THE EFFECTS OF UNSECURED LENDING ON LOAN PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

STUDENT'S DECLARATION

I, Jackson J.S.Khole hereby declare that this project is my original work and has not been presented for a degree in this, or any other institution known and unknown to me.

Signature……..Date……

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the university supervisor.

Signature…….Date…….

DR. JOSIAH ADUDA

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DEDICATION

The research project is dedicated to God the Almighty for giving me life, wisdom and guidance throughout the research period. To my late parents; Solomon Liyayi (RIP) and Sopha Shisinde (RIP) for showing me importance of learning at an early stage in life. To my youngest daughter; Joy Atsali for support accorded to me.

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ABSTRACT

Commercial Banks have changed their approach and now the target is small savers who have been induced with unsecured personal loans which were the domain of Savings and credit co-operative societies. Currently, individuals and retail customers are being literally begged for Unsecured Loan business by commercial banks, the ones Commercial Banks were uncomfortable to do business with in the recent past. Competition in the financial sector in Kenya has made nearly all Commercial Banks to introduce Unsecured Lending as one of their major products to customers and non customers. Unsecured Lending has immensely grown over the past few years and has surpassed the Secured Lending by some Commercial Banks in Kenya. This study sought to establish the relationship between Unsecured Lending and Loan Performance of Commercial Banks in Kenya. The researcher used secondary sources of data. The researcher made use of secondary data that was obtained for the period (2010 to 2013) on the cumulative loans and advances and cumulative number of unsecured lending of all the 42 licensed and operational commercial banks in Kenya. The quantitative data collected was analyzed by the use of the descriptive statistics using Statistical Package for Social Sciences (SPSS). The researcher summarized the data by computing means and standard deviations to determine whether there were significant difference between groups e.g. t-test and ANOVA. The researcher also examined relationship among variables e.g. correlation and multiple regression. The study concludes that Unsecured Commercial Banks Loans have a strong positive effect on the Loan Performance of Commercial Banks in Kenya.

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LIST OF ABBREVIATIONS

ALP …… Active Learning Project

CBK ……..Central Bank of Kenya

ENT ……..Expected Utility Theory

LOA ……..Loan Advances

LPM ……..Loan Management Portfolio

MOU …….Memorandum of Understanding

MPT ……..Modern Portfolio Theory

RAO ……..Return on Asset

SPSS …….Statistical Package for Social Sciences

UK ……United Kingdom

USA ……..United States of America

CHAPTER ONE

INTRODUCTION

1.1Background to the Study

Lending is one of the main activities of commercial banks in Kenya and other parts of the world. This is evidenced by the volume of loans that constitute banks assets and the annual substantial increase in the amount of credit granted to borrowers in the private and public sectors of the economy. According to Comptroller (1998), lending is the principal business for most commercial banks. Loan portfolio is therefore typically the largest asset and the largest source of revenue for banks.

In view of the significant contribution of loans to the financial health of banks through interest income earnings, these assets are considered the most valuable assets of banks. A survey in 2006 on the Ghanaian banking sector revealed that loans accounted for about 50% of total bank assets which had increased from 41.5% in 2005 (Appertey and Arkaifie, 2006). In 2007, the figure increased to 53% of the industry's total assets of GH¢ 7,795.6 million (Info data Associates, 2009).

The reason why banks give much attention to the lending activity, especially in periods of a stable economic environment, is that a substantial amount of banks income is earned on loans which contribute significantly to the financial performance of banks. A financial report of ADB in 2007, indicated that out of the total interest income earned in that year, about 66.5% was earned on loans and advances.

1.1.1 Unsecured Lending

The Federal Trade Commission defines unsecured lending as a debt that is not tied to any asset. In this project, unsecured credit is considered to be credit that is not collaterized by any assets to which the creditor can have recourse in case of failure by the debtor to meet the credit obligations. The CBK views the following products as forms of unsecured lending: credit card; overdrafts; commercial papers, personal loans; and financing provided to small and medium enterprises (CBK, 2012). Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved) (Krige, 2012).

