DEBT MANAGEMENT PRACTICES AND LOAN PERFORMANCE OF COMMERCIAL BANKS IN KENYA

MERCY AKINYI OWICH

D53/OL/CTY/32525/2017

A RESEARCH PROJECT IS SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION) FROM KENYATTA UNIVERSITY.

OCTOBER, 2021

DECLARATION

This research dissertation is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution.

Mercy Akinyi Owich

D53/OL/CTY/32525/2017

-- --

Signature Date

I confirm that the student under my supervision carried out the work reported in this research project.

SIGNATURE OF SUPERVISOR

Name: Dr. Vincent Shiundu Mutswenje

--- ---

Signature Date

DEDICATION

I dedicate this project to the almighty God who is the giver of life, to my Mom Jane Atieno Omondi, My Dad Isaac Omondi Owich Brothers; Emmanuel and Washington, my sisters Melvin, Sheillah, Catherine, Eugene and Winston and my nephew Kirstin for their support and inspiration.

ACKNOWLEDGEMENT

I wish to recognize everyone who contributed directly or indirectly throughout my study and writing of this project. My greatest gratitude to our Almighty God for his blessings, provisions and gift of life. Secondly, my sincerest appreciation goes to my Supervisor Dr. Shiundu Mutswenje for his professional, scholarly and technical support that successful led to the completion of this project.

My heartfelt gratitude also goes to the members of my family, for their patience and the much-needed support they accorded me during the entire study period. I thank you all.

TABLE OF CONTENTS

DECLARATION ii
DEDICATION iii
ACKNOWLEDGEMENT iv
TABLE OF CONTENTS v
LIST OF TABLES viii
LIST OF FIGURES ix
ABREVIATIONS AND ACRONYMS x
OPERATIONAL DEFINITION OF TERMS xi
ABSTRACT xiii
CHAPTER ONE 2
INTRODUCTION 2
1.1. Background Information 2
1.1.1 Debt management Practices 5
1.1.2 Loan Performance 8
1.1.3 The relationship between Debt Management Practices and Loan Performance 12
1.1.4 Commercial banks in Kenya 13
1.2. Statement of Research Problem 15
1.3. Research objectives 17
1.3.1. General objective 17
1.3.2. Specific Objectives 17
1.4. Research Questions: 18
1.5. Significance of the study 18
1.6. Scope of the study 19
1.7. Organization of the Study. 20
CHAPTER TWO 21
LITERATURE REVIEW 21
2.1. Introduction 21
2.2. Theoretical review 21
2.2.1. Moral Hazard Theory 21
2.2.2. Theory of Debt Management. 23
2.2.3. Theory of Information Asymmetry 25
2.3. Empirical literature 26

2.3.1. Credit Risk Assessment and Loan Performance 27
2.3.2. Periodic loan review and loan performance 30
2.3.3. Loan collateral and loan performance 32
2.3.4. Early Warning Signs to Loan Delinquency and loan performance. 34
2.4. Summary of Empirical Review and Research Gaps 35
2.5. Conceptual framework 38
CHAPTER THREE 39
RESEARCH METHODOLOGY 39
3.1. Introduction. 39
3.2. Research Design 39
3.3. Target Population 39
3.4. Sampling Design 40
3.5. Data Collection Instruments 41
3.5.1. Validity 42
3.5.2. Reliability 42
3.6. Data Collection Procedures 43
3.7. Operationalization and measurement of variables 44
3.8. Data Analysis and presentation 45
3.9. Ethical considerations 47
CHAPTER FOUR 48
DATA ANALYSIS, PRESENTATION AND INTERPRETATION 48
4.1. Introduction 48
4.2. Response Rate 48
4.3. Demographic and General Information of Respondents 48
4.4. Descriptive Statistics 53
4.4.5 Asset Quality 63
4.5. Correlation Analysis 64
4.6. Regression Analysis. 65
CHAPTER FIVE 69
SUMMARY, CONCLUSION AND RECOMMENDATIONS 69
5.1. Introduction 69
5.2. Summary 70
5.3. Conclusion 71

5.4. Limitation of the study 73
5.5. Policy Recommendations 73
5.6. Suggestions for Further Research 734
REFERENCES 75
APPENDIX I: QUESTIONNAIRE 80
APPENDIX II: LIST OF COMMERCIAL BANKS 83
APPENDIX III: SECONDARY DATA COLLECTION TOOL 85
APPENDIX IV: KENYATTA UNIVERSITY APPROVAL LETTER 86
APPENDIX V: RESEARCH PERMIT 87

LIST OF TABLES

Table 2. 1 Empirical evidence and research Gaps 35
Table 3.1. Sampling frame 44
Table 3.2. Reliability test 44
Table 3.3. Operationalization and Measurement of Variables 44
Table 4.1. Response rate 44
Table 4.2. Descriptive Statistics of Credit Risk Assessment 544
Table 4.3. Descriptive Statistics of periodic loan review 44
Table 4.4. Descriptive Statistics of loan collateral 44
Table 4.5. Descriptive Statistics of early warning signs 44
Table 4.6. Descriptive Statistics of asset quality 44
Table 4.7. Correlation coefficient 44
Table 4.8. Model Summary 44
Table 4.9. ANOVA 44
Table 4.10. Regression Coefficient 44

LIST OF FIGURES

Figure 1.1 NPL Ratios 2015 -2019 13
Figure 2.1: Conceptual Framework 38
Figure 4.1: Gender of respondents.. 38
Figure 4.2: Participant’s age bracket 38
Figure 4.3: Respondents’ educational level 38
Figure 4.4: Level of employment.. 38
Figure 4.5: Respondent’s position held 38

ABREVIATIONS AND ACRONYMS

AQ	Asset Quality
CAMPARI	Character, Ability, Means, purpose, Amount, Repayment & Insurance
CAMEL	Capital Adequacy, Asset Quality, Management efficiency, Liquidity
CBK	Central Bank of Kenya
DEA	Data Envelopment Analysis
G-10	Group of 10 leading industrial countries
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HF	Housing Finance
IMF	international monetary fund
KBA	Kenya Bankers Association
MENA	Middle East and North Africa
MFI	Micro Finance Institutions
NPL	Non-Performing Loans
NSE	Nairobi Securities Exchange
RAROC	Risk Adjustment Returns on Capital
RMP	Risk Management programs
ROA	Return on Assets
ROE	Return on Equity
ROTA	Return on Total assets

OPERATIONAL DEFINITION OF TERMS

Credit Risk Assessment Gathering sufficient facts about a potential customer in order to assess the level of risk exposure or the probability of the client defaulting to pay back the loan.

Debt Management Practices Strategies employed by both the debtor and the creditor in order to help them handle their debt better. This mostly involves working with the creditors to re align the debt or to help the debtor to manage their payments more effectively. In this study it will be proxied using credit risk assessment, loan collateral, periodic loan review and early warning signs

Early warning signs Information that makes the lender (commercial bank) to be suspicious that a borrower is experiencing financial difficulties in loan repayment.

Loan Collateral Collateral refers to an asset pledged by the customer that a lender accepts as security for a loan thus securing depositors' fund.

Loan Delinquency Loan delinquency refers to the inability or failure of a debtor to fulfill his/ her loan obligation when it's due.

Loan Performance This refers to the transformation of Non-Performing Loans into returns/income/profit.

Long Term Debt Long-term debt refers to any monetary responsibilities that goes over a year, or extends past the existing calendar year or business cycle of operation.

Non-performing Loans	Loans that have not been or not repaid as scheduled
Performing Loan	Loan whose interest and principal payments are met within a period of less than 90 days from the actual period of payment
Periodic Loan Review	Examination of outstanding loans regularly to ensure that the customers are adhering to the loan agreements and the bank is adhering to its policies.
Return on Equity	This refers to income generated on shareholders' funds
Short Term debt	Short-term debt refers to any debt incurred by an entity That is due within a year, or is within the Current calendar year or business cycle of operation.

ABSTRACT

This analysis examined debt management practices and performance of loan of the commercial banks in Kenya. The analysis anchored on the fact that loan performance linked to economic performance. Economies tend to be unstable especially in financial crises when non-performing loans increase. For instance, the non-performing loan rates after applying the debt management techniques entails 5.46%, 5.99%, 8.59%, 9.95%, and 11.69% for 2015-2019 respectively. The key objective of the study was to evaluate the effect of debt management practices on loan performance of commercial banks in Kenya. The specific objectives of the study included, establishing the effect of credit risk assessment on loan performance of commercial banks, to determine the effect of periodic loan review on loan performance of commercial banks in Kenya, to evaluate the effect of loan collateral on loan performance of commercial banks in Kenya, and to determine the effect of early warning signs of loan delinquency on loan performance of commercial banks in Kenya. Most reviews have examined credit performance, commercial banks performance and many more but there has not been much research on debt management practices and loan performance of commercial banks in Kenya. The period scope of the study was 2015-2019. The research anchored on debt management, information asymmetry and moral hazard theories. The research design applied was causal research design. The target population of the research project was 108 managers from banks in tier II and tier III. The research embraced purposive sampling to come up with a sample size of 85 respondents. The data was collected using questionnaires. The data collected from the questionnaire was analyzed using IBM SPSS version 21.0 software. The findings were then classified, tabulated and summarized using figures. Therefore, the analysis identified that commercial banks loan performance aligns with the effectiveness of credit management practices evident in the banks. The credit management practices that entail character, capacity, capital, conditions, and collateral were less effective to loan performance than third party security. Periodic loan review tends to be effective in loan performance as determined in the study with a positive significance level as well as the extent of loan collateral presence on loan performance. The analysis recommended that the commercial banks and the government to evaluate and formulate policies that regulate exercises on credit risk management of loan delinquency.

CHAPTER ONE

INTRODUCTION

1.1. Background Information

The entire world considers the financial system an important component of every nation's financial sector. These banks play important function in a country's economy. These roles not limited to directing money from several economic entities with surplus funds to those units with deficit funds, financial linkage, monetizing the economy and provision of seed capital (Al-Qudah, 2013). This therefore suggests that the safety of a nation's economy rests on the reliability of its banking system and financial system at large. According to Ndugbu and Okere (2015), a well-developed financial sector with effective financial systems is connected to the country's economic growth and development. Most importantly commercial banks serve as a core to the structure of a nation's economy where funds provided by the banks is the blood which if kept in flow the structures will stay sound and fit (MacCarthy, 2016).without capital financing to firms in diverse units of the economy, there will be stagnation in development in the economies (Meshak, 2016).

Banks and related institutions are among the influential lenders to individuals, commercial and corporate institutions. Besides deposit creation, giving loans is a significant operation in banks to gain income since it can create profits or have losses. Banks with loans that do not perform experience losses. Non- performing loans are debts where the creditor is doubtful to present any interest or offset the main debt (Business Dictionary, 2018). According to Mwanza (2017), statistics show that non- performing loans value in Kenya has increased to a 10- year high. The research done by the Standard Investment Bank depicted those Kenyan commercial banks, were contending with loans defaulters to acquire payment. It also ranked the National Bank of Kenya

with the most unfavorable non- performing loans while I&M and Diamond Trust Bank had the minimum non- performing loans.

Most of the companies adopt debt as the technique to finance its activities. There are different types of debts that include private and public debt, secured and unsecured debt as well as syndicated and bilateral loans. Syndicated loans are business loans amid the creditor and an association of lenders while bilateral loans are debt amid the creditor and one lender (Financial Web, 2018). Private debt is the loan accrued by a person or private business while public debt is the debt acquired by the state (Meakin, 2018) Secured loan is the debt obtained by an asset such as investments or land while unsecured debt is the debt that lenders cannot demand assets for the payment of debt (Latoya, 2019).

Globally over a thousand financial institutions lose at least $2 billion per year due to poor debt management. The currently witnessed economic crisis has proven the significance of institutions (both financial and non-financial) to maintain a healthy financial position. The risk of financial institutions failing to meet their financial obligations traditionally as witnessed has been increasing when debtors fail to honor their debt obligations. An effective debt management system seeks to improve the operating performance of an institution and it helps to meet both the short- and long-term goals. Hence, a research on debt management on loan performance is not only a vital aspect to the creditor but also to the overall management of a business concern both financial and non-financial.

For centuries, the quality of credit loan portfolios globally had been steadied up until the crisis that hit the global economy in the years 2007 and 2008. It is well known that there is a connection between the economic cycle and loan performance. However, the decline in the performance of

the loan has been consistently uneven across countries. Taking for instance, looking at the nations in the Baltic region that stood out in the comparison of the cross-country performance of Gross Domestic Product (GDP) throughout the crisis, there was a great swell in NPLs even in a controlled severity of the recession. For instance, the Latvia Economy had a shrunk totaling to 18% in 2009 in terms of the GDP. Yet during this Period, instead of doubling, the NPLs more than tripled this as per a simple cross-country regression of NPL growth compared to real GDP growth Rates (Roland, Petr & Anamaria, 2013).

Kenya Commercial Bank (KCB) is one of the immense banks in East Africa since it has subsidiaries in Uganda, Rwanda, Tanzania and Southern Sudan. It is said that the bank has the bulkiest asset base and lends money to its subsidiaries. In 2016, the total amount of non-performing loans increased from Kshs.23.5 billion to Kshs.30.44 billion. From their statistics, this was a soaring record of Kshs.7 billion. In spite of the fact that there was a rise in profit gain by 1.6%, the NPL proved to stand a threat to its growth (KCB Group Plc, 2018). Nevertheless, non- performing loans could be curtailed through debt management techniques. Most banks use both an in- house debt management system or deploy debt management services (Fay, 2018). Debt management involves a system used by agencies or financial institutions to obtain unpaid debt (Irby, 2019). The achievement of reclaiming the debts will be identified by the chosen system's efficiency.

The banking sector is crucial in any economy's development especially the commercial banks. Studies shows that financial markets that are functioning well increases the efficiency of an economy, its growth and investment (Ngugi, Maana & Amanja, 2010). Therefore, this means that the performance of every market and that economy at large is dependent on the economy's financial institutions performance.

1.1.1 Debt management Practices

Debt management practices are strategies employed by both the debtor and the creditor in order to help them handle their debt better. This mostly involves working with the creditors to re align the debt or to help the debtor to manage their payments more effectively. In this, the debtor requests the debt management company to help if he/she does not have the prerequisite knowledge on debt management (Mwangi, Makau & Kosimbei, 2014).

Debt management practices can also be a private agreement between the creditors and the debtors for payment of debt over a given period in order to pay the debt/money owed to the creditors. In debt management, the debtor issues a statement indicating his/her financial position to the creditor, which the creditors use to evaluate the capability of the debtor's ability to pay back, or if he/she qualifies for the amount requested. Once an agreement is reached, the debtor is supposed to pay an equal installment on a regular basis to the debt management company which then are dispersed among the creditors. The major objective of debt management therefore, is to assist the client to clear his/her obligations at a level that is pocket friendly for a fixed period of time hence assisting them to create a new beginning with their finances (Mwangi, Makau & Kosimbei, 2014)

Debt management practice is also referred to as a plan that addresses the terms of an outstanding debt over time to help the debtor regain control of finances (Ryan, 2011). According to Vahid, Mohsen and Mohammadreza (2012), management of Debt contributes to the failure or success of an organization as it directly has an effect on the firm's profitability as well on liquidity. Thus, it is worth investigating debt management implication of on the Performance loan.

Nelson and Schwedt (2006) opined that the banking sector have put in efforts on the management of debt. Before the 1990's, credit analysis generally was restricted to reviews of personal loans,

and financial institutions especially banks retained a number of loans in their books until maturity. Currently, debt management entails a combination of portfolio analysis and individual loans reviews. In addition, with the emergence of fresh approaches for selling and buying loans, most commercial banks have shifted to livelier and active debt management techniques that utilizes the most effective mix of assets given the prevalent credit environment, existing marketplace conditions and business openings. In addition, banks currently are in a better position to regulate and manage the debtors and portfolio concentrations, manage loan sizes, maturities, and to address and get rid problematic debts before they lead to damages.

Most of the financial institutions emphasize on portfolios testing on a business line basis whish assist in informing their general administration. Credit process is a three-staged process with the first step involving a simple debt management control by evading any one sector over concentration, approximating the possibility of loan default and assessing recovery. Secondly is assessing the tie between return economic resources. Definitely, the financial institutions would wish to set minimum return rates that they anticipate earning on their portfolios after provisioning. This tie is the next step in implementing debt risk management. Finally, yet importantly, debt management is a tool of strategic management that aligns Return on Equity (ROE) with Risk Adjustment Returns on Capital (RAROC) (Busch& Kick 2009).

Cuthbertson and Nitzsche (2003) held that debt-managing expertise has evolved over time. In Kenya, for example the Central bank (CBK) has initiated efforts directed towards effectively performing its essential obligation of regulation and supervision and of financial institutions making it extra risk focused. Important approaches geared towards the operationalization of debt related supervision of risk. Examination was conducted and reports issued to CBK on Risk Management programs (RMPs) from every organization as a requisite for them (Ngugi,

2018).Further that the CBK did a survey in the month of September year 2004 to determine the degree to which management of debt is practiced in the Kenya banking sector. It revealed a high awareness level in the financial institutions on the significance of engaging efficient debt management techniques of detecting, investigating and regulating loan nonperformance.

In Kenya, commercial banks have employed debt management techniques such as -Credit Risk Assessment. According to Saunders (2002), commercial banks gather enough statistics about potential customers to assess the credit risk exposure. The information gathered leads the commercial bank in assessing the probability of debtors defaulting. According Rouse (2002), the use of 'CAMPARI' as a technique at the early valuation of the debtor helps in determining whether a loan is good or bad, recoverable or not recoverable.

