock Exchange,** *Management Science Letters 3 1357–1362*

Andrews (2010) **Interest Rate and Economic Performance - A Comparative Study of Developed and Developing Countries, IOSR Journal of Business and Management (IOSR-JBM) Vol 8, 116-121**

Benton (2011) **Financing decisions of listed firms in Ghana, African Journal of Business Management Vol.2 (x), 209-216,**

Braga (2010) **Impact of Flow of FDI on India Capital Market,**

Castillo (2009) **An Empirical Analysis of the Impact of the Nigerian Capital Market on Her Socio-economic Development,** *J Soc Sci, 24(2): 135-142*

Cifter (2009) **Factors Affecting Performance of Stock Market: Evidence from South Asian Countries,** *International Journal of Academic Research in Business and Social Sciences, Vol. 2, No. 9 ISSN: 2222-6990, 1-15*

Creedy (2005) **Stock market liquidity and firm value,** *Journal of Financial Economics 94, 150–169*

Dhiman and Sharma (2013). Market Liquidity: Determinants and Implications *Tijdschrift voor Economie en Management Vol. LII, 2, (2007) 279-316*

Frank (2009) **On the relationship between trading volume and stock price volatility in CASE,** I*nternational Journal of Managerial Finance Vol. 5 No. 1, pp. 110-134 Emerald Group Publishing Limited*

Fried (2009) **Qualitative educational research in Action,** Doing and Reflecting Routledge,

Frost (2010) **The effect of the stock exchange on economic growth: a case of the Zimbabwe stock exchange,** *Research in Business and Economics Journal) 1-17*

Hill (2010) **FDI and Stock Market Development in Selected**

Jimenez and Saurina (2013) **Stock Market Liquidity: A Case Study of Karachi Stock Exchange**, *Pakistan Journal of Commerce and Social Sciences Vol.3, 25-34*

Kadushin (2009 **Liquidity, business cycles, and monetary polic**y. *Princeton University Working Paper*

Kendrick (2009) **Understanding Financial distress among listed firms in Nairobi Stock Exchange: A Quantitative Approach using the Z-Score Multi-Discriminant Financial Analysis Model,** *jkuat.ac.ke.journals 482-497*

Khitinji (2010) **Establishing a Stock Exchange in Emerging Economies: Challenges and Opportunities,** *The Journal of International Management Studies, Volume 3, Number 2, (2008) 62-68*

Koziol and Arthur (2010) **Stock Market Liquidity and the Business Cycle**

Lavelle (2013)**Research methods for Business Practices**

Lawson (2013) **The crash of the nigerian stock market: what went wrong, the consequences and the panacea,** *Developing country studies, vol 2, no.9, 105-118*

Louzis et al, (2011) **Economic decisions in banking**

Masoom (2013) **The impact of share market capitalization on a company's performance: A case study in the Nigerian confectionary industry African Journal of Business Management Vol.3 (5), pp. 220-226**

Mayor (2011) **Stock market performance and economic growth Empirical Evidence from Kenya using Causality Test Approach, Advances in Management & Applied Economics, vol.1, no.3, 2011, 153-196**

Monger (2009) **Stock market development and economic growth: ARDL Causality in Pakistan, International Journal of Finance and Economics, 14: 182 – 195**

Monoharan (2010) **Analysis the Determinants of Market Stock Price Movements:An Empirical Study of Jordanian Commercial Banks, International Journal of Business and Management Vol. 5, No. 10; 137-147**

Neil (2012) **Impact of Flow of FDI & FII on Indian Stock Market, Finance Research Vol1 NO3 (2012) ,4-10**

Peters (2011) **Microstructure Change: Effect on Market Turnover in the Nigerian Stock Market, Journal of African Macroeconomic Review, Vol. 1, No. 1,15-31**

Piepenburg (2009 **Stock market development and economic growth: A comparative study of Pakistan and Bangladesh, African Journal of Business Management, 2985-2989**

Pustejovsky (2012) **Equity Market Performance and its Effect on Economic Growth af a Country- Rwanda Stock Exchange,** *International Journal of Economics, Finance and Management VOL. 2, NO. 3, 261-265*

Richardson (2009) **Financial Stock Market and Economic Growth in Developing Countries: The Case of Douala Stock Exchange in Cameroon, International Journal of Business and Management Vol. 5, No. 5, 82-88**

Santamaria (2011) **The Role of Stock Market Development on Economic Growth in Nigeria: A Time Series Analysis International Multidisciplinary Journal, Ethiopia Vol. 6 (1), Serial No. 24, 51-70**

Simmons (2011) **Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange Journal of Management Research ISSN 1941-899X (2012), Vol. 4, No. 2, 266-289**