Unsecured lending, specifically personal loans were mostly marketed to the low income earners in the 1990s. The profile of customers taking up personal loans has changed over time. Unsecured credit has been growing at a far higher rate than secured credit, more so since the implosion in the mortgage market in 2008 (World Bank Survey, 2012). Various commentators and government representatives recently expressed concern about the rapid growth of this portfolio over the last few years especially the personal loans and commercial papers.

The demand for unsecured personal loans is seen in the increasing number of applications that have been made by consumers. This is a product that credit providers have focused on in meeting the demand for credit. Factors that have influenced growth in this regard include the relative ease and speed at which the likes of unsecured personal loans can be obtained. Unsecured personal loans have represented an attractive market opportunity for credit providers who have actively pursued a lending growth strategy in this product, particularly as a result of the margins that

can be made in the current market (World Bank Survey, 2012). Majority of commercial banks have entered into memorandum of understanding (MOU) with employers who have agreed to deduct loan monthly repayments from their payrolls and submit the funds direct to the banks.

Lending which may be on short, medium or long-term basis is one of the services that commercial banks do render to their customers. In other words, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general.

The banks and financial institutions require collateral to secure the advanced loan or credit. According to the Banking and Financial Institution Act [Act No. 12/91: Sec 37(3) and (5)],

the banks are prohibited from granting or permitting unsecured advances unless such advances have been unanimously approved by all of its directors and have been notified in advance to the Central Bank of Kenya. However, this clause was changed with the CBK allowing the banks to issue unsecured loans to customers with good credit history.

1.1.2 Loan Performance

Loan portfolios are loans that have been made or bought by institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or like hood that interest and principal will be paid. Thus they are held for repayment. Loan portfolios

> are the major asset of banks which need thrift like any other lending. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. The level of interest risk attributed to the bank's lending activities depends on the composition of its loan portfolio and the degree to which the terms of its loans (e.g., maturity, rate structure, and embedded options) expose the bank's revenue stream to changes in rates. John D. Hawke (Comptroller's hand book, 1998:6)

Effective management of loan portfolio and credit function is fundamental to a bank's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance.

All banks need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the bank's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken. John D. Hawke (Comptroller's hand book, 1998).

Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the loan portfolio management process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment should

focus on what management does to identify issues before they become problems. Specific measurable goals for the portfolios are established by loan portfolio objectives. They are an outgrowth of the credit culture and risk profile. John D. Hawke (Comptroller's Hand Book, 1989:13).

1.1.3 Unsecured Lending and Loan Performance

Unsecured loans are not a full substitute for secured lending in that, due to their terms and conditions, they will not be appropriate for financing the entire spectrum of assets that are acquired by consumers. There is some degree of overlap and, to an extent unsecured personal loans are complementary to secured lending. A direct comparison of the costs between unsecured personal loans and secured lending products should be seen within the context of the respective product characteristics (Credit Regulator, 2012).

It is very imperative to note that most small businesses and individual firms have no collateral to offer for borrowing hence they borrow without security under unsecured lending. Managing the loan portfolio between the various products offered is extremely vital as both secured loans and unsecured loans contribute to loan performance. Effective management of loan portfolio and credit function which is fundamental to a bank's safety and soundness should be carried out on both secured lending and unsecured lending.

The largest credit risk inherent in any commercial bank lies heavily and almost entirely on its loan portfolio. Loan portfolio is essentially the largest asset base Banks boasts about and it is the predominantly greatest source of income (Morsman, 2003). Financial performance is the single

most important factor in assessing growth potential, earnings and overall financial strength (Richardson, 2002). In view of Richardson's postulation, then a proper loan portfolio management is critical so as to maximize the returns and its performance wholesomely.