There can be three sources of repayment of bank loans. That is the borrower's cash flows in the form of a fixed or floating charge security on the borrower's properties and a third-party guarantee such as a holding company (Simonson, Carmon, Dhar & Drolet, 2015). According to Weber and Machaur (1998), financial institutions usually consider not less than two of the repayment sources for every loan they issue. It would be irresponsible for a bank to advance funds without taking adequate and proper security, unless the credit-worthiness of the customer is beyond reproach. In the case of a commercial borrower, banks anticipate loan repayment out of operational cash flows of the company. Securities taken has to be perfect in terms of documentation, authorization and registration.

Early Warning Signs of Loan Delinquency, this is also another debt management technique applied by commercial banks. According to Rouse (2002), information that makes the lender (commercial bank) to be suspicious that a borrower is experiencing financial difficulty emanates

from various sources but more effectively, it arises out of carrying out monitoring and control procedures. Amongst the signs of probable delinquency are not limited to hardcore balances, late payment of principal and interest, unauthorized overdraft, high gearing ratio, operating losses, abnormal delays in submitting periodic financial statements, unexplained change of borrower's attitude towards the bank among others. This kind of information is obtainable from internal records, interviewing the borrower, audited accounts and management accounts. Where a number of these signs appear together, it is therefore prudent to launch Careful investigation.

Banks such as KCB Group LTD, Corporative bank of Kenya carry out periodic loan review. Most analysis depicts every step needed in implementing the periodic loan review. Some of the steps include creating a suitable credit risk atmosphere, performing in a prospect credit gaining procedure, handling a suitable credit management, evaluation and monitoring process, and making sure there is sufficient regulation over credit risk. With this practice, the institutions are able to detect potential problematic loans early enough, enforce uniformity in loan documentation, ensure the bank's loan policy are followed and determine the overall condition of the loan portfolio once a loan exposure has been found to be facing difficulties, immediate action should be taken (CRM, 2019). Once it is clear that the account is not improving then the banks go for a break up solution through realization of securities.

1.1.2 Loan Performance

A performing loan is that which is not, neither close to default. The international monetary fund (IMF) referred to a performing loan as that loan whose principal and interest payments has been met within a period of less than 90 days from the actual period of payment. This therefore means that less than 90 days' worth of interest have been refinanced and in case of a delay then the delay

is agreed upon by an agreement and it is expected that the payment shall be made. A performing loan therefore meets all the conditions attached to a particular loan (International Monetary Fund, 2005).

Non-performing loans (NPL) on the other hand is used to describe all loans that have not been or not repaid as scheduled. The exact definition however varies according to different studies for example, according to IMF (2005), the golden rule on NPL is to pin point those loans that probably will not meet their contractual payments and to note the substantial losses both for the income and for capital on them. A loan qualifies to be none performing when its interest and principal payments go beyond the actual payments period by at least 90 days. This therefore will mean that the interest payments worth of 90 days or more remains unfinanced. Previously the issue of non-performing loans, loan restructuring and loan recovery did not get much attention until recently that the banking sector gave it prominence. Due to this, there is lack of proper documentation of exact extent of non-performing loans in the financial sector. Away from Central Bank reports, newspapers, published journals, annual reports and the Internet, there is no other literature the subject. Of the available literature, none addressed reorganizing the non-performing loans.

According to Mucheke (2001), major reasons of loan non-performance in the financial institutions are, incompetent loan managers, bad lending policies, political interference among the management of public banks and economic recess. Obiero (2002), between the years 1984 and 2001, Kenya recorded a total of 39-bank failures costing the economy almost Ksh 19,685 million in terms of loans and grants to restructuring the Consolidated Bank of Kenya Ltd, compensating depositors and losses that result from depositor funds that fail to be recovered by the Deposit Protection Fund compensation program. High non-monetary costs attributed to lack of jobs and

the instability found in the financial systems. Among the 39 banks that failed, 14 (37.8%) failed partially due to predominant high levels of NPL.

Matu (2001) looked at the application of financial crisis predictive models to bank failures in Kenya and observed that the great levels of NPL puts pressure on banks to maintain the high rates of lending with the aim of minimizing the losses associated with the loans. Bett, (2017), looked at financial performance of the banks he observed that loan portfolios declined while the banks continued to lend to their borrowers because they feared that if they fail, the financial institutions would equally fail. He also stated that most of the banks that failed were loaning at a higher rate of interest to mainly speculators and high-risk debtors who were unable to honor their debt obligation.

In addition, there was an increase in total deposits from Ksh.3.16 trillion in June 2018 to Ksh.3.24 trillion in September 2018 by 2.52% because of increase in home, currency deposited in the period due to intensified mobilization of deposit by financial institutions during the period. There was an increase in the gross NPL to gross loans ratio from 11.97% to 12.52 % between the periods June 2018 to September 2018 respectively. This was due to the takeover of a loan portfolio from an institution in receivership that was inactive, low uptake in the property market, delayed payments by both the private sector and government agencies and challenging business setting (Central Bank of Kenya, 2018)

During this quarter, the Non-Performing Loans levels remained unchanged in all the eleven economic segments with the Financial Services sectors having the largest number of respondents showing that the NPLs remained the same. This was the same to the other quarter’s response. Numerous financial institutions did not anticipate a huge change in the macroeconomic

atmosphere whereas during the fourth quarter of 2018 they expected Non-Performing Loans Levels to go down. At most 45% of the respondents expected the level of NPLs to go down in the 4th quarter of 2018. The reduction, which was a result of most banks implementing an enhanced recovery effort and a strategy majorly geared towards the recovery of NPL. Nearly an equivalent number of respondents believed that the Non-Performing Loans s will stay constant (24 percent) and to rise (31 percent) (Central Bank of Kenya, 2018)

According to Simonson et al (2017), the distinction between well performing and non-performing banks in terms of loan performance is the proportion of the delinquent loan book. Commercial Banks must do everything in their capacity to minimize the risk of loans going into default. This dictates that they (commercial banks) have to carry out consistent continuous loan review to determine individual exposures and institute techniques to reduce losses.

According to Sarah & Wolfe (2011), the main income generating assets of the financial institutions are the bank loans, this therefore means that the success of the banks is depends on the excellence of a loan composition. Good Assets quality reduces losses relating to NPLs, given the fact that, the highest threat facing banks are the losses arising from delinquent loans. A smaller NPL ratio is an indication of small damages for the bank whereas a big or growing NPL ratio translates into big losses for the institution. An individual bank's success in debt management is r largely reflected by the proportion of NPLs to gross lending given by

$$\text{Asset Quality} = \frac{\text{Non-Performing Loans}}{\text{Total Loans}}$$

The quality of lending in Kenyan banking industry as manifested in the NPLs proportion has reduced with time floating at 40% in 2018. \However, this is not the case as there is subsequent improvements due to write-offs of the bad loans (Kenya Bankers Association, 2019)

1.1.3 The relationship between Debt Management Practices and Loan Performance

Debt management includes both the creditor and debtor deliberating techniques to manage the debt well. Debt or loan performance entails making a loan interest and principal payments within a set time of fewer than 90 days from the intended time of payment. Both debt management and debt performance rely on a set contract. However, while debt management gives affirmation of the debt clearance within the agreed set time between the creditor and debtor, debt performance relies on the set 90 days as per the banking rules on commercial loans. Other analysts cite that bank rely on debt management to ensure debt performance (Margaritis & Psillaki, 2010).

Debt management applies approaches such as loan collateral, early warning signs of delinquency, and periodic loan review to understand the debtor's position of clearing the debt. On the other hand, debt performance depends on debt management techniques within or after the 90 days to regain the amount borrowed by the debtor. From the analysis done by the Kenya National Bureau of Statistics, commercial banks in Kenya have experienced a positive reaction from consumers through loan payment. In 2019, the banks depicted 12.4% of non-performing loan. Nevertheless, there is an anticipation that the rate will increase in 2020 to 14% because of the effects of COVID-19 (Onyango, 2020).

With the increase over the years by lenders as shown by KNBS, applying debt management approaches to regulate the debt performance by banks have proved efficient. The loans as evaluated by Kenyan commercial banks from 2014 to 2018 include Ksh.617, 221, Ksh.730,419, Ksh.927, 307, Ksh.1, 142, 889, Ksh.1,266, 457 respectively (KNBS, 2019). The non-performing loan rates after applying the mentioned debt management techniques entails 5.46%, 5.99%, 8.59%,

9.95%, and 11.69% respectively (CBK, 2019). With the increase of loans lent, non-performing loans declined as compared to loan degree.

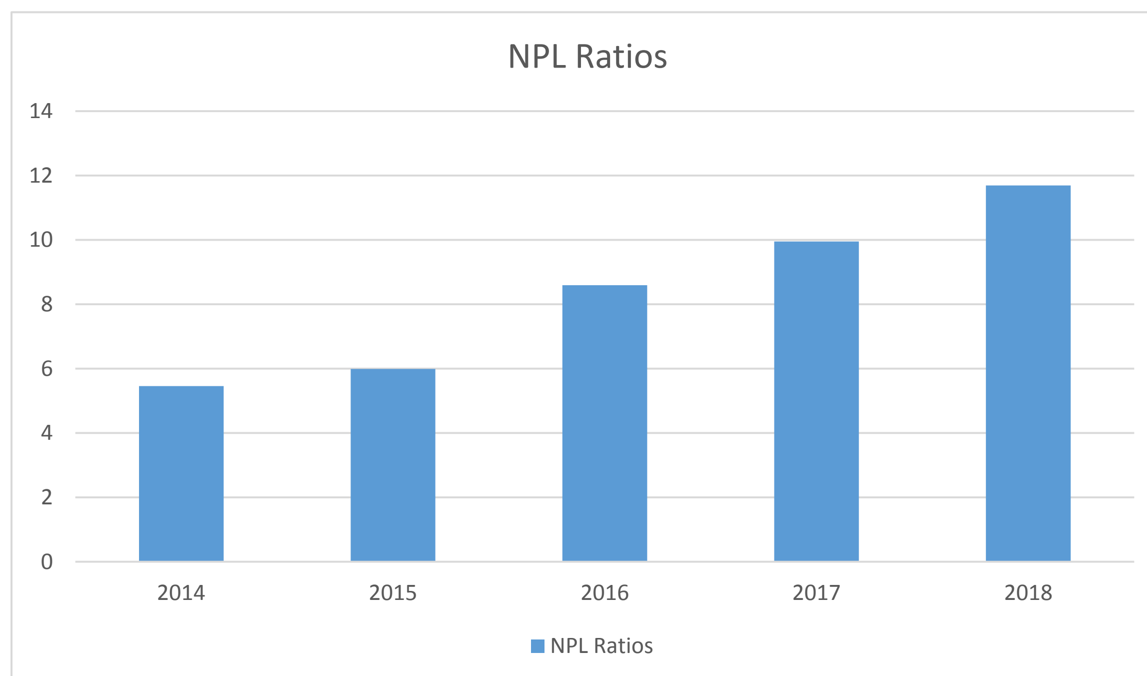


Figure 1.1: NPL Ratios 2014 -2018

Source: CBK (2019)

1.1.4 Commercial banks in Kenya

For a bank to be considered commercial, it must accept deposits from the people or public and provides funds (loans) for the purposes of investment with the objective of making a return in terms of profits. These banks achieve their targeted profits by charging high interest rate on the borrowed funds and pay lesser interest rates to the depositors. The leading source of income for the institution therefore is the difference between the two rates of interest. The major features of commercial banks are borrowing and lending, that is acceptance of deposits and lending of money with the aim of earning Interest otherwise profit (Business Dictionary, 2018)

In Kenya, there are a total of 42 commercial banks, two (2) mortgage finance companies, one hundred and thirty foreign exchange bureaus and 15 micro finance organizations adequately regulated by Acts of parliament and policies and procedures put in place by the regulators. Kenya hosts a big number of financial institutions either locally or internationally owned. The nation's banking sector comprises of the CBK, which is the top regulatory body. Kenyan banks are grouped according to size, that is either small. Medium and large banks also known as tiers. This classification considers a bank's market share, its assets, the number of branches and bottom line. The large banks (tier 1 banks) are six and account for almost 50% of the market share at 49.90%. This group is a group of banks that have been in the market for the longest period of time during which they have accumulated assets worthy of billions in terms of cash and millions in terms of customers respectively. The probability therefore of inclining into financial crisis is next to 0%. For example, the London Financial Times named The Co-operative Bank as the bank of the Year as having an asset base approximated at kSh309 Billion accompanied by a number of customers of over 3.4 million members. Banks in this category are Barclays Bank, Kenya Commercial Bank, co-operative, Equity Bank, Standard Chartered bank and Commercial Bank of Africa. the medium sized banks (tier 2 banks) are 16 holding 41.70% of market share, some of the banks in this category are Diamond Trust Bank, Family Bank, Eco bank, CFC Stannic, NIC, I&M, Bank of Africa, and Housing Finance. While the small banks alternatively known as tier three banks are twenty-one (21) in total and account for 8.40% of the market share. Some of these banks here are Fidelity, Paramount Universal, Consolidated Jami Bora ABC, Credit Bank, Guardian, Charterhouse, and Development bank.

Similarly, among the 42 commercial banks, Nairobi Securities Exchange (NSE) listed banks are eleven (11). This implies that the commercial banking system in Kenya comprise of 31 none listed

and eleven (11) listed commercial banks. These are National Bank of Kenya, Diamond Trust Bank Ltd, Barclays bank ltd, Standard chartered Bank Ltd, CFC Stanbic Holdings Ltd, I& M Holdings Ltd, KCB Group ltd, Equity Group holdings, HF Group Ltd, NIC Group PLC, and the corporative bank of Kenya ltd as per the capital markets authority report. This study therefore, will lay emphasis on the 36 commercial banks in tier II and tier III.

1.2. Statement of Research Problem

For a long period, financial institutions have been key players in both the financial sector and the general economy. They have a responsibility in financial linkage between the savers and borrowers that cannot be over looked. Consequently, the overall performance of financial institution is equally significant to the nation's economy. Ongore & Kusa, 2013). As indicated in the bank annual supervision report (2017), the efficiency in the financing sector was low since there was a drop of 9.6 % in 2017 of pre- tax profits. There was also a slump in asset quality registration. The non- performing loans rate rose from 5.46%, 5.99%, 8.59%, 9.95%, and 11.69% for 2015 to 2019 respectively (CBK, 2019). An analysis done by Kenya Bankers association depicted a growth in the non- performing loans rate. The debt market has experienced explosiveness in the degree of NPLs that has risen to Ksh.292 billion. While implementing the banking amendment Act 2016, it was necessary for the defaulters to absolve the arrears before assimilation to the curtailed rates. This was straining to most of them due to the demanding business activities that was experienced in 2017 and early 2018.

The government has substantially invested in an enabling environment for the financial institutions to conduct business. Some companies however, have performed remarkably well while others continue to struggle. It is for this reason that some of these struggling institutions had to be delisted

from NSE. Crucial efforts aimed at reviving the ailing and liquidating companies focused on corporate reform. Managers and practitioners however still lack the necessary guidance to attaining optimum funding decisions (Kibet, Kibet, and Tenai. & Mutwol, 2011) yet various challenges experienced by these institutions placed under statutory management were mainly accredited to poor debt collection policies (Chebii, Kipchumba and Wasike, 2011). This situation has led to loss of shareholder's wealth.

To maintain giving credit to its consumers, banks should consider exercising recommended debt management techniques as mentioned. The assumption is that most commercial banks lack prudent monitoring and assessment methods that help the bank to avoid credit less evidence. In addition, while applying the debt management techniques, the complexities encountered ignite the rise of non-performing loans (KBA, 2019). Studies done on the correlation between various debt collection management and loan performance yield mixed results. Various researchers have done Research and studies including; Gezu, (2014) on Determinants of Nonperforming Loans for Ethiopian banks, Gourgoura and Nikolaidou, (2017) Credit risk determinants in the vulnerable economies of Europe focusing on the Spanish banking system, Calice (2012) on Tunisian Banking sector, Kolapo (2012) for the Nigerian Banks and Cucinelli (2015) on Italian Banks. The major finding is that the major determinants of loan performance relate to the banks debt management policies.

Locally, few studies on the management of credit risks in Kenyan commercial banks established that as much as the commercial banks place stringent measures on credit risk management, loan recovery was still an issue to numerous banks. Ombaba, (2013), Ngugi, (2001), Kithinji & Waweru, (2007), Bosire and Gathogo (2012) did research to determine the causes and impacts of NPL on the commercial banks in Kenya performance. One mutual findings of their studies were

that NPLs have an undesirable consequence on the operating competence of the financial institutions as well as on the entire economy explaining why debt management is necessary to enable financial institutions mitigate the impacts of NPLs.

Past global research and studies centered on other countries representing a different scenario from the Kenyan banking industry. This is because it is a representation of distinct characteristics of varying economic conditions such as economic size and market concentration. This may not apply to the Kenyan banks. Whereas the variables in the local studies are diverse therefore do not clearly explain the relationship between the major variable (debt management) and its effects on loan performance of commercial banks creating contextual, conceptual and methodological gaps. Other analyses have targeted the general capital structure financial institutions other than the relationship of debt management and debt performance. These gaps form the basis of the researcher's study, which seeks to determine the effect of debt management on loan performance of the Kenya commercial banks.

1.3. Research objectives

1.3.1. General objective

To evaluate the effect of debt management on loan performance of commercial banks in Kenya

1.3.2. Specific Objectives

i. To determine the effect of credit risk assessment on loan performance of commercial banks in Kenya.

ii. To establish the effect of periodic loan review on loan performance of commercial banks in Kenya.

iii. To evaluate the effect of loan collateral on loan performance of commercial banks in Kenya.
iv. To examine the effect of Early Warning Signs of Loan Delinquency on loan performance of commercial banks in Kenya.

