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Effects of credit risk management practices on performance in Islamic Banks in Kenya: a case study of First Community Bank, Nairobi, Kenya

Abdullahi, Mohamed Dubat

Mount Kenya University

EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON PERFORMANCE IN ISLAMIC BANKS IN KENYA.A CASE STUDY OF FIRST COMMUNITY BANK, NAIROBI, KENYA

ABDULLAHI MOHAMED DUBAT

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ABSTRACT

The study was aimed at determiningthe credit risk management practices in Islamic banks in Kenya with reference to First Community bank, Nairobi County. The study focuses on the credit risk management practices in the institution, Nairobi County.

The researcher adapted a descriptive research design; through cluster randomized sampling method, the researcher selected 30 respondents from total population of 60 targeted groups in the area. Data was collected through the administering of questionnaire to the respondents. A quantitative and qualitative technique of data analysis was used to collect Data. The following were the findings of the research:

- It was found out that the bank a critical regard to the reputation risk, compliance risk, credit, operational, liquidity, market and exchange risks all at 13% each. Interest risk amounted to 9% in terms of consideration with the major financing products in Islamic banks being found to possess different ratings in terms of credit risk Management Practices where Mudarabah is rated at 35%, Musharakah 30%, Ijarah 25% and Murabahah 10%.
- It was found out the bank major credit risk Management practices applied by the bank is Mudarabah (25%), Musharakah(45%), Murabahah(25%) and Ijarah(5%).The two fully-fledged Islamic Banks in Kenya, Gulf and First Community do not engage in Istisna financing.

Recommendation

- Future studies on Islamic banks in Kenya when there will be more Islamic banks with longer time period would generate better insight on the issue of credit risk Management Practices comparative performance with conventional banks and provide solid evidence. This should increase their reliance on statistical methods (credit scoring) in order to eliminate subjective decision making by management.
- Failure to use statistical methods may give rise to moral hazards which include insider lending, by way of exciting credit risk Management Policies to business enterprise they own or with ones they affiliated to.