1.1.4 Commercial Banks in Kenya

he banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and various prudential guidelines issued by the Central Bank of Kenya. The Banking Act (2006) defines a bank as a company which carries on or proposes to carry on, banking business in Kenya and includes all commercial banks but does not include Central Bank of Kenya. There are 43 commercial banks in Kenya most of which are small to medium size and locally owned. The industry is however dominated by large banks most of which are foreign owned though some are partially owned. Six of the major banks are listed on the Nairobi Securities Exchange.

The commercial banking system continued to grow in the 1970s and 1980s so that by the onset of financial reforms in the mid 80s, the number of licensed commercial banks had doubled to 24 about 15 foreign owned, 3 state banks and 6 locally owned private banks. According to the Central Bank annual report (2006) financial institutions declined from 49 in June 2005 to 45 in June 2006 as a result of closure of two institutions and acquisition of assets and liabilities of two others. The banking industry in Kenya has tremendously changed its dynamics for the last one decade. Many banks have joined the industry, both local and foreign. In any industry, including the banking industry, the nature of competition is always a function of the market structure. The trend today is a perfect competition and the Central Bank of Kenya has withdrawn from the managing the market forces. Banks are now working on their own about what are relevant products and rates to be

offered to the market (CBK report 2012). In this regard the need for the assessment of the attractiveness of the industry becomes a necessity.

Commercial Banks have targeted unsecured personal loans in the light of the returns that can be made where the quality of lending books can be maintained at an acceptable level. The respective revenue streams that are generated, i.e. interest, fees charges and credit life premiums provide an attractive business opportunity in the market. The strong growth in unsecured personal loans is impacting on the level of indebtedness of consumers and is changing the shape of the market with a trend which reflects larger loans being offered over longer periods. (National Credit Regulator, 2012).

Loan portfolio is essentially the largest asset base commercial banks boast about and it is the predominantly greatest source of income. Effective management of loan portfolio and credit function is fundamental to a bank's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Good loan managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. Commercial Banks have witnessed stiff competition forcing banks to repackage their services and products to satisfy the needs of the customers and retain their market share. Islamic banking has emerged as a new market product. As banking system provides transactions services and payment system, an efficient banking system impacts positively on the economy in general by increasing efficiency of economic transactions.

1.2 Research Problem

The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or like hood that interest and principal will be paid. Thus they are held for repayment. Good loan performance will ensure that the existing loans are repaid together with the accrued interest which will avail funds in the financial market for other businesses and individual firms to obtain credit to finance the acquisition of assets and expenditure of consumers. This to an extend is a stepping stone towards economic development across broad base in the country.

It is very imperative to note that most small businesses and individual firms have no collateral to offer for borrowing hence they borrow without security under unsecured lending. Managing the loan portfolio between the various products offered is extremely vital as both secured loans and unsecured loans contribute to loan performance. Loan portfolio is essentially the largest asset base commercial banks boast about and it is the predominantly greatest source of income. Effective management of loan portfolio and credit function is fundamental to bank's safety and soundness.

Competition in the financial sector in Kenya is growing more intense and fierce (Ndung'u,

2010). For a long period non bank financial institution (e.g. private financial funds, credit unions, mutual societies and general deposit warehouses) have enjoyed almost monopoly power of credit facilities to teachers without any competition from other financial institutions. This made the non bank financial institutions to relax and forget to continuously market their product, diversify their services and improve their quality as well as introduce new products. Today, they have been caught unaware by commercial banks that have aggressively penetrated into their business

circles by introducing the unsecured loans targeting members of public including members of credit unions. Majority of commercial banks in Kenya have joined the competition of provision of unsecured loans to the general public (CBK 2011). Unsecured loan portfolio has immensely increased the total loan book of commercial banks and hence the importance of knowing the relationship between unsecured lending and loan performance of commercial banks in Kenya. Since unsecured loans are not a full substitute for secured lending, it is true that the value of loans include both unsecured and secured lending.