1.4. Research Questions:

v. What is the effect of credit risk assessment on loan performance of commercial banks in Kenya?
vi. What is the effect of periodic loan review on loan performance of commercial banks in Kenya?
vii. To what extent does the presence of loan collateral affect loan performance of commercial banks in Kenya?
viii. How does the of early warning signs of loan delinquency affect loan performance of commercial banks in Kenya?

1.5. Significance of the study

This research study will be beneficial in these ways. First, it identifies how management of debt affects loan performance of Kenya commercial banks. Management therefore may use this information to meet the firm's goal as well as meeting the shareholders' expectations. This study may also be a crucial source of information to the Policy Makers in regards to the best debt management technique to apply to enhance loan performance and reduce cases of non-performing loans. The study will also provide an understanding of the experience of how other nation's commercial banks are handling non-performing loans.

Since the study objective was to evaluate debt management effect on loan performance of the banks, its findings shall contribute to the field of knowledge on the type of relationship between management of debt and performance of loan. This therefore may deliver an insight to the Administrators of Financial Institutions into the most successful restructuring techniques for the banks to employ to achieve performance.

Both the Consultants and advisors for the commercial banks, the government and non-financial institutions would be able to use the information from the research to advice on formulation and implementation of credit control policies. The study will also benefit project scholars and other academicians as a source of secondary data as this study may contribute to already existing body of knowledge in the area of risk management and particularly bank responses to challenges of non-performing debts.

1.6. Scope of the study

The main aim of the study was to establish the implication of debt management on loan performance among the lenders and borrowers of the commercial banks. In addition, it also examined the various techniques put in place by the 42 commercial banks to decrease the risk of NPL. The study period covered the period between 2015 and 2019. This is the period that the financial sector underwent various changes from periods of market shocks of 2015 – 2016, changes in the Banking Amendment Act 2016 that saw the introduction of interest rate caps and the period when there was a double-digit level of the Gross NPLs/Gross Loans ratio (Kenya Bankers Association, 2019).

1.7. Organization of the Study.

This chapter looked at the background study, statement of the problem, the study general and specific objectives, significance of the study, and scope of the study. Each of these were studied and analyzed cautiously hence contributing to the content of the chapter.

The next chapter two looked at the literature review that relates to the topic of research. Thereafter was chapter three, which gave a description of the methods and procedure used to carry out the study. Chapter four has two sections; one, encompasses presentation of data presentation in the form of bar charts, pie charts as well as tables entailing descriptive statistics. The other section focused more on the inferential statistics. The last chapter, chapter five presents a summary of the research findings, the conclusions and recommendations based on the findings of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

Chapter two entails a systematic way of identifying, locating and analyzing information that is connected to a problem that is being studied. This is done through the guide of previous studies contacted in relation to the topic under study. The results would be important in arriving at conclusion and summarizing contrasting ideas on what the study will discover and the findings of the previous literature.

2.2. Theoretical review

Theoretical review offers proposals of theories and how they relate to variables in a study. This study will be guided by Moral hazard Theory, Theory of Debt Management and Information asymmetry Theory. These theories proposals provide an explanation for the variable's relationship.

2.2.1. Moral Hazard Theory

Moral hazard Theory was brought forth by Kenneth Arrow (1963). The assertions of this Moral Hazard Theory can be traced to the insurance literature. Moral hazard denotes rise in the expected loss (probability of loss due to an event happening) due to individuals and firms behaving in a careless manner because of purchasing insurance. An insured firm may alter its behavior in a manner that increase the expected loss compared to what it would have been without coverage. Its current applications in economics are that "it's a behavior that increases loss as a result of insurance" Rowell& Connelly (2012). Moreover, it is referred to as the insurance effect as a risk curbing stimulant" (Winter, 2000).

If an insured substance anticipated loss is given by e (l) = ρL whereby ρ denotes possibility of occurrence and l stands for loss, then this definition confines the theory to the insurance effect of on ρ. Moral hazard could be portrayed when the insured's behavior affects loss given by the following definition, sometimes moral hazard is about the influence of incentives on claiming actual losses, (Abbring, Chiappori & Zavadil, 2008)

Economists have used this concept to examine diverse range of public policy situations, from natural resource policy to non-employment insurance and to corporate bailouts. For instance, when talking about the Global Financial management problem, the Chairman of U.S. Federal Reserve Ben Bernanke was heard saying that "too big to fail" was Undoubtedly the result of the strange message sent by moral hazard intervention, thus financial institutions believed that they will be saved regardless of how awful they do things wrongly, motivating Wall Street traders to overindulge on risk once more.

Currently, moral hazard symbolizes the non-anticipated impacts of the good efforts to share the challenges in life additionally helps deny that not willing to share those challenges is selfish. Certainly, applying the moral hazard economics is however just a claiming step stage, as asserted by one economist also a politician's unforgettable expression that social responsibility is a polite reminder aimed at personal irresponsibility confirming that actually there are damaging consequences for helping people. Moral hazard economics justifies the leaving of social policies and legal rules which attempt to assist the less fortunate.

Moral hazard concept has been broadly used and is intensely rooted in economics practice thus small attention has been given to the underlying moralistic and ethical notions as suggested by this particular expression or its use (Dembe and Boden, 2000, p. 258).what should be clear about the

term “moral hazard” is that a normative notion arises out of the language Suggesting the presence of a moral danger because of too much insurance provision (Hale, 2009).

In the similar way, the study acknowledges the fact that the financial institutions strive to reduce the risk of having non-performing loans. Moral hazard theory supports this study by bringing in the idea that commercial banks through proper debt management techniques (as the insurance) have a responsibility to ensure that all the debtors have the capability of repaying their debts as well as the institution meeting their obligations to their lenders. The notion and expectation that another party would likely bear the risk of default creates a moral hazard and eventually will contribute to crisis.

Further the study acknowledges the good efforts to share in the challenges in people’s lives. However, these efforts are accompanied by non-anticipated impacts. Additionally, the term moral hazard is suggestive that there is an ethical problem, as a result of too much insurance provision (Hale, 2009). There is a risk that the debtor would indulge in undesirable activities as per the creditor's point of view since it reduces his possibility of paying back a loan. This is so likely because, the borrower knows that someone else will pay for the mistake he makes (Down, 2012). In this study, this theory was relevant in applying the economics of moral hazard commercial banks in their efforts to share in these challenges overprovide loan service (debt) without considering the fact that actually there are harmful consequences for over provision as much as they want to help people. Therefore, without effective debt management system in place it confirms the assumption of moral danger as most of these loans will not be performing.

2.2.2. Theory of Debt Management.

The debt management theory was pioneered by Faraglia, Marcet and Scott (2008). The theory of debt management asserts that the debt structure of the government should be selected in such a

manner that an anticipated movement in the debt market value set off the expected fluctuations in the upcoming deficits. This approach to debt management is valid even when the government only issues convertible bonds Faraglia et al (2008). Further, they heeded that the governments in consideration to the theory, should instead issue long-term debt while investing in short-term assets.

Moreover, this theory holds that in line with debt management, debt structure and fiscal policy should be determined jointly, disassociating from the assumption that one of the main aspects affecting the fiscal policy is the government's position to Balance off the unforeseen changes in government expense or income through determining the debt value and composition as well as the management size (Faraglia, 2008).

Blommestein and Turner (2012) opined that there was a positive yield in alienating debt management from monetary policy and for the longest time was not challenged until the global financial crisis. During this time fiscal dominance was experienced. As a result, they emphasized the essence of looking into the harmony between the monetary policy and debt management. Further it can be claimed that actually debt management is vital in minimizing risks attributed to fiscal vulnerability by providing cover against shocks beyond a government or institutions control and that affects the budget.

In cognizance with these observations, Borenzstein, Chamon, Jeanne, Mauro & Zettelmeyer, (2004)) observed that so as to manage fiscal vulnerability may result into cutting down of expenditure, it's prudent that debt instruments whose returns effectively address government Spending should be issued by the government.

The theory therefore is instrumental in explaining to the commercial banks the significance of Sound debt management practices in minimizing the risks attributed to loan default as it is essential

given that an institution's debtor's portfolio is the largest comprising of risky loans with the potential of non-performance thus generating substantial loss to the financial institution and its financial stability.

2.2.3. Theory of Information Asymmetry

This idea of information asymmetry was first introduced by George A. Akerlof's the Market for "Lemons": Quality Uncertainty and the Market dimensions in the year 1970. Information asymmetry theory holds that there exists an imbalance of information between two parties in a transaction that leads to inefficient results in certain markets.

In his writing, Akerlof came up with asymmetric information in his example of market for automobile. He argued that in most markets, buyers utilized market statistic to tell a class of goods value. This meant that the consumer looks at the entire market where as the seller holds an intimate information specific to an item. Thus, providing the vender an opportunity to sell goods below the normal market quality which in turn declines similarly to the market size. He noted that the variances in private returns and social and could be curbed by a number of diverse market establishments including financial institutions. He assumes a model in the automobiles market with 4 different types of cars. The Old and new cars, which could be bad or good using "lemons" As the label for the bad cars. There is probability (r) when buying that a car is good and a (1-r) probability that it's going to be bad, a fact that is correct for the new and old cars. The car owner gets extra informed on the car's condition after possessing it for some time thereby giving a fresh prospect, a scenario of it being a lemon. Once An assumption that the initial information (r) might have been inaccurate, an information asymmetry arises among the parties. The cost for both cars whether good or lemons remain the same as the potential buyer is unable to differentiate them. He further proposed that the new car price ought to be greater than an old car, since there is a

possibility to sell the bad car at the new car's price and acquire a new car with a lesser likelihood of being a lemon. The owner of a car that is good and old therefore is locked in his position that he cannot get the real market valuation of his car, given that his car is superior to the market average. Since he cannot receive the price of a new car for his old car, he cannot afford a change to a new car. Thus, the assumption that majority of the traded cars are lemons. Akerlof identified the likeness of this model to Gresham's law where good cars are driven out by bad cars, but notes that it's the information asymmetry that exists in the cars model situation.

This theory is significant to this study in that, the financial institutions have all the basic resources to acquire the information needed in understanding the potential borrower's behavior and are able to understand those with defaulting potential. Credit bureaus generate credit report about potential clients at no cost, similarly lenders might already have had credit relationship with the client. Information sharing among lenders can therefore increase lending and reduce default rates. Banks could generate surplus if they relied on the superior knowledge about the behavioral type of a customer. The information is expected to be crucial to the management of commercial banks which will help them to make informed decision when it comes to lending according to the available information. Financial institution has insider information on loan policies which should be given or disclosed to the borrowers before the loan is given or approved this will reduce loan defaults hence repayment will be high and leads to improved bank performance.

2.3. Empirical literature

Empirical literature offers reviews based on observations, induction, deduction, testing and evaluation of other researchers and authors works in in the study field. The review for this study was guided by Effect of credit risk assessment on loan performance of commercial banks, the relationship between loan review and loan performance, the relationship between loan collateral

and loan performance, Application of Early Warning Signs of Loan Delinquency and loan performance.

2.3.1. Credit Risk Assessment and Loan Performance

Moti, Masinde, Mugenda, and Sindani (2012) did an empirical study of the micro finance sector in Kenya. Their aimed at assessing the usefulness of credit risk systems of management on the loans performance basing on the 5C's appraisal model of credit. They established that the 5'cs model of client assessment was significant when evaluating customers, hence microfinance institutions should take more thought on the client character, capacity to repay, Security inform of a collateral, repayment history, need assessment and size of the business before issuing loans and also that the microfinance institutions credit terms affected loan performance. However, the study focus was on the microfinance institutions based in Meru Town, Eastern Province, Kenya unlike the current study which focused on the financial institutions in Kenya addressing the contextual gap in literature.

Mendoza and Rivera (2017) researched on credit risk effect and capital adequacy on the Philippines rural banks profitability. They held that effective management of credit risk should be considered a crucial element in an all-inclusive risk management approach which must shield the individual loans as well as the whole loan portfolio. Moreover, they advised that the financial institutions ought to contemplate the connections between other forms of diversifiable and non-diversifiable risks and credit risk. In their study, they used Return on Asset and Equity (ROA & ROE) the banks measure performance. According to Their findings, credit risk had a negative influence on both ROA and ROE which was statistically irrelevant. Nevertheless, there was negative but statistically important effect on net profit after taxes. Since this study was based on

Philippines, it cannot be generalized for the financial institutions in other countries, especially in Kenya thus it formed a basis of this study.

Kithinji (2010), a study on the management of Credit risk and Kenya commercial banks profitability, he collected Statistics for the period 2004 to 2008 relating to the credit amounts, non-performing loans and profits levels. To find the total amount of credits, he used Loans and advances issued to customers divided by total assets of the institutions. NPL to total loan ratio was used to measure nonperforming loans whereas the institutions profitability was indicated in the firms Return on Total assets (ROTA). Findings revealed that a substantive portion of the banks' profits were neither influenced by the amount of credit nor the non-performing loans suggesting an additional variable apart from the two which had an impact on profit. Notably, the research by Kithinji focused on all the commercial banks in Kenya unlike in this research study which focused on banks listed in tier ii and tier iii.

Chen and Pan (2012) studied the efficiency of 34 Taiwan commercial banks credit risk looking at the period 2005 to 2008. Their study was based on financial ratios and Data Envelopment Analysis (DEA) to assess and analyze the credit risk respectively. Credit risk efficiency elements such as allocative efficiency (CR-AE), technical efficiency (CR-TE), and cost efficiency (CR-CE) were the key parameters of the study. However, in all the three types of efficiencies only one bank met the three types of efficiency. Data Envelopment Analysis model was used in this study unlike the current study which was based on regression model analysis addressing the methodological gap in literature.

Felix and Claudine (2008) did a research to see how credit risk management relates to bank performance. Their study findings indicated an inverse relation between the NPL ratio to total loan and measures of bank profitability ROA and ROE thus a decline in profitability. Ahmad and Ariff

(2007) did a study of commercial banks t credit risk key elements comparing the emerging economies with the already developed economies. Regulations were key in multi-products and services banking. For banks in emerging economies where loans were dominant, quality of Management was also considered a critical aspect. Considered a key determinant of probable credit risk was an increase in credit loss provision. The study stressed out that banks in the emerging economy had greater credit risk than their counterparts in developed economies. There was a variation in contextual characteristics, thus generalizing the findings of such study was difficult especially for commercial banks in Kenya.

Al-Khouri (2011) used fixed regression analysis while assessing banks specific risk characteristics, the overall banking environment and the performance of commercial banks. He focused on the 6 Gulf Cooperation Council (GCC) countries looking at the period 1998-2008 for the 43 commercial banks operating there. His study identified three types of risks as the major factors affecting bank performance. These were liquidity, credit and capital risks. In their quest to study how Middle East and North Africa (MENA) countries commercial banks' margin and profitability is affected by bank's regulations, concentration, financial and institutional development for the periods 1989-2005, Naceur & Omran, (2008) found that credit risk and banks capitalization had a positive and significant impact on banks' profitability, net interest margin and cost efficiency. Their study was centered in the Middle East Banks. The current study however was on commercial banks Kenyan, thus addressing the contextual gap in literature.

Kolapo, Ayeni & Oke (2012) did an Empirical Analysis of commercial banks in Nigeria focusing on how the banks performance were affected by credit risk. They covered a period of 11 years from 2000 to 2010 focusing on credit function and credit creation roles of banks. The Variables of the study were as a result of Adopting sound internal lending policy, Credit Derivatives, Credit Bureau and Basel Accord Credit Securitization Compliance. ROA as a function of the ratio of non-

performing loan to Gross loan was used as an indicators of credit risk proxy for commercial bank performance, however it indicated insignificant relationship between the credit risk and bank performance. Additionally, Advances (NPL/LA) and ratio of Total loan & Advances to Total deposit (LA/TD) were used as an indicator of credit risk proxy. Most importantly, they did an analysis of Nigerian banks as opposed to the current study whose focus was on Kenyan banks. Each country's banking sector has its own unique features thus differing contextual characteristics. The implication thus is that the research findings of the study done in Nigeria cannot be applied in Kenya.

Mwaura (2005) asserted that the key factors contributing to poor performance in loan disposition by nihilist societies in Kenya were lack of credit analysis and credit follow-ups. According to Mwangi (2010), there is an association between credit risk management and banks financial performance. Square Measures of Monetary performance is driven by 3 essential problems. These are the business gain, the size of the business, and its overtime growth (Ronald and Carverhill, 2011).

2.3.2. Periodic loan review and loan performance

Haile (2015) did a study on loan repayment performance Determinants of Microfinance institutions in Harari, Ethiopia. They employed the use of Participatory tools like direct observation, focused group discussions, case studies and key informant interview to collect qualitative data. In addition to secondary sources, household survey was also used to draw quantitative data. Profitability level was used as a measure of loan repayment performance. The study showed that lack of training, follow up and loan review programs were an obstacle to the performance of institutions thus the debtors felt that no one had the interest whether they did not pay hence they did not repay. The study also showed that out of the sample respondents 51(42.5%)

opined non-suitability of the repayment period whereas 69(57.5%) recommended a much longer than one year repayment period as suitable. This study looked at Microfinance institutions in Ethiopian whereas the researcher's study was addressing the commercial banks in Kenyan, thus addressing the contextual gap in literature.

Kwakwa (2014), he focused on bank loan portfolio (portfolio quality indicator) while conducting a study on the commercial bank's performance determinants in Ghana. He relied on ROE and ROA as banks' performance measure. Findings of the study showed that loan loss provision shown a statistically significant and a negative relationship with profitability before taxation. Provision for doubtful debts also had an effect on profits of banks after taxation as compared to profits before tax. This loss was caused by lack of MFI managers conducting routine monitoring of the portfolio quality ratios thus they were unaware of the amount and total loans rescheduled. The study however could not be generalized for other countries, especially the financial institutions in Kenya since it was based on Ghana and therefore it formed a basis of this study.

