

**EFFECTS OF CENTRAL BANK OF KENYA PRUDENTIAL REGULATIONS ON  
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

**BY**

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**BCOM/09/213/1467**

**A RESEARCH PROJECT IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR AWARD OF THE DEGREE IN BACHELOR OF  
COMMERCE, SCHOOL OF BUSINESS AND ECONOMICS,  
MOUNT KENYA UNIVERSITY**

**JANUARY 2016**

## ABSTRACT

CBK in 2006 spelt guidelines and regulations to ensure that there is prudential management in the banking industry. Some of these prudential guidelines relate to licensing of new institutions, corporate governance, capital adequacy requirements, liquidity management, risk classification and asset provisioning, foreign exchange exposure limits, publication of financial statements among others. Nonetheless, there are no systematic studies that critically assess how CBK prudential regulations 2006 governing Institutions Licensed under the Banking Act in Kenya relate to the financial performance of banks. There is a gap between theory and evidence in application of prudential regulation to help improve financial performance in banking sector. The purpose of this study was to establish effects of central bank of Kenya prudential regulations on financial performance of commercial banks in Kenya. The target population of the study was 44 Commercial Banks in Kenya. The study being a census survey means that data was collected from all the 44 Commercial banks in Kenya. Purposive sampling was employed to select 1 senior employee from each bank thus forming a sample size of 44 respondents who were used in this study. With regard to the relationship of CBK prudential regulations and the financial performance of commercial banks in Kenya, the study used a survey questionnaire administered to each member of the sample population. The study carried out a pilot study to pre-test and validate the questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics such as mean, standard deviation, frequency and percentage and presented through frequency tables. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS (Version 23) to communicate research findings. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. The study established that guidelines are intended to provide the minimum standards required from directors, chief executive officers and management of an institution so as to promote proper standards of conduct and sound banking practices, as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness thus the study concludes that corporate governance had a positive effect on the financial performance of commercial banks in Kenya. The capital standards were within minimum acceptable for institutions that are fundamentally sound, well-managed, and which have no material financial or operational weaknesses the study concludes that capital adequacy had a positive effect on the financial performance of commercial banks in Kenya. The study established that Risk classification and provision of assets identifies risk, assures the adequacy of the provisions for non-performing assets, and properly reflects such results in the financial statements of the institution. The study established that ensure timely submission of liquidity and maturity analysis of assets and liabilities returns to the CBK.