Banks are increasingly measuring the performance of loan portfolios by their risk adjusted returns (Koch and MacDonald, 2000). Banks may be forced to adjust their Loan Portfolio in line with other banks in the market where a herding behavior is practiced. Rajan (1994) notes that expanding lending in the short run boosts earnings, thus the banks have an incentive to ease their credit standards in times of rapid credit growth, and likewise to tighten standards when credit growth is slowing in an optimal portfolio mix. Richard (2006) notes that on one hand firms complain about the lack of credit due to the high rates set and the excessively high standards set by banks while banks on the other side have also suffered losses on bad loans.

There are several Local Studies on Unsecured Lending and Loan Performance of Commercial Banks. Ngene (2002) did an empirical investigation into portfolio performance measures by pension fund managers and the challenges they face in portfolio management in Kenya. Maina (2003) carried out a research on the risk based capital standards and the riskiness of bank portfolios in Kenya. Obusubiri (2006) conducted a study on corporate social responsibility and portfolio performance at the NSE, while Mbote (2006) did a research on the relationship between

the type of mortgages and the level of non – performing loan portfolio in the mortgage companies in Kenya.

Okundi (2011) did a study on the financial challenges facing savings and credit co- operative societies in Kenya. Okundi (2011) observed that savings and credit co- operative societies in Kenya suffered challenges as members of the societies preferred loans from bank to the one from societies because the amount of the loan granted is not pegged on savings as is the case in societies. None of these studies focused on the impact of unsecured commercial bank loans on loan performance of commercial banks. It is clear that the area of unsecured lending factors and the loans performance in commercial banks in Kenya have not been explored fully. It is therefore vital to measure the impact of unsecured lending on commercial banks' loan performance. This study therefore seeks to fill this research gap by answering the following question: How does unsecured lending affect commercial banks' loan performance in Kenya.

1.3 Research Objective

The objective of this study is to establish the relationship between unsecured lending and loan performance in commercial banks in Kenya.

1.4 Value of the Study

This study was important to management of commercial banks as they are able to know the value of unsecured loans granted and how they impact on loan performance which helps them in shaping their loan policies and controls for unsecured lending. The finding of study also helps management of commercial banks to identify potential risks arising from unsecured lending and their impact on loan performance.

The study findings were of practical significance to both academicians and general practitioners by providing a better insight into the understanding of the effects of unsecured lending on loan performance of commercial banks. The study provides an avenue for researchers to carry out future studies on a subject related to this. The study also highlights other important relationships that require further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter the researcher reviews studies on loan portfolio mix management and performance. Only the issues in the objective will be reviewed and discussed.

2.2 Theoretical Literature Review

This section focuses on the various theories supporting the study by specifically discussing the Loan Pricing Theory, Credit Market Theory, Hold-up and Soft-Budget Constraint Theories and Information Theory.

2.2.1 Loan Pricing Theory

This theory explains why it is not prudent for banks to set very high interest rates to optimize profit from loan sales. If banks set up very high interest rates, they could induce the problem of adverse selection and moral hazard by attracting borrowers with very risky projects into their portfolio. The high interest rates would later act as an incentive for the risky borrowers to consider adding more risk to their investment portfolio due to high affinity for high returns (Chodechai, 2004).

Banks cannot always set high interest rates, e.g. trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to

forecast the borrower type at the start of the banking relationship (Stiglitz, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behavior or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the reasoning of Stiglitz, it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

2.2.2 Credit Market clearing Theory

This theory postulates that if collateral and other pertinent restrictions remain constant, then it is only the lending rate that determines the amount of credit that is dispensed by the banking sector. Therefore with an increasing demand for credit and a fixed supply of the same, the interest rate rises, and vice versa. Any additional risk to a project being funded by the bank should be reflected through a risk premium that is added to the lending rate to match the increasing risk of default. Subsequently, there exist a positive relationship between the default probability of a borrower and the interest rate charged on the advance. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium (Ewert et al, 2000).