Cortavarria, Dziobek, Kanaya & Song (2000) conducted a research on Loan review, provisioning, and macroeconomic linkages in G-10 countries (Group of 10 leading industrial countries). The study found that Loan review and provisioning were important elements of bank-risk management systems considering such factors as borrower repayment capacity and economic conditions, as well as expost factors such as interest past due. However, Cortavarria *et al.,* (2000) focused on specific countries thereby limiting the study to the ten countries hence cannot be generalized for other countries. The current study was on commercial banks in Kenyan thereby providing a country's specific result

2.3.3. Loan collateral and loan performance

Kimando, Kihoro and Njogu (2012) did a research In Murang'a Municipality, Kenya focusing on factors that influenced the sustainability of MFIs within the municipality. Findings of Their study shown that loan non-repayment was the greatest challenge as was indicated by 88.9% of the respondents. I addition, they found that many MFIs employed credit rationing as a tool of hedging against the damage of default by borrowers. In regards to this, they advised the institutions to secure their loans requesting for some form of collateral before giving loans. The study findings cannot be generalized for all the financial institutions in Kenya since they only focused on MFIs in Murang'a Municipality.

Acquah and Addo (2011) did an empirical study in Ghana, to identify the Determinants of loan repayment performance of fishermen in the country. For the independent variables, they measured the effects of the socioeconomic Characteristics of fishermen, the loan processing and disbursement Procedures and the socioeconomic elements of loan payment performance of fishermen as.in order to analyze the socio-economic factors, they relied on multiple regression analysis. Out of the interviewed fishermen 40.3% had to provide collateral substitutes before loans were given out whereas 59.7% did not provide collateral security before loans were given out to them. The study identified Fishing income and collateral issued as security as major determinants of the size of loan issued whereas the amount borrowed, floating charge on collateral issued as security and size of loan invested into fishing as significant predictors of loan repayment. However, the focus of the study was on loan repayment performance of fishermen in Ghana unlike the current study which was focusing on banks in Kenya thereby, addressing the contextual gap in literature.

Kinyondo & Okurut (2009) did a study on microcredit institutions from Tanzania looking at the Determining factors of loan repayment performance. This was judged on the basis of collected interest revenues and reduced loan losses showing the internal strength of the institutions. The logit model adopted for analysis of the elements of loan repayment performance among Micro Finance Institutions. The findings of the study show that insurance especially third part loan collateral in case of group borrowing had a major effect on loan repayment performance of MFI in Tanzania as measured by Interest Revenue collected.

An empirical investigation was done by John, Lynch & Puri (2003) on collateral, Credit ratings & loan characteristics on the Effects for yield in the U.S. The study gathered data for the period January 1, 1993, to March 31, 1995.the study revealed that all commercial and industrial collateralized debt made in the United States had a higher yield than general debt. The findings of such study however cannot be generalized for commercial banks in Kenya Given the variation in contextual characteristics.

Okoth & Gemechu (2013) did a study on factors affecting the loan performance of commercial banks in Kenya. The study used panel data dating for periods between 2001 and 2010. The findings showed that loan collateral as indicated by cash flow and collateral loans had a significant effect on the commercial bank's financial performance. However, this study relied on panel data analysis unlike the current research which used multiple regression analysis. According to Schmidt-Mohr (1997), a collateral pledge allows the creditors to observationally sort equivalent loan candidates and moderate these inefficiencies. The creditors may propose an agreement listing the terms such that candidates with a superior quality ventures select secured loans with lower payments rates, whereas those with projects of lower quality select unsecured debt at higher premiums.

Boot (2000) averred that the relationship length between the institution and the borrower had an effect on the collateral as well as on interest rates. In their opinion, during the early stages of the relationship, high interest rates and collateral have to be pledged by the debtors. However, this changes later on in the relationship. Once successful projects and good borrowers are identified, they would have to pay lower rates without necessarily pledging a collateral. Stigliz and Weiss (1981) said that financial institutions' prerequisite for securities before creating loans decreases the adverse selection problem, creating opportunities for higher repayment rate leads to lower default rate. Ogawa & Suzuki (2000) also suggest that collateral is a significant factor in the determination of the financial institution's debt supply.

2.3.4. Early Warning Signs to Loan Delinquency and loan performance.

Addae-Korankye, (2014) researched on loan default/delinquency Causes and control focusing on MFIs in Ghana. They studied looked the twenty-five MFI's in Acra. Multiple regression model was used to analyze the study. From the results, causes of loan default by clients of MFIs differed. Clients assigned different factors, while loan officers who were on the field also assigned different factors. The factors indicated by clients as causes for payment default were not clearly the main reasons thereby much consideration ought to have been given to those factors of loan officers in order to reduce loan default. However, the study looked at causes and control of delinquency whereas the current study was on early warning signs to delinquency and loan performance addressing the conceptual gap.

Warue (2012) did a research looking at the Factors affecting credit delinquency in MFIs in Kenya. Multiple regression model was used to establish the loan delinquency indicators and microfinance institutions. Irregular loan repayment, group conflicts, refusal to participate poor record keeping, overdue amounts were highlighted as early indicators of loan delinquency.

Wenner (1995) did a research on Group credit, a means to improve information transfer and loan repayment performance. Data was gathered from the FINCA group Credit program in Costa Rica. study revealed that joint liability group lending addressed the uneven sharing of information on non-payment risk among the parties contracting thus lowering the rate of default as opposed to the risk associated with individual borrowers since it was problematic and expensive to the formal lender to directly establish affecting anticipated outcome: the expected lender profit and loan repayment and also that group borrowing solved the monitoring issues by persuading group members to monitor their colleagues to assess whether diligence was being employed.

2.4. Summary of Empirical Review and Research Gaps

The literature review of earlier work regarding debt management and performance of loan has highlighted the existence of various research gaps in literature such as methodological, conceptual and contextual gaps. A number of studies were based on both the developed and a number of developing countries with varying economic conditions limiting their application to the Kenyan context especially for Kenyan commercial banks. From the review, not so much studies have been done about the comparative performance in the post liberalization era. However, the present study was dedicated to finding out the performance in 2015 to 2019. It was therefore significant to analyze debt management effect on commercial banks loan performance, in Kenya.

Table 2. 4 Empirical evidence and research Gaps

Researcher(s)	Objective	Key Findings	Research gap	Focus of the study
Mendoza & Rivera (2017)	credit risk effect and capital adequacy on the Philippines rural banks profitability	Credit risk had a negative influence on both ROA and ROE, which was statistically irrelevant. Nevertheless, there was negative but statistically important effect on net profit after taxes	Contextual gap since the study only focused on Philippines banks	The study focused on commercial banks in Kenya
Addae (2014)	Research on loan default/delinquen	factors assigned by clients as reasons for default of	Conceptual gap since the study	This study focused on

Researc her(s)	Objective	Key Findings	Research gap	Focus of the study
	cy Causes and control of in MFIs in Ghana.	payment were not explicitly the main reasons for default thereby much consideration should have been given to those of loan officers in order to reduce loan default	was on loan default/delinquen cy Causes and control.	loan delinquency early warning signs and loan performance
Okoth & Gemech u (2013)	factors affecting the loan performance of commercial banks in Kenya	loan collateral as indicated by cash flow and collateral significantly affects the commercial banks financial performance	Conceptual gap. The study was on factors that affect loan performance of commercial banks in Kenya. Methodological gap. The study used panel data dating whereas the current .	This study focus is on loan collateral and loan performance study will use multiple regression analysis
Kolapo, Ayeni & Oke (2012)	how the banks performance was affected by credit risk	ROA as a function of the ratio of non-performing loan to Gross loan indicated an insignificant relationship between the credit risk and bank performance	Contextual gap since the study only focused on banks in Nigeria.	The study focused on Kenyan context; key focus was on commerce banks in Kenya.
Moti, Masinde, Mugenda , & Sindani (2012)	Assessing the usefulness of credit risk systems of management on the loans performance basing on the 5C's appraisal model of credit.	The 5'cs model of client assessment was significant when evaluating customers, since it affected loan performance	Contextual gap. The study focused on micro finance institutions in Meru	This study focused the Kenyan Commercial banks listed in tier ii and tier iii
Chen and Pan (2012)	efficiency of 34 Taiwan commercial banks credit risk	in all the three types of efficiencies only one bank met the three types of efficiency	Methodological gap. The study used Data Envelopment Analysis	The current study was based on regression analysis addressing.
Acquah and	Empirical study in Ghana, to identify	Fishing income and collateral issued as security		This study focused on

Researc her(s)	Objective	Key Findings	Research gap	Focus of the study
Addo (2011)	the Determinants of loan repayment performance of fishermen in the country.	as major determinants of the size of loan issued whereas the amount borrowed, floating charge on collateral issued as security and size of loan invested into fishing as significant predictors of loan repayment	Conceptual gap. The study was on loan repayment performance of fishermen in Ghana	loan collateral and loan performance
Kithinji (2010)	the management of Credit risk and Kenya commercial banks profitability	substantive portion of the banks' profits were neither influenced by the amount of credit nor the non-performing loans suggesting an additional variable apart from the two which had an impact on profit	Conceptual gap. The study was on Credit risk management and profitability.	The focus of this study was on Credit risk management and loan performance
Kinyondo and Okurut (2009)	Study on loan repayment performance Determinants of microcredit institutions from Tanzania	Insurance especially third part loan collateral in case of group borrowing had a major effect on loan repayment performance of MFI in Tanzania as measured by Interest Revenue collected.	Contextual gap, this Study focused on microfinance institutions in Tanzania	whereas the current study was on the commercial banks in Kenya
Felix & Claudine (2008)	research to see how credit risk management relates to bank performance	inverse relation between the NPL ratio to total loan and measures of bank profitability ROA and ROE thus a decline in profitability	Conceptual gap This study focused on how credit risk management relates to bank performance	This study focused on Credit risk management and loan performance
Cortavarria, Dziobek, Kanaya, & Song (2000	Research on Loan review, provisioning, and macroeconomic linkages in G-10 countries (Group of 10 leading industrial countries).	Loan review and provisioning were important elements of bank-risk management systems	Contextual gap. The study focused on banks G-10 countries	This study focused on Kenyan commercial banks.

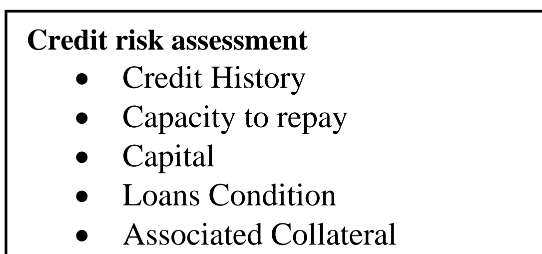
Source: Researcher (2020)

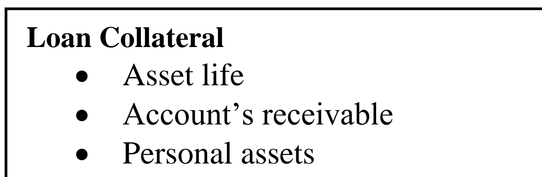
2.5. Conceptual Framework

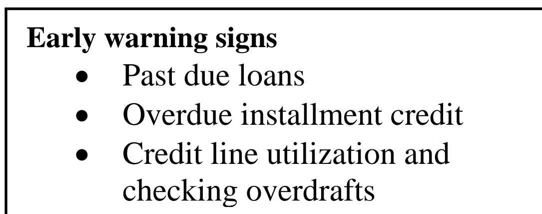
Conceptual framework is an indication of the composition of independent variables as credit risk assessment, Periodic Loan review, Loan Collateral, and early warning signs. Whereas, loan performance was indicated as the dependent variable. The assumption that guided this study was that credit risk assessment, Periodic Loan review, Loan Collateral, and Early warning signs influences commercial banks loan performance as presented in figure 2.1 below.

Independent Variables **Dependent Variables**

Debt management Practices







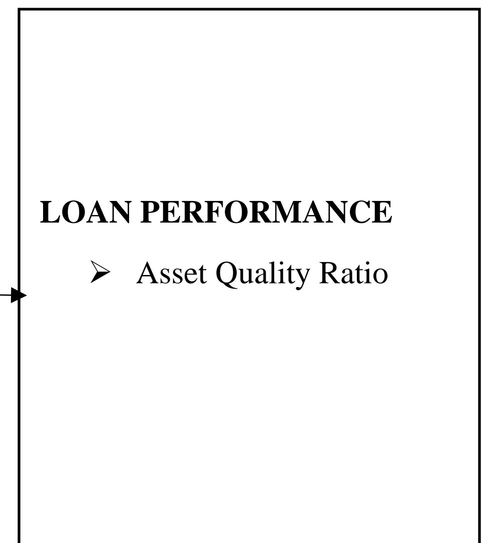


Figure 2.1 Conceptual Framework

Source: Researcher (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction.

Chapter three gives an explanation of the methods of research that were used in the study. The chapter explains the design employed, the study population, sampling techniques, data collection techniques. In addition, it also explains how the data was analyzed and presented.

3.2. Research Design

Research design according to Trochim (2006) is a structure of all the main components of the research project such as collection, measurement and data analysis. This current study adopted a causal research design.it was considered suitable since it helped to show the kind of the cause- and -effect relationship (Brains, Willnat, Manheim, & Rich, 2011). Causal research design was also considered suitable for the study since it indicated how an adjustment in one variable of the study (the independent variable) affected the dependent variable and explained the patterns of the relationship between variables. This design was suitable for the study as it sought to scrutinize the consequence of debt management on commercial bank loan performance in Kenya.

3.3. Target Population

In statistics, Target population denotes the precise population whose information the researcher desires to know. According to Orodho (2003), a population is a well-defined set of individuals, elements, objects, events or households that are being studied. In this study, the target populations were thirty-six (36) commercial banks listed in the lower tiers (tier 2 and tier 3) since most of these

are the banks struggling with the buildup as well as liquidity problem (Kenya Bankers Association, 2019)

The research targeted three respondents in each bank namely: the bank managers, finance managers and credit managers drawn from the Head office of every bank listed in tier II, and III. The choice of these respondents was guided by their involvement in risk appraisal and management, cash flow management including collection, disbursement and production of financial reports and overall financial and business management of the financial institution. Therefore, the target population was a total of 108 (3*36) members from these banks. The criteria applied here entailed the purposeful sampling which describes the type of participants or respondents that satisfy the research's objectives (Morgan, 2019).As Morgan asserts, this criteria of selecting respondents is a technique in qualitative sampling.

3.4. Sampling Design

A sample design is usually a small number of persons, events, objects that a researcher selects and analyzes so that he or she may get something from the entire population from which they were selected. Sample denotes a small proportion of the population that is targeted which is chosen using a certain systematic format (Leung & Yu, 1996). A sample of 85 members was drawn from a total of 108 bank managers, finance managers, and credit officers. Mugenda and Mugenda (2003) held that a response rate greater than 10% is sufficient for the study when the minimum level of the population targeted is less than 1000. Therefore, the size of the sample that was drawn was 85 respondents which is 78.70% (85/108*100=78.70%)

3.4.1. Sample Size Determination

So as to determine the sample of credit officers, the research used the Yamane's formula (Yamane 1967) as follows

n= $\frac{N}{1+N\,(e)2}$

Where by n= sample size

N= the population size (108)

e= the error margin of (0.05)

n= $\frac{108}{1+108(0.05)2}$

n= 85.

In this study therefore, 85 respondents were sampled from bank branch managers, the finance managers, and the credit officers.

3.4.2. Sampling Frame

Table 3.1: Sampling Frame

RESPONDENTS	TIER II BANKS	TIER III BANKS
Branch Managers	11	18
Finance Managers	11	17
Credit Officers	11	17
TOTAL	33	52

Source: Researcher, 2020

3.5. Data Collection Instruments.

In order to collect data, the researcher employed the use of questionnaires. Questionnaires were used since it permits measurements against or for a precise point of view. It's was also capable of collecting a great quantity of information in a short period. Also, through its use, the questions were easily analyzed and it also gave the respondents sufficient time to respond, (Orodho, 2009). Similarly, this method of data collection is considered appropriate since it is versatile; it saves time

to distribute the questionnaires and is cost effective. The questionnaires were administered to the respondents in each institution. These were the bank manager, credit manager and finance manager. This was done using a drop and pick method. The data collection tool had both the closed and open-ended questions. The Open-ended questions pursued thorough information whereas the closed ended ones could easily be analyzed and understood. These then presented the primary data needed in the research. The research combined the primary data with the secondary data such that the responses from the respondents could be evaluated with the impact of the market condition.

3.5.1. Validity of study instruments

This is the level where a test results represents the variable for which they are intended. According to Kothari (2011), Validity of a research instrument refers to the success of a scale to measure that which it is set measure so that the variances in individual scores can be taken as a representation of the true differences on the features under study.

To test the research instrument validity, the researcher worked with the supervisor who is considered an expert. The instrument was pre-tested to check its validity and if it's relevant to the study objectives. The questionnaires were inspected for errors and omissions, vagueness, legibility and relevance. The questionnaires content, structure and sequence were properly corrected to eliminate any ambiguities and to enhance content validity.

3.5.2. Reliability of study instruments

Reliability refers to a measure's consistency. That is, the consistency that a data collection tool demonstrates when applied repeatedly under the same conditions (Kombo & Tromp, 2006). the researcher used the test-retest method in order to determine the research instrument's reliability, 22method. This was done by giving the same test to the same people repeatedly after some time.

The reliability of the instrument was estimated by examining the consistency of the results between the two measurements. According to Joseph, William, Barry and Babin (2014), a numerical constant of 0.70 or more suggests reliability of data.

