

**EFFECTS OF CREDIT RISK MANAGEMENT ON THE
PROFITABILITY OF FINANCIAL ORGANIZATIONS:
(A CASE STUDY OF SELECTED FINANCIAL INSTITUTIONS
IN NYERI COUNTY)**

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ABSTRACT

The main objective of the study was to elaborate how Saccos and banks in Nyeri County manage credit risk. Several studies undertaken in the past have indicated that a large rate of defaults has been a perennial problem in management of commercial banks but no other study had gone further to find out measures that should be undertaken so as to reduce this risk thus the need for this study. Primary and secondary data was collected for the purpose of this research. Primary data was collected by the use of questionnaires on a drop and pick later basis. While secondary data was collected from trade journals, financial statements of the respondent banks/ Saccos and text books. The data was further analyzed and presented by use of tables, charts and graphs. Data was analyzed using regression analysis. According to the research, it was found out that there are several credit risks faced by banks and they include; down grade risk, collateral depreciation risk, default risk and credit spread risk. It was also established that most commercial banks employ the use of loan scoring model, credit insurance, covenants and diversification as strategies of managing credit risk. The eventual outcome depicted positive relationship between bank performance and credit risk management. That is, effective use of credit risk management strategies and implementation enhances bank and Sacco's performance.