2.2.3 Hold-up and Soft-Budget Constraint Theories

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget-constraint problems. According to the hold-up literature, sharing lending avoids the expropriation of informational rents. This improves

firms' incentives to make proper investment choices and in turn it increases banks' profits (Von Thadden, 2004).

As for the soft-budget-constraint problem, multiple-bank lending enables banks not to extend further inefficient credit, thus reducing firms' strategic defaults. Both of these theories consider multiple-bank lending as a way for banks to commit towards entrepreneurs and improve their incentives. None of them, however, addresses how multiple-bank lending affects banks' incentives to monitor, and thus can explain the apparent discrepancy between the widespread use of multiple-bank lending and the importance of bank monitoring.

But according to Carletti et al (2006), when one considers explicitly banks' incentives to monitor, multiple-bank lending may become an optimal way for banks with limited lending capacities to commit to higher monitoring levels. Despite involving free-riding and duplication of efforts, sharing lending allows banks to expand the number of loans and achieve greater diversification. This mitigates the agency problem between banks and depositors, and it improves banks' monitoring incentives. Thus, differently from the classical theory of banks as delegated monitors, their paper suggested that multiple-bank lending may positively affect overall monitoring and increase firms' future profitability.

2.2.4 Information Theory

Derban, Binner and Mullineux (2005) recommended that borrowers should be screened especially by banking institutions in form of credit assessment. Collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as

indicated by symmetric information theory. Qualitative and quantitative techniques can be used in assessing the borrowers although one major challenge of using qualitative models is their subjective nature. However according to Derban, Binner and Mullineux (2005), borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in expected level of credit loan loss. Brown Bridge (1998, pp.173-89) concluded that quantitative models make it possible to numerically establish which factors are important in explaining default risk, evaluating the relative degree of importance of the factors, improving the pricing of default risk, screening out bad loan applicants and calculating any reserve needed to meet expected future loan losses.

2.2.5 Determinants of Loan Performance

Risk management and bank supervision have exerted additional pressure on the traditional lending. The Basle Commission for Banks supervision set standards on capital adequacy of financial institutions which has reformed this particular area in that it restricts the volume of funds that a bank can lend. There is also already widespread agreement on the fact that internal credit rating is the criterion for the equity requirements.

The first determinant of loan performance is based on the idea that a loan contract's income results from an interest rate premium over a rate at which the funds could have alternatively been

invested. Hence, it is a rough measure of the surplus the bank could expect if there are no problems during the life of the credit contract. The second determinant is the capture of potential problems by looking at the frequency at which disturbances (e.g. delay of principal and/or interest payment by the borrower, technical default by the borrower, or even insolvency) occurred. Such disturbances imply either a definitive loss of payments for the bank, additional cost due to renegotiations, active involvement in the borrower's firm policy, use of collateral, or perhaps all of these factors. Thus, the higher the frequency of such disturbances, the lower the loan performance (Ralf Ewert, Gerald Schenk and Andrea Szczesny 2000).

2.3 Empirical Literature Review

A lot has been reviewed in terms of lending activities of various commercial banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credit to some sector of the economy without security, while some discussed effect of such extension of such credits on productivity and output.

Finscope (2009) observed that the credit landscape in South Africa has changed such that commercial credit providers, including banks, are able to charge higher interest rates on short-term unsecured loans to poor citizens. As a result they can make money from extending lots of loans to lower income groups through unsecured 'high-risk' loans, as opposed to just extending less risky and thus less profitable loans to the propertied classes. Furthermore banks have realized, as Graeber (2011) has argued for the USA, that it is working people and students who typically comply with the ideology of repaying one's debts; one lesson from the continuing crisis has been that the rich in New York or London do not have to repay their debts if unsecured.

Ezirim (2005) further stressed that bank lending decisions without security generally are fraught with a great deal of risks, which calls for a great deal of caution and tact in this aspect of banking operations. The success of every lending activity to a great extent therefore, hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting.