George and Mallery (2003) following rules of thumb is applicable: Cronbach alpha coefficient close to 1.0 is regarded as better. A value greater than 0.9 is excellent, a value of 0.8 is Good, a value greater than 0.7 is Acceptable, a value greater than 0.6 is Questionable, a value greater than 0 .5 is Poor, and finally a value less than 0.5 is Unacceptable" therefore, a value equals to or more than 0.70 means that there is sufficient reliability of the instrument used. Using IBM SPSS Version 20.1.0 the following findings were derived.

Table 3.2: Reliability test

Cronbach's Alpha	Cronbach's Alpha Based on Standardized items	No. of items
.791	.820	85

Source: Study Data (2021)

The researcher used the Cronbach alpha to test for reliability. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. Based on table 3.2 above, the value for Cronbach Alpha is 0.791 for all the 85 items. This is above the recommended figure of 0.70. Therefore, the responses are reliable. A reliability figure of more than 0.7 is a sufficient reliability test of an instrument of research (Creswell, 2003).

3.6 Data Collection Procedure

The researcher obtained an introductory letter from Kenyatta University. Upon the institution's approval, the researcher collected data using questionnaires. The Questionnaires were issued to

the bank managers, finance managers and credit managers. The questionnaires were distributed to the respondents and then collected after an agreed period.

3.7 Operationalization and measurement of variables

Lancaster and Montinola (2001) defined Operationalization as the process by which a researcher spells out precisely how a concept will be measured, that is Putting a variable into quantifiable aspects or measurable factors. Loan performance formed the dependent variable in the study whereas Credit risk assessment, Periodic loan review, Loan collateral and early warning signs of Loan delinquency were the independent variables. Table 3.3 presents the Operationalization and measurement of variables used in the study.

Table 3.3: Operationalization and Measurement of Variables

Variables	type	Operationalization	Measurement	Measurement Scale	Direction
Loan performance	Dependent Variable	Asset quality Ratio	Non-performing Loans/Total Loans	Ratio scale	+/-
Credit risk assessment	Independent Variable	Number of loans and amount of loan portfolio insured. Client's credit report generated by credit bureaus, debtor's income statement, client's capital contribution towards an investment, collateral availed	• Borrowers 5 C's	Ordinal scale	+/-

Variables	type	Operationalization	Measurement	Measurement Scale	Direction
Periodic loan review	Independent Variable	Frequency of monitoring current outstanding loans, number of debts restructured, number of visits made to the borrowers 'for re-appraising the borrowers' financial position.	• Outstanding Loan portfolio • Borrower financial health	Ordinal scale	+/-
Loan collateral	Independent Variable	The form or type of assets used as collateral.	• Asset life • Account's receivable • Personal assets	Ordinal scale	+/-
Early warning signs of Loan delinquency	Independent Variable	The records of borrower's payments schedule, number of reviews done on the debtor's internal records.	• Past due loans • Overdue installment credit • Credit line utilization and checking overdrafts	Ordinal scale	+/-

Source: Researcher (2020)

3.8 Data Analysis and presentation

The study yielded both the quantitative and qualitative data. So as to analyze the numerical data, the researcher employed the use of Descriptive data statistics analysis. Quantitative data was fed in an SPSS programme (Statistical Package for Social Sciences) where it was analyzed using descriptive and inferential statistics. SPSS was considered appropriate as it allowed the researcher to use a clear set of quantitative data analysis processes which leads to increased data validity and reliability and proves the relationship between the research variables. Descriptive analyses provide the basis upon which correlational studies emerge. They also provide clues regarding the issues

that should be focused on leading to further studies (Kothari, 2011). Descriptive statistics assisted in calculating measures of central tendencies and measures of variability in order to determine how independent variables affect the dependent variables.

For the researcher to ascertain the manner in which dependent variables are affected by the independent variables, Inferential statistics through correlation analyses was applied to establish the nature of the relationship that exists between the variables. In order to quantify the strength of the relationship between the variables, the study employed the use of multiple regression analysis to study the determinants of debt management and their influence on the loan performance of commercial banks. Regression method was also applied due to its capability to examine the nature of effect of independent variables on a dependent variable. The regression model used was in the form of:

$$Y_{it} = \propto + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \epsilon$$

Where;

Y_{it}=Loan Performance for each commercial bank at year t

X_1= Credit risk assessment

X_2= Periodic loan review

X_3= Loan collateral

X_4= Early warning signs of Loan delinquency α=constant value

€ =error term

B_1-B_4=coefficients/constants.

Qualitative data was analyzed by summarizing the drawn set of data from the respondents in frequency tables. The data was assigned numerical value and entered into the SPSS computer system. The study findings were be presented in form of frequency tables, pie charts and bar charts.

3.9 Ethical considerations

It is imperative that the researcher observes the basic ethics that govern the study/research. Some of the vital considerations that were of significance to the researcher are; Voluntary participation in the study, anonymity, and protection of the respondents from the possible harm expected to arise due to participation in the study. Therefore, the researcher did the following. Introducing to the respondents the purpose of the study as being for academic purposes only and assuring them that the data would not be used in any other purpose apart from learning purposes. The researcher also sought for authority to conduct the study from the various institutions which included the Kenyatta university administration which gave an introduction letter to the researcher to the institutions which she will visit. Consent was also sought from the administration of the institution where the study was carried out.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1. Introduction

Chapter four gives a deep insight on what was introduced in chapter one of the study and a further reflection on literature review and the methodological part on chapter three. This section will be divided into two broad units. Section one encompasses presentation of data in form of bar charts and pie charts as well as tables entailing descriptive statistics. The other section will focus more on the inferential statistics.

4.2. Response Rate

This research target population was 108 participants with a sample size of 85 participants. 85 responses were attained representing 100% of the study indicating that all the respondents agreed to contribute to the study by giving out information, they positively answered by finishing the questionnaires issued to them as shown in table 4.1 below. This was considered adequate for the objectives of this study   According to Orodho (2013), when a response rate of more than 75% of the sample size of the study is attained, then the study is very reliable and the findings can be statistically used to make a conclusive remark.

Table 4.1 Response Rate

Questionnaires	Number	Percentage (%)
Issued Questionnaires	85	100
Returned Questionnaires	85	100

Source: Study Data (20121).

4.3. Demographic and General Information of Respondents

Participant gender and age group are amongst the demographic information attained from the participants. On the other hand, highest education level as well as the period they have worked in the company and the position they hold represented other key general information

4.3.1. Gender of Respondents

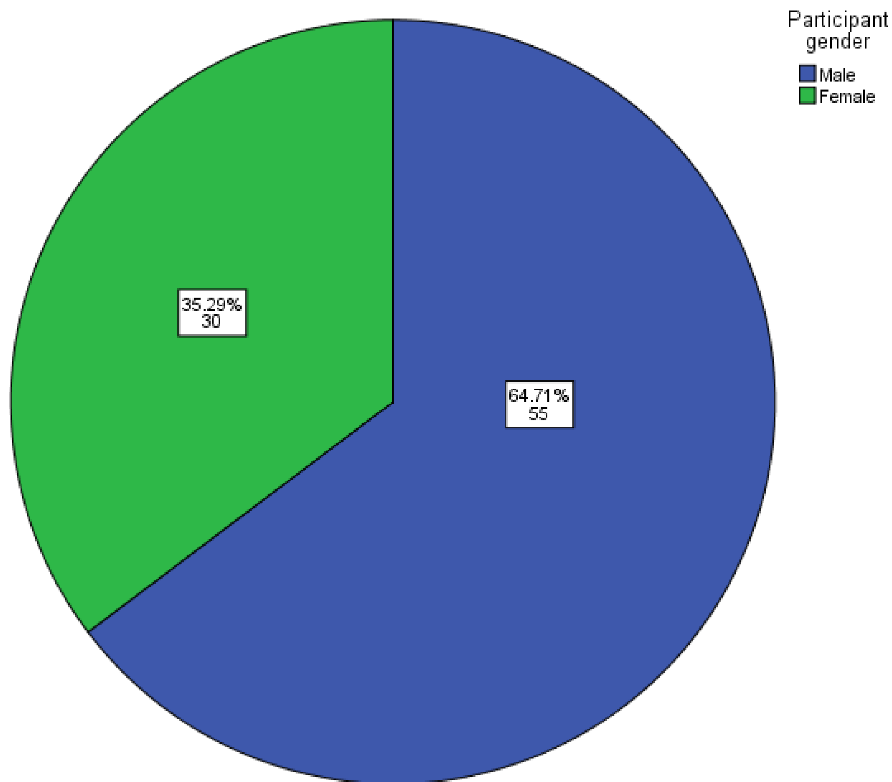


Figure 4.1 *Gender of Respondents*

Source: Study data (2021)

In figure 4.2 above Male participants dominated the study compared to their female counter parts. This is based on the findings that 64.71% entailed male respondents while 35.29% were female participants.

4.3.2. Age Bracket of Respondents

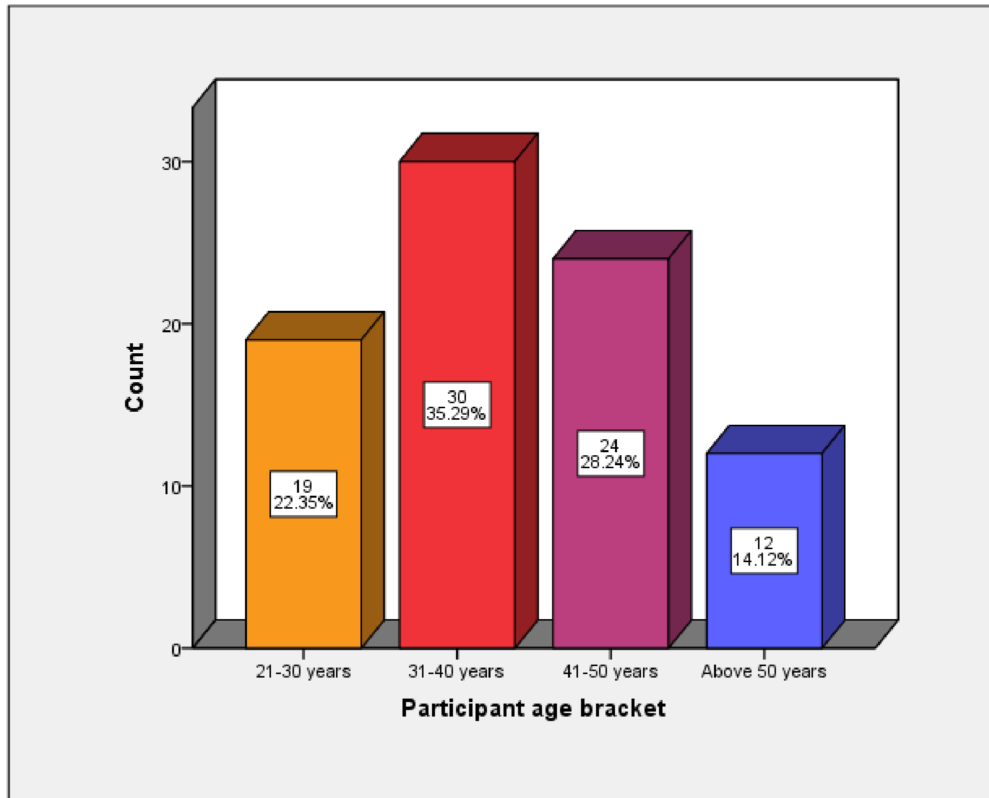


Figure 4.2 Participants' Age Bracket.

Source: Study data (2021)

In figure 4.2 above Majority of the participants that undertook the research study were within an age group of 31-40 years representing 35.29%. Those aged between 41-50 years followed representing 28.24%. Nineteen respondents equivalent to 22.35% were aged between 21-30 years. Minority of the respondents were above 50 years representing 14.12%.

4.3.3. Education Level of Respondents

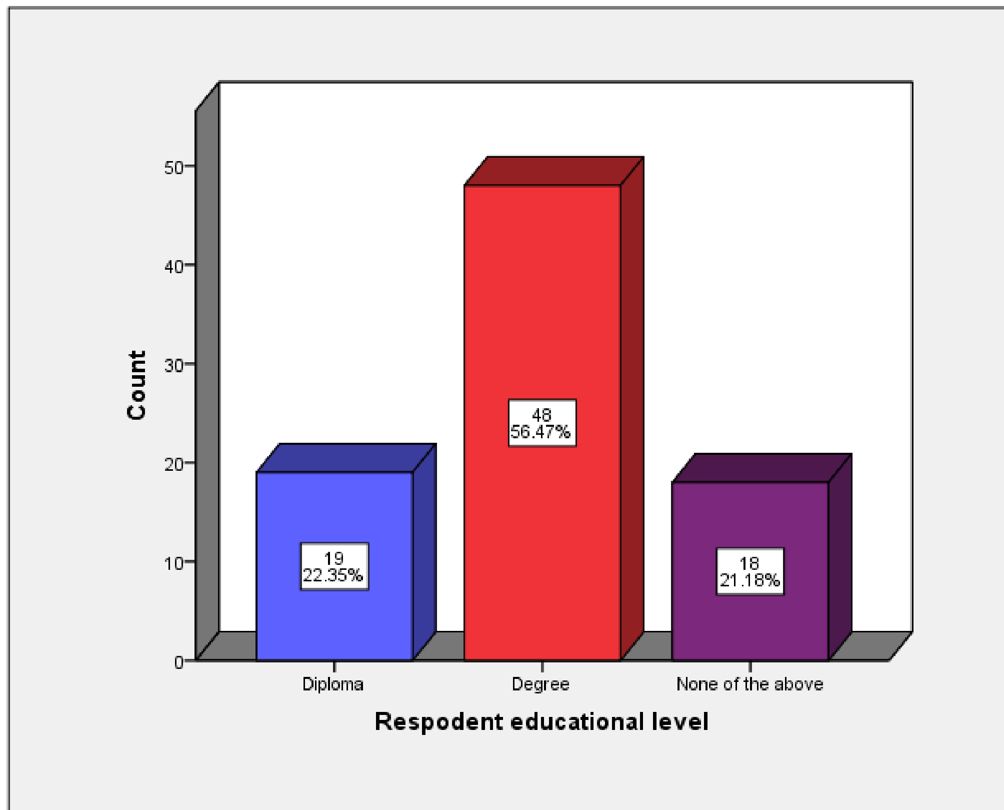


Figure 4.3 Respondents Education Level

Source: Study data (2021)

In figure 4.3 above Forty-eight participants equivalent to 56.47% were of degree level and were the majority. Participants that had attained diploma were represented by 22.35% and minority (21.18%) had attained neither diploma nor degree.

4.3.4. Length of Employment

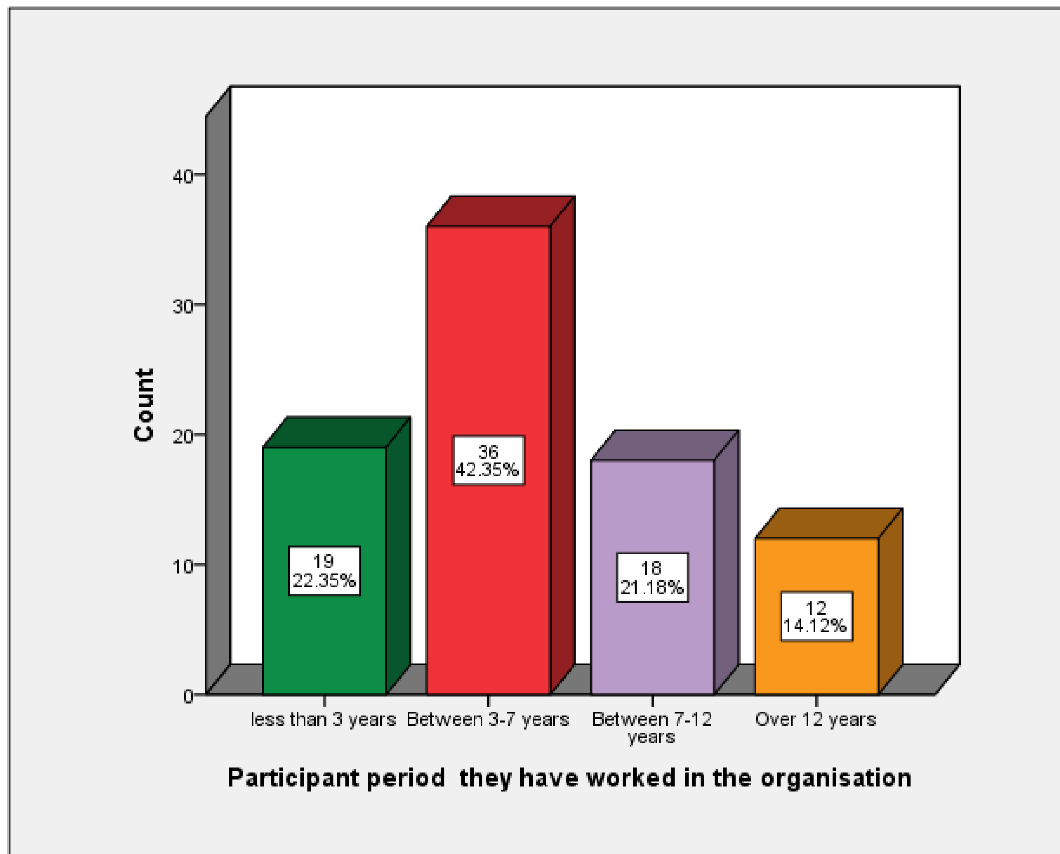


Figure 4.4 Length of Employment

Source: Study data (2021)

In figure 4.4 above Thirty-six respondents equivalent to 42.35% had worked between 3-7 years while 22.35% had been in the company for a period less than three years. Additionally, 21.18% represented those that had worked for 7-12 years and 14.12%, who were the minority had worked for a period of more than 12 years.