Terry (2011) **Financial intermediation and economic development**

Thompson (2009) **Does Algorithmic Trading Improve Liquidity?** *The Journal of Finance, Vol. LXVI, No. 1*

Todd (2009) **Principles of credit in developing economies**

Other Sources:

BancABC handbook, 2013

Concise Oxford English Dictionary, (2001), Oxford University Press

New Zimbabwe, 5 August 2014

Reserve Bank of Zimbabwe, 2013 Monetary Policy Statement

The Sunday Mail, 8 January 2014

Zimbabwe Independent Newspaper, 13 October 2013

Midlands State University

P.O BAG 9055

Gweru

15 September 2014

Dear Sir/ Madam

RE: PERMISSION TO CONDUCT RESEARCH

I am a student at the above mentioned university. In partial fulfilment of the requirements of my Bachelor of Commerce Honours degree in Accounting, I am required to undertake a research project of my choice and my chosen topic is: **"The effect of Non Performing Loans on commercial banks in Zimbabwe: A case of BancABC."**

I kindly ask for your permission to conduct my research in your organization, which I have chosen as my case study because that's where I did my Work Related Learning.

Please be assured that any information or data received will be strictly for general deductive academic purposes and will be utilized solely for this project. Your bank's confidentiality will not be in any way compromised.

A positive response towards the fulfilment of this project will be greatly appreciated.

Sincerely

Manyika Lovemore

R111830R

Midlands State University

P.O BAG 9055

Gweru

15 September 2014

Dear Respondent

I am a student at the above mentioned university. In partial fulfillment of the requirements of my Bachelor of Commerce Honours degree in Accounting, I am required to undertake a research project of my choice and my chosen topic is: **"The effect of Non Performing Loans on commercial banks in Zimbabwe: A case of BancABC."**

I kindly ask for you assistance in completing the attached questionnaire.

Please be assured that any information or data received will be strictly for general deductive academic purposes and will be utilized solely for this project. Your bank's confidentiality will not be in any way compromised.

Your contribution to this research is greatly appreciated.

Sincerely

Manyika Lovemore

R111830R

Instructions on responding to questions

Kindly tick where appropriate and use ticks only in each given box

1. Gender of respondent

   Male ☐   Female ☐

2. Position occupied by respondent

   Loan officer ☐   Credit analyst ☐

   Recoveries Officer ☐

3. How long have you been in the credit department?

   Less than 1 year ☐   1-2 years ☐

   3-4 years ☐   5 years and above ☐

4. Our Non Performing Loans (NPLs) have not had a negative effect on the bank's operating profit.

   Strongly agree ☐   Agree ☐

   Uncertain ☐   Disagree ☐

   Strongly disagree ☐

5. Non Performing Loans (NPLs) have not had a negative effect on your bank's available loanable funds?

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

6. What is your opinion as regards the cost of borrowing (interest rates)?

High ☐   Fair ☐

Low ☐

7. As Non Performing Loans at BancABC increase the interest rates increase as well.

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

8. What are the main factors leading to the rate of NPLs?

Weak risk management ☐   High youth defaults ☐

Absence of credit bureau ☐

9. After funds have been disbursed is there any form of monitoring that occurs?

YES ☐   NO ☐

10. The bank constantly hold stakeholders' meetings so as to hear the borrowers pleas.

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

What areas (sector of the economy) of lending have had the highest default rate?

11. Which sector has the highest NPLs at BancABC?

Personal loans ☐   Corporate loans ☐

12. Are the determinants of NPLs known?

YES ☐   NO ☐

13. BancABC is selective in making decisions whether to issue loans to individuals or corporates.

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

What strategies effectively address the problem of non performing loans?

14. The bank is adequately assessing credit applications.

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

15. The bank has adequate policies or procedures in place to reduce NPLs.

Strongly agree ☐   Agree ☐

Uncertain ☐   Disagree ☐

Strongly disagree ☐

16. What do you think should be done to curb on the NPLs?

Tight risk management ☐   Monitor the borrower ☐

Introduce a credit bureau ☐   Other ☐

If your answer to the above is other please specify

………

………

Thank you for your time and responses!

APPENDIX II

INTERVIEW GUIDE FOR THE MANAGEMENT

1. What effect do Non Performing Loans have on the bank's Operating profit, interest income and loanable funds?
2. What are the causes of the ever rising rates in NPLs?
3. Which sector have your observed to account for the most NPLs?
4. Are these strategies effective?
5. How long does it take for a NPL to be written off as bad?
6. What information do you consider before satisfying yourselves that an individual is credit worthy?

What strategies have you put inplace to reduce