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THE IMPACT OF CREDIT RISK MANAGEMENT PRACTICES ON COMMERCIAL BANKS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS OF BUSINESS MANAGEMENT (BBM), MOUNT KENYA UNIVERSITY

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ABSTRACT

This study sought to determine the impact of credit risk management practices on financial performance of commercial banks in Kenya. The specific objectives were to establish credit enhancement practices used by commercial banks in Kenya to reduce the level of non-performing loans; To determine how commercial banks in Kenya use portfolio asset quality assessment to curb loan non-performance; To examine credit risk monitoring techniques used by commercial banks in Kenya to reduce of non-performing loans; To assess the impact of credit scoring in reducing the level of non-performing loans in Kenyan commercial banks.

The target population was 215 employees from 45 commercial banks in Kenya. The study adopted stratified sampling and simple random sampling to determine sample size of 45 respondents. Open and closed end questionnaires were used to collected primary data. The data was edited, analyzed and presented using quantitative methods. SPSS, tables, pie charts, standard deviation and chi square were used for this purpose.

The study found out that credit enhancement, portfolio asset quality, credit scoring and risk monitoring affected the financial performance in Kenya. The study recommended that the banks should focus on credit scoring so as to get information on any client who has the ability to pay back their loan rather than the borrowers with low incomes only. It is also recommended that risk monitoring be embraced in the banks by using a monitory control system so as to be able to determine the number of loans that have been disbursed, the repaid loans and the non-performing loans this would help in assessing credit risk.

It further recommended that the banks keep track of their asset quality since it provides earnings to the bank. Non-reforming loans mean that banks will not have any returns hence they should regularly determine their asset quality. The banks should also determine credit profile of a structured financial transaction or the methods used to improve the credit profiles of such products or transactions in their banks to as to increase cash flows.