4.3.5. Position Held at Organization

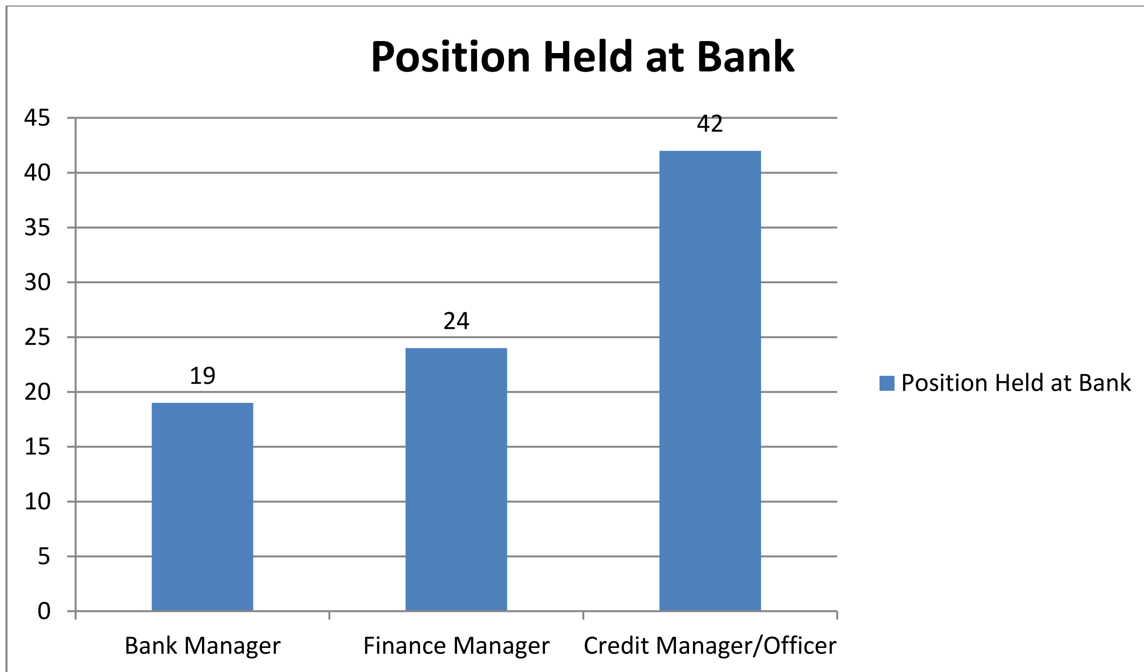


Figure 4.5 *Position Held at the Bank*

Source: Study data (2021)

In figure 4.5 above Majority of the participants were credit officers representing 35.29%. Moreover, 28.24% implied those that were finance managers and 22.35% represented bank managers. Minority, of the participants were clerks posting 14.12% of the study population.

4.4. Descriptive Statistics

4.4.1. Credit Risk Assessment.

The first objective of the study sought to determine the effect of credit risk assessment on loan performance of commercial banks in Kenya. Respondents were provided with a scale of 1 to 5 (5 = strongly support, 4 = support, 3 = neutral, 2 = object and 1 = strongly object) to choose on what extent they supported or objected to the following statements on credit risk assessment as shown in table 4.2 below.

Table 4.2: Descriptive Statistics of Credit Risk Assessment.

Statement		1	2	3	4	5	Mean	S.D
The institution has adopted credit management practices	F	37	12	6	18	12	3.52	1.55
	%	43.5	14.1	7.1	21.2	14.1		
credit risk management practices affect loan performance	F	12	37	18	12	6	3.44	1.11
	%	14.1	43.5	21.2	14.1	7.1		
The institution to evaluate a customer as a potential borrower uses the 5Cs model of credit management.	F	24	30	18	6	7	3.68	1.19
	%	28.2	35.3	21.2	7.1	8.2		
The 5Cs help the institution to increase loan performance, as they get to know their customers better.	F	37	18	12	6	12	3.73	1.44
	%	43.5	21.2	14.1	7.1	14.1		
Third party insurance affects loan performance	F	24	24	18	12	7	3.54	1.26
	%	28.2	28.2	21.2	14.1	8.2		
Credit risk management practices Provide an effective framework to measure, monitor, and control credit risk.	F	25	18	18	12	12	3.38	1.41
	%	29.4	21.2	21.2	14.1	14. 1		

Source: Study Data (2021)

Credit management practices were adopted in these institutions. This is based on the notion that; a cumulative percentage of 57.6% were of the opinion comprising of those whom strongly support (43.5%) and support (14. 1%). Nevertheless, there were those who were of the contrary opinion that credit management practices are not adopted in the institution represented by object (21.2) and strongly object (14.1%) they were of lesser effect. An average of 3.52 reflects that majority were of the idea that credit management practices were adopted at their specific banks.

Moreover, more than half of the respondents echoed the facts that credit management practices affect loan performance. This is statistically evidenced by measures of central tendencies and percentages. An average of 3.44 attest to the facts that to some extend credit management practices affects loan performance. More so, percentages of 14.1% and 43.5% gives a summative of 57.6%

which is more than half of the respondents that took part adopting the idea that credit management practices affect loan performance.

Even though, there were dispersion exhibited in the ratings that the 5Cs model was being used by the institution to evaluate a client as a prospective borrower based on a standard deviation value of 1.20. Moreover, based on the results that all the ratings scale were recorded right from those who strongly supported to those whom strongly objected. Participants with whom were of agreeing opinion strongly support (28.2%) and support (35.3%) supersedes those who objected (7.1%) and strongly object (8. 2%). Hence, from the results it can be concluded that institution appraises a customer as a prospective debtor using the 5Cs model of credit management.

More so, these findings posit the assumption that 5Cs aid institutions to grow their loan performance, as they get to know their clients better. This is supported by the descriptive statistics results of a mean 3.73 as well as representation of those whom were supportive having a stronger effect compared to those with a contrary opinion that 5Cs does not help the institution to increase loan performance. Results of 43.5% represented those whom strongly agreed, 21.2% agreed while 14.1% represented those who were undecided on whether to agree nor disagree, 7.1% and 14.1% reflects those whom were of a contrary opinion.

Third party insurance affects the performance of the loan. This is based on the findings that out of the possible 100%, 56.4% represented those with an idea that third party insurance affects loan performance while 21.2% were on the undecided panel and a cumulative percentage of 22.3% represented those that disagreed (14.1%) and strongly disagreed (8.2%) with the opinion that third party insurance does not affect loan performance. An average of 3.54 attests to the facts that third party insurance affects loan performance.

A standard deviation of 1.41 implies that there was a greater dispersion based on the idea that credit risk management practices provide an effective framework to measure, monitor, and control

credit risk. This is due to the diligence that all the ratings implying those that strongly disagreed to those that strongly agreed were recorded. Nevertheless, majority were of supportive opinion that Credit risk management practices provide an effective framework to measure, monitor, and control credit risk. This is based on a cumulative percentage of 50.6% representing those that strongly agreed (29.4%) and those who agreed (21.2%). On the other hand, 21.2% entails those with undecided opinion and 28.2 implying those that were on the contrary opinion with a notion Credit risk management practices does not provide an effective framework to measure, monitor, and control credit risk.

Comparatively, this study agrees with Mendoza and Rivera (2017) that nonperformance of credit risk assessment has a negative influence on both ROE and ROA which are statistically irrelevant. However, it had a statistically significant and negative impact on net profit after taxes. It however contradicts studies by Kolapo, Ayeni and Oke (2012) that the influence of credit risk on institution's performance indicated by the Return on Assets of banks was unimportant. The study reinforces research done by Mwaura (2005), Chen and Pan (2012), Felix and Claudine (2008), and Al-Khouri (2011) which assert that lack of credit analysis, credit follow-ups moreover are the key factors contributing to poor performance in loan performance.

4.4.2. Periodic Loan Review

The second objective of the study sought to determine the significance of periodic loan review to loan performance of commercial banks in Kenya. Respondents were provided with a scale of 1 to 5 (5 = strongly support, 4 = support, 3 = neutral, 2 = object and 1 = strongly object) to choose on what extent they agreed or disagreed with the following statements on periodic loan review as presented in table 4.3 below

Table 4.3: Descriptive Statistics of Periodic Loan Review.

Statement		1	2	3	4	5	Mean	S.D
Provide an effective framework to measure, monitor, and control loan repayment	F	30	36	6	6	7	3.89	1.21
	%	35.3	42.4	7.1	7.1	8.2		
Provide guidance and timely information on emerging issues and concerns that should be incorporated into the customer loan policy and loan portfolio.	F	31	24	18	12		3.87	1.07
	%	36.5	28.2	21.2	14.1			
Routine check of clients' financial health is an effective indicator of loan performance.	F	30	30	18		7	3.89	1.14
	%	35.3	35.3	21.2		8.2		
Controls pending risk	F	37	12	18	6	12	3.66	1.45
	%	43.5	14.1	21.2	7.1	14.1		
Ensures the loan performance stability.	F	18	42	18		7	3.54	1.27
	%	21.2	49.4	21.2		8.2		

Source: Study Data (2021)

An average of 3.8941 attest to the findings that loan review provides an effective framework to measure, monitor, and control loan repayment. This is also echoed by the findings of 35.3 representing those that strongly agreed with the opinion and 42.4 agreeing. Hence, those with a supportive opinion had a major swing compared to those with contrary opinions that loan review does not provide an effective framework to measure, monitor, and control loan repayment represented by 7.1% of those whom objected and 8.2% strongly objected.

Moreover, loan reviews provide guidance and timely information on emerging issues and concerns that should be incorporated into the customer loan policy and loan portfolio. A mean of 3.8706 signifies that majority agreed on the facts that loan review provide guidance and timely information on emerging issues and concerns that should be incorporated into the customer loan policy and loan portfolio. More so, a cumulative percentage of 64.7% referred those with a supportive opinion and 21.2% implied those that were undecided on whether to support or object.

Routine check of clients' financial health is an effective indicator of loan performance. This is alluded by more than 70% of the participants being on the supportive wing of strongly support (35.3%) and support (35.3%) as well as an average of 3. 89.On the other hand, there were those with contrary opinion that routine check of client's financial health is not an effective indicator of loan performance. However, the opinions were of lesser effect since a larger percentage was of the facts that financial health is an effective indicator.

An assumption that loan review controls pending risk is echoed by the facts that a cumulative percentage of 57.6% signifies those whom strongly agreed (43.5%) and agreed (14. 1%). On the other hand, 7.1% referred to those who disagreed that loan review does not control pending risk and 14.1% representing those strongly objecting while 21.2% representing those that had undecided opinion on whether loan review controls pending risk or does not control pending risk. Thus, based on the above findings it can be concluded that a larger extend loan review controls pending risk.

Majority of the participants were of the facts that loan review ensures loan performance stability. This is based on the findings that more than 60% of the respondents were of supportive opinion. This is represented by 21.2% representing those that strongly agreed that loan review ensures loan performance stability and 49.4% agreeing. Even though, there were records of those that posits that loan review does not ensure loan performance stability represented by 8.2% they were superseded by their counter parts that were in supportive opinion.

The research agrees with Haile (2015) study which found that lack of training, follow up and loan review programs were an obstacle to the performance of institutions thus the debtors felt that there was no interest that it did not matter whether they did not pay hence they did not repay. It also

agrees with Cortavarria, Dziobek, Kanaya & Song (2000) and Kwakwa (2014) that doubtful debts resulting from lack of periodic loan reviews had a negative effect on profit before tax.

4.4.3. Loan Collateral

The third objective of the study sought to determine the extent to which loan collateral help to achieve loan performance of commercial banks in Kenya. Respondents were provided with a scale of 1 to 5 (5 = strongly support, 4 = support, 3 = neutral, 2 = object and 1 = strongly object) to choose on what extent they supported or objected the following statements on loan collateral as presented in table 4.4 below.

Table 4.4: Descriptive Statistics of Loan Collateral.

Statement		1	2	3	4	5	Mean	S. D
Aspect of collateral are considered while appraising the client for loan.	F	12	12	12	30	19	2.62	1.35
	%	14.1	14.1	`14.1	35.3	22.4		
Collateral is a way to guarantee the recovery of loaned money.	F		18	18	30	19	2.41	1.06
	%		21.2	21.2	35.3	22.4		
In case of failure to pay the loan, the collateral is used to compensate for the defaulted loan.	F	18	12	18	19	18	2.92	1.44
	%	21.2	14.1	21.2	22.4	21.2		
Collateral offered is adequate to secure the loan issued.	F	12	12	30	7	24	2.78	1.37
	%	14.1	14.1	35.3	8.2	28.2		
Loan collateral minimizes chances of loan default.	F	12	18	18	18	19	2.84	1.37
	%	14.1	21.2	21.2	21.2	22.4		

Source: Study Data (2021)

Under the aspect of collateral to some extend collateral are considered while appraising the client for loan. This is based on the findings that a cumulative percentage of 28.2% represents those that rate the aspect of collateral being a factor while appraising the client for a loan. On the other hand, 57.7% had an illusion that; the aspect of collateral is not considered while appraising the client for

loan. This signifies that to a greater extend collateral were not considered in majority of the commercial banks in Kenya. Due to the disparities recorded evidenced by a deviation of 1.35380.

It is evidenced from the result that up to a certain degree, a collateral is a way to guarantee the recovery of loaned money. This is based on the findings that alluded to the facts that 21.2% represented those that supported. On the other hand, 21.2% were undecided whether Collateral is a way to guarantee the recovery of loaned money or not a guarantee represented by 21.2%. A summative percentage of 57.7% represented those that value collateral as not a way that guaranteed recovery of loaned money.

Eighteen respondents out of the possible eighty-five representing 21.2% were undecided whether collateral was used to compensate for the defaulted loan or not. However, more than 35% were familiar that collateral was used to compensate for defaulted loan represented by those whom strongly support (21.2%) and support (14. 1%). On the other hand, a larger dispersion was evidenced by 43.6% representing those that objected and strongly object that collateral was not used to compensate for defaulted loan.

Even though, there were those within the record that collateral offered is adequate to secure the loan issued represented by those that strongly support 14.1% and support 14.1%. Majority, were undecided on the statement that; collateral offered is adequate to secure the loan issued representing 35.3% of the study population. More so, 36.4% in summative form is accumulated passed on those whom strongly objected 28.2% and objected with the facts that collateral was offered in order to secure the loan issued represented by 8.2%.

However, loan collateral minimizes chances of loan default this is based on the results that; 14.1% and 21.2% represented those with a stronger effect that collateral minimizes chances of loan default. On the other hand, 21.2% represented those that were undecided on whether loan collateral

minimizes chances of loan default or does not minimizes chances of loan default. A cumulative percentage of 43.6% represented those that entailed an aspect that loan collateral does not minimize chances of loan default. An average of 2.84 implies that opinions were skewed to the positive side of the argument that loan collateral minimizes chances of loan default Unlike Acquah and Addo (2011) findings of this study established that a collateral is not a guarantee of loan repayment. The findings also contradict studies done by Kinyondo and Okurut (2009) and Okoth and Gemechu (2013).

4.4.4. Early Warning Signs of Loan Delinquency

The fourth objective of the study sought to examine how early warning signs of loan delinquency affected loan performance of commercial banks in Kenya. Respondents were provided with a scale of 1 to 5 (5 = strongly support, 4 = support, 3 = neutral, 2 = object and 1 = strongly object) to choose to what degree they supported or objected the following statements on early warning signs as shown in table 4.5 below

Table 4.5: Descriptive Statistics of Early Warning Signs of Loan Delinquency.

Statement		1	2	3	4	5	Mean	S. D
The institution has put in place mechanisms to detect early warning signs of loan delinquency	F		30	24	18	13	2.84	1.08
	%		35.3	28.2	21.2	15.3		
Delinquency warning signs are a clear indication that the client's financial situation is deteriorating which requires immediate action.	F	12	37	18	12	6	3.44	1.12
	%	14.1	43.5	21.2	14.1	7.1		
There are mechanisms in place by the institution to protect itself if the debtor's situation continues to deteriorate.	F	24	18	18	18	7	3.40	1.32
	%	28.2	21.2	21.2	21.2	8.2		
Controls impending risk	F	18	49	6	6	6	3.79	1.08
	%	21.2	57.6	7.1	7.1	7.1		

Source: Study Data (2021)

Majority of the participants alludes to the facts that. The institution has put in place mechanisms to detect early warning signs of loan delinquency. This was represented by 35.3%. More so, 28.2% were in undecided whether the institution has put in place mechanisms to detect early warning signs of loan delinquency or has not represented by 28.2%. A cumulative percentage of 36.5% attest to the facts the institution has not put in place mechanisms to detect early warning signs of loan delinquency.

Respondents were in mixed reactions in opinion pertaining Delinquency warning signs has a clear indication that the client's financial situation is deteriorating which requires immediate action. This is based by the findings that all the ratings were recorded right from those that agreed until those that disagreed. A deviation of 1.12 supports the facts of a deviation witnessed. Nevertheless, the outcome majority were in support of the opinion that Delinquency-warning signs are a clear indication that the client's financial situation is deteriorating which requires immediate action supported by those that agreed 43.5% and strongly agree 14.1%.

A cumulative percentage of those that strongly supported (28.2%), supported (21.2%) supersedes those that objected (21.2%) and strongly objected (8.2%). Thus, echoing the facts that there are mechanisms in place by the institution to protect itself if the debtor's situation continues to deteriorate. Due to respondents, opinions being dispersed a deviation of 1.32 was recorded and a mean of 3.40 implies that opinions were skewed to the positive side. Early warning sides control impending risk. This is supported by two statistical findings. One is based on the average score of 3.79 which implies that opinion tend to the agree opinion. More so, percentage representation of 57.6% representing those that chose to agree with the opinion and 21.2% referring to those that strongly support that Early-warning sides controls impending risk. Nevertheless, there were those whom were undecided on the opinion objected and strongly objected represented by 7.1% in each category but their opinion was of lesser influence. The study agrees with findings by Addae-

Korankye, (2014) Warue (2012) and Wenner (1995) that identifying loan delinquency signs helps prevent non repayment.