Olokoyo (2011) investigated the determinants of commercial banks' lending behavior in the Nigerian context. The study aimed to test and confirm the effectiveness of the common determinants of commercial banks lending behavior and how it affects the lending behavior of commercial banks in Nigeria. The model used is estimated using Nigerian commercial banks loan advance (LOA) and other determinants or variables such as their volume of deposits (Vd), their investment portfolio (Ip), interest (lending) rate (Ir), stipulated cash reserve requirements ratio (Rr) and their liquidity ratio (Lr) for the period; 1980 – 2005.

The model hypothesizes that there is functional relationship between the dependent variable and the specified independent variables. From the regression analysis, the model was found to be significant and its estimators turned out as expected and it was discovered that commercial banks deposits have the greatest impacts on their lending behavior. The study then suggests that commercial banks should focus on mobilizing more deposits as this will enhance their lending performance and should formulate critical, realistic and comprehensive strategic and financial plans.

Chernykh and Theodossiou (2011) investigated the determinants of long-term lending by banks to firms in an emerging market using bank-level information from 881 banks in Russia. The variables of concern include bank size, capitalization, liability structure, risk taking, ownership type, managerial expertise and location of individual banks. The findings reveal that the size of the bank (measured by assets) and the bank capitalization are the only determinants of not only loans expended to businesses but also long-term loans. This is attributed to the fact that bigger and well capitalized banks can withstand the risks emanating from long-term lending. The study thus demonstrates that there are supply-side constraints to credit expansion, although it did not consider the role of collateral on bank lending levels.

Ewert et al. (2000) studied the determinants of bank lending performance in Germany using credit file information of 260 medium-sized firm borrowers for the period 1992-1998. The study aims at testing the several theories relating collateral to interest rate premiums and therefore lending performance, using a random effects model on panel data analysis to eliminate the borrower and time-specific effects. Two models were estimated with interest rate premiums and probability of distress as the two predicted variables. Interest rate premium was set to be predicted in a random effects model by among other variables: collateral; bank relationships; bank firm rating; firm characteristic and firm size.

The highlight of this study's finding was that interest rate premium increased with rise in the collateral pledged. This was contrary to the signaling and firm characteristics theories above, where we would expect higher interest rate premium for firms pledging little or no collateral.

However, estimation of distress probabilities of the same firms revealed that more collateral and covenant in credit contracts lead to lower distress probabilities. Combining the above results, the study gives controversial finding that riskier credit contracts are assigned lower interest rate premiums by banks.

Panagopoulos and Spiliotis (1998) studied the determinants of commercial banks lending behavior to commercial firms in Greece by inferring on the Post-Keynesian notion that banks lend money for purposes of execution of production activities by firms. The study uses firm expenses as well as general macroeconomic monetary indicators to predict the level of loan advances to industrial, hand craft and trade companies in Greece. The loan predictor variables are last period loan amount, employment costs or wage bill, corporate tax expenses and deposits.

Nwankwo (2000) observed that the Ugandan social and economic context is quite distinguishable from the South African one. It is therefore not surprising that the financial sectors in these two countries differ significantly. Specifically with regard to unsecured lending, the view of this ALP is that in Uganda, though lending to households and individuals grew by 40.4% in 2011 (Bank of Uganda), reversing the decline of 11.8% in 2010, there remains a much greater focus on unsecured loans to small businesses, as opposed to individuals.

According to a study conducted by Moyo and Rohan (2006), borrowers deemed incapable of repayment of unsecured debt are considered uncollectible and of such little value that their continuance as active assets of the bank is not warranted. This classification does not mean that

the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. As such, the interest rate is higher which push customers away from accessing it.

