

## **ABSTRACT**

large extent by guidelines put forward by the Central Bank of Kenya and also the nature of the banking industry. In most cases banks had adopted a proactive and enterprise wide approach to their risk management practices by have a risk department with a manager, and had a documented risk management policy which was fairly well communicated through out all levels of the organization from the Board to Staff. The study also found that some risk management practices do have significant effect on financial performance more than others i.e. the existence of a risk management policy and the integration of risk management in setting of organizational objectives were considered to be the key risk management practices that had a direct effect on financial performance. This means that although there are other determinants of performance not included in the study, the banks can improve their performance by focusing on developing strong risk management policies and integrating risk management in the process of setting achievable organizational objectives In a world that is constantly changing and with every change bringing about new ways of doing business with different outcomes, risk and how to manage it has become a critical issue. The recent global financial crisis served as a reminder that risk management and how the same is practiced is fundamental if performance objectives are to be consistently achieved. It has emerged that as business owners and managers strive to improve and sustain performance they are now also required to consider what risk management practices their organizations have adopted to avoid falling short of their strategic objectives. This is even more so in the financial services sector which was the most affected during the recent financial crisis. The objectives of this study were to analyze the risk management practices undertaken by Commercial Banks in Kenya and to determine and assess the effect of these risk management practices on their financial performance. The risks facing financial institutions are mainly classified into; strategic, operational,