4.4.5 Asset Quality

The study also sought to determine descriptive statistics of the asset quality which is a measure of loan performance by computing the average of asset quality for each commercial bank for the period between 2015-2019 as shown in table 4.6 below.

Table 4.6: Descriptive Statistics of Asset Quality

Statistics		
N	Valid	42
	Missing	0
Mean		13.2996
Std. Deviation		2.0461
Total		558.59

Source: Study Data (2021)

Asset quality is derived from dividing total asset by non-performing loans (Ngugi, 2018). An analysis of secondary data reveals that the mean asset quality ratio of the 42 banks under the study was 13.2996%. The standard deviation from the mean value was 2.0461. These figures imply that an average of 13.2996% of the amounts issued as loans were non-performing across the 42 banks between the years 2015 to 2019.

Loan performance is the sole crucial aspect that affects the stability of banks as well as the entire commercial system. Reason being that lending is the principal factor for banks. According to the study done by the CBK in 2018, the composition of total loans to gross assets for the first quarter of 2018/2019 financial year ending September 30, 2018 was 58.42 % as opposed to 57.27 % reported in the fourth quarter 2017/2018 financial year ending June 30, 2018. This therefore means that the nation's financial sector recorded growth in the 1st quarter of the financial period 2018/2019 in comparison to the previous quarter ending June 30, 2018. This increase in credits by a total of 1.84 % in June 2018 from Ksh.2, 492.69 billion to Ksh.2, 538.68 billion in September

2018 was attributed to the growth in demand for loans in the individual and or Domestic, the Industrial sector, Trade and Real Estate sectors (CBK, 2018).

4.5. Correlation Analysis

The study also carried out an analysis to measure the level of correlation between the study variables as presented in table 4.7 below.

Table 4.7: Correlation Coefficients

		Loan performance.	Credit risk assessment.	periodic loan review	loan collateral	Early warning signs
Loan performance.	Pearson Correlation	1	-.384**	.153	.120	.153
	Sig. (2-tailed)		.000	.161	.275	.161
	N	85	85	85	85	85
Credit risk assessment.	Pearson Correlation	-.384**	1	.006	-.552**	.006
	Sig. (2-tailed)	.000		.957	.000	.957
	N	85	85	85	85	85
periodic loan review	Pearson Correlation	.153	.006	1	-.198	1.000**
	Sig. (2-tailed)	.161	.957		.069	.000
	N	85	85	85	85	85
loan collateral	Pearson Correlation	.120	-.552**	-.198	1	-.198
	Sig. (2-tailed)	.275	.000	.069		.069
	N	85	85	85	85	85
Early warning signs	Pearson Correlation	.153	.006	1.000**	-.198	1
	Sig. (2-tailed)	.161	.957	.000	.069	
	N	85	85	85	85	85

**. Correlation is significant at the 0.05 level (2-tailed).

Source: Study Data (2021)

The Pearson correlation coefficient exhibits a weak negative linear association (r=-0.384) between loan performance and credit risk assessment. Meanwhile, Correlation is statistically significant given that p<0.050. However, there exist non-statistically significant linear relationship between periodic loan review and banks' performance (p>0.05). A strong positive correlation exists

(r=0.153) between periodic loan review and loan performance. A correlation of r=0.120 attest to a weak and a positive linear association between the performance of loan and collateral. Under 95% level of significance, it shows that there is no statistical significance between loan collateral and loan performance this is based on $p>0.05$. More so, the results under early warning signs and loan performance attest a weak but positive relationship between the variables of the study. A $p>0.05$ indicates non-statistical significance exhibited between the two study variables. These results indicate that there exists a higher correlation between predictors variables, periodic loan review, loan collateral and early warning signs (r = 0.198) regardless for the direction of these relationships that exists.

4.6. Regression Analysis.

A regression analysis sought to ascertain the manner in which the independent variables predict dependent variables. Thus, to quantify the strength amid the study variables, multiple regression was adopted to study the determinants of debt management and their influence on the commercial banks loan performance.

4.6.1 Model Summary

The model summary presents the correlation coefficient (R) and coefficient of determination (adjusted R squared). The correlation coefficient indicates the strength of relationship between the variables. The coefficient of determination presents the extent with which the dependent variable is explained by independent variable as presented in table 4.8 below.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.849[a]	.721	.690	.40929

Source: Study Data (2021)

a). Predictors: (Constant), periodic loan review, early warning signs, credit risk assessment., loan collateral

Results in table 4.8 above, shows that, the correlation coefficient of 0.849 indicates that the relationship between independent variables (Credit risk assessment, periodic loan review, early warning signs and loan collateral) and dependent variable (loan performance) was strong and significant. It is also evident that 69.0% (adjusted R Squared=0.690) changes in loan performance is explained by Credit risk assessment, periodic loan review, early warning signs and loan collateral

4.6.2. Analysis of Variance

The study sought to establish the overall significance of the model. The findings in table 4.9 below present the results.

Table 4.9: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.931	4	.977	5.832	.001[b]
	Residual	13.569	81	.168		
	Total	16.500	85			

` **Source: Study Data (2021)**

a. Dependent Variable: loan performance.

b. Predictors: (Constant), Periodic loan review, early warning signs, credit risk assessment., loan collateral

Table 4.9 indicates that the F calculated was 5.832 and significant (P=0.001). This indicated that the overall regression model was significant in determining the Loan performance. The P-value was 0.001 indicating that at least one of the three independent variables (Periodic loan review, early warning signs, credit risk assessment., loan collateral) considered significantly influences loan performance.

4.6.3. Regression Coefficients

Regression analysis presents the Beta coefficients and the P values which helps in developing the linear relationship between variables. The Beta coefficients indicate the changes in units to the dependent variable as a result of changes in the independent variable. The Beta coefficient also indicates the direction with which the dependent variable changes as a result of changes in the

independent variable. If the P values are less than 5% then the specific variable is said to be significant in explaining the changes in the dependent variable (Loan performance). Table 4.10 presents the results.

Table 4.10: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.315	.544		7.931	.000
	credit risk assessment.	-.220	.061	-.437	-3.587	.001
	periodic loan review	.012	.035	.122	1.333	.192
	loan collateral	.054	.071	-.094	-.758	.451
	Early warning signs	.115	.087	.137	1.324	.189

a. Dependent Variable: loan performance.

Source: Study Data (2021)

$$Y= 4.315 -0.220X_1 + 0.012X_2 +0.054X_3 + 0.115X_4$$

A regression coefficient indicates how the response variable changes for every one unit change in the predictor variable whereas the other predictors used in the model are held constant. The above model can be explained as follows: 4.315 is the value of loan performance when all other factors are zero. The study results indicate that a change in credit risk assessment would result to a negative significant change in loan performance by -0.220 units (B_1=-0.220). P values ($0.001<0.05$) (Significant values) presented whether the credit risk assessment was significant in explaining the changes in loan performance. The variable was found to be significant since the P value=0.001 was less than 5% ($P<0.05$). This study agrees with the findings by Mendoza and Rivera (2017) who researched on credit risk effect and capital adequacy on the Philippines rural banks profitability. They held that effective management of credit risk should be considered a crucial element in an all-inclusive risk management approach which. In their study, they used Return on

Asset and Equity (ROA & ROE) the banks measure performance. According to their findings, credit risk had a negative but statistically important effect on net profit after taxes.

The study results indicate that a change in periodic loan review would result to a positive insignificant change in loan performance by 0.012 units (B_1=0.012). P values (0.192>0.05) (insignificant values) presented whether the periodic loan review was significant in explaining the changes in loan performance. The variable was found to be insignificant since the P value=0.192 was greater than 5% (P>0.05). This study contradicts the findings by Cortavarria, Dziobek, Kanaya & Song (2000) who conducted a research on Loan review, provisioning, and macroeconomic linkages in G-10 countries (Group of 10 leading industrial countries)**.** The study found that Loan review and provisioning were important elements of bank-risk management systems considering such factors as borrower repayment capacity and economic conditions, as well as exposit factors such as interest past due. The study results indicate that a change in loan collateral would result to a positive insignificant change in loan performance by 0.054 units (B_1=0.054). P values (0.451>0.05) (insignificant values) presented whether the loan collateral was significant in explaining the changes in loan performance. The variable was found to be insignificant since the P value=0.451 was greater than 5% (P>0.05).

This study contradicts the findings by Okoth and Gemechu (2013) who did a research on factors affecting commercial banks loan performance in Kenya. The study used panel data dating for periods between 2001 and 2010. The findings showed that loan collateral as indicated by cash flow and collateral loans significantly affects financial performance of commercial banks in Kenya.

The study results indicate that a change in early warning signs would result to a positive insignificant change in loan performance by 0.115 units (B_1=0.115). P values (0.189>0.05) (insignificant values) presented whether the loan collateral was significant in explaining the changes in loan performance. The variable was found to be insignificant since the P value=0.189 was greater than 5% (P>0.05).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

In this chapter, the researcher presents a summary of the outcomes of the research, the conclusions and recommendations made out of the study findings. The purpose of this analysis was to evaluate the effect of debt management on loan performance of commercial banks. The main objective relied on the specific objectives like to determine the effect of credit risk management on loan performance and examining the periodic loan review significance on the loan performance of commercial banks. Others were to evaluate the extent to which loan collateral help achieve loan performance, to assess how Early Warning Signs of Loan Delinquency affect commercial banks loan performance. As is evident in economic analysis, the outcome of the investigation differed from what had been anticipated.

In terms of credit risk management practices, it is apparent that most institutions embraced the exercise. While relying on the 5Cs, the banks experience an increase in loan performance since they understand their consumers better. The impact of periodic loan review is unlimited since most respondents approve that it gives timely information and guidance on emerging concerns and interests that are assimilated into the users' loan policy and portfolio. Nevertheless, loan collateral was rather limited. It is intensified by the uncertainty of the nature of the collateral. Most respondents regarded collateral as security for the loan while others as a technique to consider while appraising the client for the loan. While examining how early warning signs impact loan performance, one can understand that banks must detect early warning signs of delinquency since the consumers' financial position indicates a decline that needs swift action. The debt management

policy effect is extensive since it helps reduce loan default. This according to the responses gained from the respondents.

5.2. Summary

5.2.1. Credit Risk Assessment

The principal backbone of debt management exercise is practices of credit risk management. These practices include the 5Cs which are character, capacity, capital, collateral, and conditions. With the continuing concern by banks on loan performance or the debt management implementations, financial institutions need to apply the credit risk management practices to evaluate, handle, and manage risk. From the responses, most banks agreed with the use of the exercise and cited the nature of discerning their users as anticipated. The contrary view suggested third party security than credit risk management practices. Based on the findings, credit risk management exercises give the loan performance a constant review. However, with the majority, the 5Cs are crucial to increase the loan performance of financial institutions.

5.2.2. Periodic Loan Review

Periodic Loan Review is significant in Kenya’s commercial banks’ loan performance. It tends to give timely data and counsel on recent issues and concerns that are assimilated into the consumers' loan policy and portfolio. With several other factors of loan performance, loan review understands the need to give the needed data on consumers' portfolio. The outcome may be well because loan review, in most commercial banks, is a technique of periodic assessment of outstanding loans on a consumers' book to ensure the loan performance is as expected. The aspect of measuring, monitoring, and controlling loan repayment as well as controlling the pending risks, tend to be

excluded from the periodic loan review outcome since most respondents disagreed with these aspects

5.2.3 Loan Collateral

The unreliability of loan collateral gives mixed reviews on its effect. From the opinions depicted in the analysis, loan collateral could be viewed as insurance or as a technique while appraising the consumer for the loan. What is surprising from the outcome is that most commercial banks in Kenya do not only consider collateral as an approach to evaluate the user for the loan. Collateral is regarded as a security in case one fails to compensate for the loan. One would have anticipated that banks regard collateral as a form to assess one for loan application.

5.2.4. Early Warning Signs

The most interesting outcome from early warning signs on loan performance illustrates that delinquency warning signs give the client's financial condition as declining which triggers immediate action. Other facets such as the mechanisms to determine early warning signs of loan delinquency and the impending risk was represented as less effective. The results demonstrated that loan performance can be attained when delinquency warning signs are considered by the commercial banks in Kenya. Therefore, this makes it necessary that the user's deteriorating financial situation should be assessed as one of the elements for compensating loans. In other words, controlling impending risks and methods of identifying early warning signs of loan delinquency affects loan performance negatively.

5.3. Conclusion

5.3.1 Effect of Credit Risk Assessment on Loan Performance

Based on this study finding, credit risk assessment had a negative impact on loan performance with a significance level of 0.01. This study reveals essential aspects of debt management practices

of banks in Kenya. Though this is crucial in maintaining the loan performance of banks and other financial institutions, the study revealed that this practice was a weakness on debt management exercises on loan performance. Findings reveal that if banks incorporate credit risk management practices, it will help assess the consumers' capability of compensating the loans but with no significant positive impact. The maintained concern on loan performance should prompt most commercial banks to apply character, capacity, capital, collateral, and conditions. One would expect to determine an increase in debt management performance. The negative coefficient could also be attributed to an error on the part of respondents for non-disclosure of information.

5.3.2 Effect of Periodic Loan Review on Loan Performance

Based on the findings of this research, periodic loan review had an insignificant positive influence on loan performance. The significance level assessed was 0.192. Applying the periodic loan review we can conclude that it does affect loan performance but it is insignificant to its performance thus it does not give guidance and timely data on recent issues and concerns that are reflected in the users' policy and portfolio.

5.3.3 Effect of Loan Collateral on Loan Performance

Presence of a loan collateral affects loan performance with an insignificance level of 0.451. The uncertainty of the essence of collateral gives restricted outcomes as assimilating it aligns as security or as an approach to appraise the client for a loan. Banks in Kenya regard collateral as security hence have experienced increased loan performance than the financial institutions that regard collateral as a way to measure one while applying for the loan. This trend has been practiced for a while and if maintained will help maintain loan performance levels as expected by the commercial banks. As gained from the analysis, loan collateral curtails the chances of loan default.

5.3.4 Effect of Early Warning Signs on Loan Performance

Early warning signs in commercial banks in Kenya are demonstrated as delinquency warning signs through the declining financial situation of the consumer that ignites prompt action. In this research

the insignificance level was 0.189. This implies that detection of early warning signs does not play a crucial role in performance of loans. Methods to determine early warning signs of delinquency as applied by some banks have been exhibited as less efficient than the financial situation of the consumer. Also, approaches created by the bank to shield themselves if the creditor's financial condition continues to decline and the impending risks have proved less efficient. Thus, banks should monitor the financial situation of the consumer to assess the capacity to compensate.

5.4 Limitations of the study

As much as care was taken to gather the correct data, there is a probability that the financial reports lacked the precise facts as they were subject to manipulation by institutions to meet the specific requisites of the industry. Additionally, there are chances that the displayed financial information might have been modified to either include or omit some information so as to meet the requirements for financial institutions that were issuing loans to clients posing a challenge for generalization of the study. To confirm the accuracy of this information, the researcher looked at the published information in regards to the information provided by the banks.

There was expected resistance from the interviewees especially those working in the commercial banks due to fear of victimization for giving the information. To curb this, the researcher first sought consent from the management of the banks and reassured the interviewees that the provided information to the researcher would be confidential and purposely used for research only. This was also be achieved by signing a non-disclosure agreement.

5.5. Policy Recommendations

The study recommends that;

i. This research has found that credit risk assessment has significant impact on loan performance. Therefore, governments, banks and financial institutions should set policies

that guide on actions to be taken when credit risk assessment of loan delinquency are detected during loan repayment.

5.6. Suggestions for Further Research

In this section, researchers are encouraged to conduct further research that tends to fit the model in a way that most variables used in the model be statistically significant in impacting the loan performance. This will promote efficiency in the financial institutions like the banks to provide reliable and effective services to their borrowing customers. A further research can be done to reflect a panel sequence and confirm how debt management practices can impact the loan performance.

REFERENCES

Abbring, J., H., Chiappori, P., A., & Zavadil, T. (2008). Better Safe than Sorry? Ex Ate and Post Moral Hazrd. *Dynamics of Insurance Data, 2008*(77).

Acquah, H. D & Addoh, J. (2011). Determinants of Loan Repayments Performance of Fishermen: Empirical Evidence from Ghana. *Cercetari Agronomice in Moldova, 44*(4), 148.

Addae-Korankye, A. (2014). Causes and Control of Loan Default, Delinquency in Microfinance Institutions in Ghana. *American International Journal of Contemporary Research, 4*(12), 36-45.

Ahmad, N., H., D and M, Ariff. (2007). Multi Country Study of Banks Credit Risk Determinants. *The International Journal of Banking and Finance, 5*(1), 135-152.

Al-Khouri, R. (2011). Assessing The Risk and Performance of the GCC Banking Sector. *International Reseach Journal of Finance and Economics, 65*, 72-81.

Al-Qudah, A., M., & Jaradat, M. (2013). The Impact of Macroeconomic Variables and Banks Characteristics on Jordanian Islamic Banks Profitability. Empirical Evidence. *International Business Research, 6*(10), 153-154.

Angela M. Kithinji & Nelson M. Waweru. (2007). Merger Restructuring annd Financial Performamnce of Commercial Banks in Kenya. *Economics, Management, and Financial Markets*.

Bett, E. (2017). A conseptual Study of Corporate Governance and Firm Financial Performamnce of Listed Companies. *International Journal of Economics, Commerce and Management, 11*.