According to Omara (2007), in his study of the credit assessment process and repayment of bank loans in Barclays Bank Uganda, the unsecured loans attract more interest than the secured ones. All loans above UGX20 million are secured by mortgage property. In this regard, credit was given up to 50-60% of the value of security offered by customer. Secured loans also attracted lower interest rates unlike the unsecured that costs between 24 - 38%. Unsecured loan was limited to a value of UGX 20 million and below.

According to Karimi (2012), the commercial paper market began a rapid growth in the 1970's and was followed by the growth of the bond market in the 1980's and 1990's. It was however seen as having reduced the role of banks in providing credit to large businesses. Commercial Paper made its debut in the Kenyan market back in 1994. The research design used in this study was the descriptive method. This method is preferred because it allows for the prudent comparison of the research findings.

The study found that most investors in the commercial paper market purchase the paper at issuance and hold it until maturity. Hence, there is little trading of commercial paper in secondary markets. As a result, issuers usually finance the repayment of maturing commercial paper with newly issued commercial paper. However, the need to roll over maturing commercial paper

generates the risk that investors may not be willing to finance maturing commercial paper.

Ngene (2002) did an empirical investigation into portfolio performance measures by pension fund managers and the challenges they face in portfolio management in Kenya. It found out that many investors mistakenly base the success of their portfolios on returns only. Few consider the risk taken to achieve the returns.

Obusubiri (2006) also conducted a study on the corporate social responsibility and portfolio performance at the Nairobi Stock Exchange, while Ndung'u (2003) established that sound asset and liability management have significant influence on profitability. In his case the assets represented the loan portfolio in a given firm. Among the external factors, high market interest rate was found to have an adverse effect on a firm's profitability in Kenya. The study also un-earthed the fact that the prerequisites of operational efficiency include the adaptation of an effective service delivery methodology and significant institutional competence in such areas as delinquency control, information management and staff development.

Maina (2003), carried out a research on the risk based capital standards and the riskiness of bank portfolios in Kenya. The study established that the challenges include taxes, investor preferences, portfolio constraints, lack of knowledge from consultants and cultural hurdles. The study thus shows that these challenges led to reduction in ROA, financial self-sufficiency and portfolio yield. It was also established that multi-divisional firms sometimes over invest capital in weak divisions and under invest in stronger ones; this affects the profitability of the entire firm.

2.4 Conclusion

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget-constraint problems. Credit landscape in South Africa has changed such that commercial credit providers, including banks, are able to charge higher interest rates on short-term unsecured loans to poor citizens. As a result they can make money from extending lots of loans to lower income groups through unsecured 'high-risk' loans, as opposed to just extending less risky and thus less profitable loans to the propertied classes.

There has been an increase in unsecured debt and mortgage debt, while savings levels have continued to stall. Whilst statistical evidence indicates that the growth in unsecured lending was driven by middle to high income earners; there is a persistent negative public perception that the industry has been reckless and exploitative in lending to the lower segment

Lending which may be on short, medium or long-term basis is one of the services that commercial banks do render to their customers. Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved). The forms of regulation vary, but in general, they embrace statutory regulations or rules of behavior that may be administratively imposed or that can be guided through a market-oriented approach. The credit assessment process and repayment of bank loans in Barclays Bank Uganda, the unsecured loans attract more interest than the secured ones.

Most of the reviewed literature is from the developed countries whose strategic approach and financial footing is different from that of Kenya. Thus, there is a literature gap on the subject matter in the Kenyan situation. This study therefore will seek to fill this gap by establishing the effect of unsecured lending on loan performance of commercial banks in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used to conduct the research. In this chapter the research methodology is presented under the following areas: Research design, target population, data collection methods and data analysis.

3.2 Research Design

This study employed descriptive and correlation research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. According to Cooper (2003), a descriptive study finds out who, what, where and how of a phenomenon which is the aim of this study. A correlation study shows the relationship between two study variables. Thus, this approach was appropriate for this study since the researcher intended to collect detailed information through description and is useful for identifying variables and hypothetical constructs. Research design aids in the allocation of the perceived limited resources by coming up with crucial choices in methodology (Cooper and Schindler, 2007).