Blommestein, H., J. and Turner, P. (2012). *Interactions Between sovereign Debt Management and Monetary Policy Under Fiscal Dominance and Financial Instability.OECD Working Ppaers on Sovereign Borrowing and Public Debd Management,3.*

Boot, A. (2000). Relationship banking: what do we know? *Journal of Financial Intermediation, 9*, 7-25.

Boot, A. W. (2000). Relationship Banking: What Do We Know? *Journal of Financial Intermediation, 9*, 7–25.

Borensztein, E., M., Chamon, O., Jeanne, P., Mauro, and Zettelmeyer, J. (2004). *Sovereign Debt Structure for Crisis Prevention, IMF Occassional Ppaer 237(Washington: International Monetary Fund).*

Brains, C. L., Willnat, L., Manheim, J. B., & Rich, R. (2011). *Research Methods - Essay Example.* Retrieved August 13, 2020, from https://studentshare.org/sociology/1488148-research-methods

Busch, R., & Kick, T. K. (2009). *Income diversification in the German banking industry.*

BusinessDictionary. (2018). *Non- Performing Loan.* Retrieved from http://www.businessdictionary.com/definition/non-performing-loan.

Calice, P. (2012). Resolving No-Performing Loans in Tunisia: Coordinated Private Sector Approach. *Journal of African Economics Brief*.

Central Bank of Kenya. (2018). *Reports and Financial Statements.*

Chen, K., & Pan, C. (2012). An Empirical Study of Credit Risk Efficiency of Banking Industry in Taiwan. *Web Journal of Chinese Management Review, 15*(1), 1-16.

Cortavarria, L., Dziobek, C. H., Kanaya, A. & Song, I. (2000). *Loan Review, Provisioning and Macroeconomic linkages.* International monetary Fund.

Creswell, J. W. (2003). *Research design: Qualitative, quantitative, and mixed methods approaches (2nd ed.). Thousand Oaks, CA: Sage.*

Cucinelli, D. (2015). The Impact of Non-Performing Loans on Bank Lending Behaviour: Evidence from the Italian Banking Sector. *Eurasian Journal of Business and Economics, 8*(16), 59-71.

Dembe, A., E., & Boden, L., I. (2000). Moral Hazard: A Question of Morality. *New Solution, 10*(3), 257-279.

E. Gila-Gourgoura and E. Nikolaidou. (2017). Credit Risk Determinants in the Vulnerable Economies of Europe: Evidence from the Spanish Banking System. *International Journal of Business and Economic Sciences Applied Research, 1*.

Faragalia, E., A. Marcet and Scott, A. (2008). Fiscal Insurance and Debt Management in OECD Economies. *The Economic Journal, 118*(527), 363-380.

Felix, A., T & Claudine, T., N. (n.d.). *Bank Performance and Credit Risk Management, Unpublished Masters Dissertation in Finance, University of Skovde.*

FinancialWeb. (2018). *understanding-the-difference-between-syndicated-and-bilateral-business-loans*. (MH Sub I, LLC dba Internet Brands) Retrieved March 31, 2020, from Financial Web: https://www.finweb.com/loans/understanding-the-difference-between-syndicated-and-bilateral-business-loans

George, D., & Mallery, P. (2003). SPSS for Windows Step by Step. *A Simple Guide and Reference 4th Edition*.

Haile, F. (2015). Determinants of Loan Repayment Performance: Case Study of Harari Microfinance Institutions. *Agricultural Extension and Rural Development, 7*(2), 56-64.

Hale, b. (2009). What's So Moral about the Moral Hazrd? *Public Affairs Quarterly, 23*(1), 1-25.

International Monetary Fund. (2005). *The Treatment of Non- Performing Loans.*

John,K.A., W,Lynch & Puri, M. (2003). Credit Ratings, Collateral and Loan Characteristics: Implication for Yield in the U.S. *Journal of Business, 76*(3).

KCB Group Plc. (2018). *Integrated Report and Financial Statements.*

Kenya Bankers Association. (2019). *State of the Banking Industry Report.* Kenya Bankers Association Centre for Research on Financial Markets and Policy.

Kimando, L., Kihoro, J.M. D. & Njogu, G. W. M. (2012). *Factors Influencing the Sustainability of Microfinance Institutions in Murang'a Municipality.*

Kinyondo, A., & Okurut, N. (2009). *Determinants of Loan Repayment Performance in Microcredit Institutions: Evidence from Tanzania.*

Kithinji, A. M. (2010). *Credit Risk Management and Profitability of Commercial Banks in Kenya.School of Business, University of Nairobi.* Nairobi.

Kolapo, T.F., Ayeni, R, K. and Oke, M., O. (2012). Credit Risk and Commercial Bank's Performance in Nigeria: A Panel Model Approach. *Australian Journal of Business and Management Research, 2*(2), 31-38.

Kothari, C. (2011). Research Methodology, 2nd Edition.Methods and Techniques.1st Edition, Published by ACTS, Nairobi, Kenya.

Kwakwa, O. M. (2014). *Determinants of performance of Comercial Banks in Ghana.* Kwamu Nkuruma University of Science and Technology.

Latoya, I. (2019). *The Difference between Secured and Unsecured Debts.* Retrieved from https://www.thebalance.com/the-difference-between-secured-and-unsecured-debts-960181

MacCarthy, J. (2016). *Effect of Cash Reserve Ratio on the Financial Performance of Commercial Banks and their Engagement in CSR in Ghana. Econimics Report on Ghana.*

Matu, L. (2001). *The Applicability of Financial Predictive Models to Bank Failure.Unplished MBA Project, University of Nairobi.*

Meakin, E. (2018, December 21). *The Difference between Public and Private Debt*. Retrieved March 30, 2020, from Capital Structure: https://fleximize.com/articles/000543/public-and-private-debt

Mendoza, R., & Rivera, J., P., R. (2017). The Effects of Credit Risk and Capital Adequacy on the Profitability of Rural Banks in the Philipines. *Annals of the Alexandru Loan Cuza University- Economics, 64*(1), 83-96.

Meshak, K. M. (2016). The Effect of Monetary Policy on Financila Perfomance of Commercial Banks Listed on the Nairobi Securities Exchange. *International Journal of Finance and Accounting (1)*, 74-87.

Morgan, D. L. (2019). *Does purposive sampling technique applicable for both qualitative and quantitative researches?* Retrieved from https://www.researchgate.net/post

Moti, H., O., Masinde, J., S., Mugenda, N., g., & Sindani, M., N. (2012). Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance SEctor in Kenya. *International Journal of Business, Humanities and Technology, 2*(6), 99-108.

Mucheke, J. (2001). *Determinants of Non-Performing Loans in Kenya: The case for Commercial Banks.University of Nairobi, Department of Accounting.*

Mugenda, O. M. & Mugenda, A, G. (2003). Research Methods, Quantitative and Qualitative Approaches. Nairobi: African Centre for Technology Studies (ACTS).

Mwangi, L., W., Makau, M., S., & Kosimbei, G. (n.d.). Effects of Working Capital Management on performance of Non-Financial Companies Listed in NSE, Kenya. *European Journal of Businessand Management, 6*(11), 195-205.

Mwanza, K. (2017). Non-performing loans in local banks hit 10-year high. *Business Daily*. Retrieved from Business Daily: https://www.businessdailyafrica.com/markets/marketnews/Non-performing-loans-in-local-banks-hit-10-year-high/3815534-4234128-gh4re3/index.

Mwaura, K. (2005). Relationship between Interest Rates Spread and Financial Performamce of Commercial Banks in KENYA.uNPUBLISHED mba Project, University of Nairobi.

Ndugbu, M. O. & Okere, P. A. (2015). Monetary Policy and the Performance of Deposit Money Banks –the Nigerian Experience. (www.iiste.org, Ed.). *European Journal of Business and Management, 7*(17), 2222-2839.

Ngugi, F. (2018). The Distressing Effect of Non-Performing Assets to Asset Quality for Commercial Banks in Kenya. *Loan Loss Provisions, 3*(6), 71-83.

Ngugi, R.W., Maana, I., Amanja, D., & Ndung'u, N. (2010). *Capital Market and Economic Growth in Kenya.*

Obiero, D. (2002). Effect of Financial Sector Policies on Commercial Banks Performance in Kenya: A Critical Review. *Journal of Business and Management, 20*(1), 71-86.

Ogawa, K. and Suzuki, K. (2000). Demand for bank loans and investment under borrowingconstraints: a panel study of Japanese firm data. *Journal of the Japanese and International Economies, 14*, 1– 21.

Ogawa, K., & Suzuki, K. (2000). Demand for Bank Loans and Investment under Borrowing Constraints: A Panel Study of Japanese Firm Data. *Journal of the Japanese and International Economies, 14*(1), 1-21.

Okoth, V. & Gemechu, B. (2013). Determinants of Finacial Performance of Commercial Bnaks in Kenya. *International Journal of Economics and Financial, 3*(1), 237-252.

Ombaba, K. (2013). Assessing the Factors Contributing to Non-Performamnce Loans in Kenyan Banks in Kenya. *Europeanl Journal of Business and Management, 5*(32).

Ongore, V., O & Kusa, G,. B. (2013). Determinanats of Financial Performamnce of Commercial Banks in Kenya. *International Journal of Economics and Financial Issues, 3*(1), 237-252.

Onyango, S. (2020). *Kenya Faces Massive Rise in Public Debt in Corona Crisis.* Retrieved from https://www.pd.co.ke/business/economy and policy

Orodho, J. A. (2009). Essential of Education and Social Sciences Research Methods. Masola Publishers, Nairobi.

Orodho, J. A. (2009). Techniques of Writing Research Proposals and REports in Education and Social Sciences.

Orodho, J. A. (2009). Techniques of Writing Research Proposals and REports in Education and Social Sciences.

Roland. P., J., & Anamaria, P. (2013). *Non-performing loans What matters in addition to the economic cycle?* Working paper series.

Ronald, W. & Carverhhill, A. (2011). Liquidity and Capital Structure. *Review of Financial Studies, 25*(3), 797-837.

Rouse, C. (2002). Bankers' Lending Techniques, 2e, Chartered Institute of Bankers. Financial World publishing.

Rowell, D., & Connelly, L. (2012). A History of the Term "Moral Hazard". *Journal of Risk & Insurance, the American Risk and Insurance Association, 79*(4).

Ryan, J. (2011). *Personal Financial Literacy.Cengage Learning.* Retrieved December 2019

Sarah, W., & Simon, S. (2011). Effect of revenue diversification on bank performance and risk. *Financial Services Research, 40*, 79-101.

Saunders, A. (2002). Credit Risk Measurement-New Approaches to Value at Risk and other Paradigms.

Simonson, L. Z., Carmon, R. Dhar & A. Drolet. (2015). Behavioral Finance. *Annual Review of Financial Economics, 7*, 133-159.

Thomas D. L., & Gabriella R. M. (2001). Comparative political corruption: Issues of operationalization and measurement. *Studies in Comparative International Development volume, 36*, 3–28.

Trochim, W. M. (2006). *The Qualitative Debate. Research Methods Knowledge Base.* Retrieved January 11, 2020, from http://www.socialresearchmethods.net/kb/qualmeth.php

Wangai, D., Bosire, N., Gathogo, G. (2003). *Impact of Non-Performing Loans on Financial.*

Warue, B. N. (2015). *Factrors Affecting Loan Delinquency in Microfinance Institutions in Kenya.* Kenya Methodist University.

Weber, M. and Machaur A. (1998). Bank Behaviour Based on Internal Credit Ratings Of Borrowers: CFS Working Paper No 98/08.

Wenner, M. (1995). Group Credit: A Means to improve Information Transfer and Loan Repayment Performamce. *The Journal of Development Studies, 32*(2), 263-281.

Winter, A. R. (2000). Optimal Insurance under Moral Hazard. *Handbook of Insurance*, 155-183.

Yenpao C, Ruey-Ji Guo and Rao-Li Huang. (2009). Two Stages Cerdit Ealuation in Bank Loan Appraisal. *Economic Modelling, 26*(1), 63-70.

APPENDIX I: QUESTIONNAIRE

This questionnaire consists of two sections. Please see the instructions at the beginning of each section.

SECTION A: Background Information

Kindly fill in the blank spaces and tick where appropriate.

1. What is your gender?

   Male { }

   Female { }

2. What is your age bracket?

   21-30 years { }   31-40 years { }

   41-50 years { }   Over 50 years { }

3. Indicate your educational level

   Diploma { }

   Degree { }

   Any other…………………………..

4. How long have you worked in the Organization?

   Less than 3 Years { }   Between 3 – 7 Years { }

   Between 7 – 12 Years { }   Over 12 Years { }

5. What position do you hold in the organization?

   Bank manager { }

   Finance Manager { }

   Credit Manager { }

SECTION B: SPECIFIC INFORMATION

Kindly rate the extent to which you agree with the following statements by ticking where appropriate.

1. **The Effect of Credit Risk Assessment on Loan Performance**

Kindly indicate the degree to which you support or object the following statements on the effects of credit risk assessment on loan performance of commercial banks in Kenya.

Key – 5- Strongly Support, 4- Support, 3 – Neutral, 2- Object, 1- Strongly Object

	Statement	5	4	3	2	1
1	credit management practices are adopted in the institution					
1	credit risk management practices affect loan performance					
2	The institution uses the 5Cs model of credit management to evaluate a customer as a potential borrower.					
3	The 5Cs help the institution to increase loan performance, as they get to know their customers better.					
4	Third party insurance affects loan performance					
5	Credit risk management practices Provide an effective framework to measure, monitor, and control credit risk					

Any other specify…………………………………………………………………………………….

…………………………………………………………………………………………………

…………………………………………………………………………………………………

2. **The Significance of periodic loan review to loan performance**

   Kindly indicate the degree to which you support or object the following statements on the significance of periodic loan review to loan performance by ticking where appropriate.

Key – 5- Strongly Support, 4- Support, 3 – Neutral, 2- Object, 1- Strongly Object

	Statement	5	4	3	2	1
1	Provide an effective framework to measure, monitor, and control loan repayment					
2	Provide guidance and timely information on emerging issues and concerns that should be incorporated into the customer loan policy and loan portfolio.					
3	Routine check of client's financial health is an effective indicator of loan performance					
4	Controls pending risk					
5	Ensures the loan performance stability					

Any other specify……………………………………………………………………………………..

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. **loan collateral and loan performance**

   Kindly indicate the degree to which you support or object the following statements on loan collateral and loan performance by ticking where appropriate

Key – 5- Strongly Support, 4- Support, 3 – Neutral, 2- Object, 1- Strongly Object

	Statement	5	4	3	2	1
1	Aspect of collateral are considered while appraising the client for loan					

2	Collateral is a way to guarantee the recovery of loaned money.					
3	In case of failure to pay the loan, the collateral is used to compensate for the defaulted loan.					
4	Collateral offered is adequate to secure the loan issued.					
5	Loan collateral minimizes chances of loan default					

Any other specify…………………………………………………………………………………….

……………………………………………………………………………………………………

……………………………………………………………………………………………………

4. **Early Warning Signs of Loan Delinquency and loan performance**

Kindly indicate the degree to which you support or object the following statements on Early Warning Signs of Loan Delinquency and loan performance by ticking where appropriate

Key – 5- Strongly Support, 4- Support, 3 – Neutral, 2- Object, 1- Strongly Object

	Statement	**5**	**4**	**3**	**2**	**1**
1	This institution has put in place mechanisms to detect early warning signs of loan delinquency					
2	Delinquency warning signs are a clear indication that the client's financial situation is deteriorating which requires immediate action.					
3	There are mechanisms in place by the institution to protect itself if the debtor's situation continues to deteriorate.					
4	Controls impending risk					

Any other specify……………………………………………………………………………………..

……………………………………………………………………………………………

……………………………………………………………………………………………

APPENDIX II: LIST OF COMMERCIAL BANKS

1. Equity Bank
2. Cooperative Bank of Kenya
3. Barclays Bank of Kenya
4. CfC Stanbic Holdings
5. I&M Holdings Ltd Bank
6. Diamond Trust Bank Ltd
7. Kenya Commercial Bank Group ltd
8. National Bank of Kenya
9. Standard chartered Bank Ltd,
10. NIC Bank
11. Housing Financing Commercial Bank
12. First Community Bank
13. Bank of Africa
14. Bank of Baroda
15. Chase Bank Kenya
16. Consolidated Bank of Kenya
17. Credit Bank
18. Development Bank of Kenya
19. Bank of India
20. Diamond Trust Bank
21. Dubai Islamic Bank
22. Eco bank Kenya
23. Family Bank
24. Guaranty Trust Bank Kenya
25. Guardian Bank
26. Gulf African Bank
27. Citibank

28. Habib Bank AG Zurich
29. Imperial Bank Kenya
30. Jamii Bora Bank
31. Mayfair Bank
32. Middle East Bank Kenya
33. M Oriental Bank
34. Paramount Universal Bank
35. Prime Bank (Kenya)
36. SBM Bank Kenya Limited
37. Sidian Bank
38. Spire Bank
39. Standard Chartered Kenya
40. Transnational Bank
41. United Bank for Africa
42. Victoria Commercial Bank

(Source: Central bank of Kenya 2018)

APPENDIX III: SECONDARY DATA COLLECTION TOOL

BANK	**A:** AVERAGE NON-PERFORMING LOANS (2015-2019)	**B: TOTAL LOANS 2015-2019**	**B/A: ASSET QUALITY RATIO=A/B** A divide by B
Bank No. 1			
Bank No. 2			
Bank No.3			
Bank No.4			
Bank No.42			

APPENDIX IV: KENYATTA UNIVERSITY APPROVAL LETTER

APPENDIX V: RESEARCH PERMIT