3.3 Target Population

This study employed a descriptive survey of all the 42 licensed and operational commercial banks in Kenya. The study relied on secondary data that was obtained from the population.

3.4 Data Collection

Secondary data was collected for this study. This data is useful for generating information for the study from already documented data or available reports. Cooper and Schindler (2003) explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, government documents and opinions. The study made use of secondary data that was obtained from 2010 to 2013 on the cumulative number of unsecured lending and cumulative loan balances of all the 42 licensed operational commercial banks in Kenya. The information on the 42 commercial banks was obtained from the published reports available at Banks' registries, Company Registrar or Central Bank of Kenya.

3.5 Data Analysis

The quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS) and was presented through percentages, means, standard deviations and frequencies. This was done by tallying, computing percentages as well as describing and interpreting the data in line with study objectives and assumptions through the use of the Statistical Package for Social Sciences. The information was displayed by use of tables, graphs and in prose form. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

SPSS is one of the most widely used available and powerful statistical software package that covers a broad range of statistical procedures, which allow a researcher to summarize data (e.g. Compute means and standard deviations), determine whether there are significant difference between groups (e.g. t-test, ANOVA), examine relationship among variables (e.g. correlation, multiple regression) and graph results (e.g. bar charts, line graphs) (Kirkpatrick and Feeney 2003).

The study adopted the following model used by Irum, Rehena and Muhammed (2012) with adjustments to include the cumulative number of unsecured lending by commercial banks and total number of loans by commercial banks over the period of the study.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$

Where: Y = Loan performance

β_0 = Constant

β_1 β_2 β_3 =Beta coefficients

X_1 = Unsecured lending

X_2 = Interest Income

X_3 = Non performing Loans

ϵ = Error Term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on effects of Unsecured L e n d i n g on Loan Performance of Commercial Banks in Kenya. The sample composed of forty two (42) licensed and operational commercial banks in Kenya for the period 2010-2013.

4.2 Regression Results

The study conducted a multiple regression on the selected independent variables over the period 2010–2013 and Loan Performance of Commercial Banks in Kenya.

4.3.1 Year 2010 Analysis and Interpretations

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Loan Performance of Commercial Banks) that is explained by the three independent variables (Unsecured commercial banks loans, Interest Income and Non performing Loans).

Table 4.1: ANOVA Statistics for 2010 Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000	1.000	1.000	0.000

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.647E16	3	1.216		.(a)
	Residual	0.000	38	0.000		
	Total	3.647E16	41			

Table 4.2: Coefficients of 2010 Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.145E6	4.337E6		1.417	0.165
	Unsecured commercial bank loans	8.728	0.968	0.992	9.020	0.000
	Interest income on lending by commercial banks	1.045	4.754	0.024	0.220	0.827
	Net Non-performing loans by commercial banks	-6.025	7.726	-0.031	-0.780	0.440

The data findings from 2010 market statistics were analyzed and the SPSS output presented in table 4.1 and 4.2 above. From the ANOVA statistics in table 4.1, the processed data, which is the population parameters, had a significance level of .000 which shows that the data is ideal for making

a conclusion on the population's parameter. The coefficient table in table 4.2 above was used in coming up with the model below:

LP = 6.145E6 + 8.728 UCBL + 1.045 IIN – 6.025 NPLS

According to the model, only Non – Performing Loans were negatively correlated with Loan Performance while Unsecured Commercial Banks Loans and Interest Income were positively correlated with Loan Performance. From the model, taking all factors (Unsecured Commercial Banks loans, Interest Income and Non-Performing Loans) constant at zero, Loan Performance had a value of 6.145E6. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in unsecured commercial banks loans will lead to a 8.728 increase in Loan Performance. A unit increase in Interest Income will lead to a 1.045 increase in Loan Performance while a unit increase in Non-Performing loans will lead to a – 6.025 decrease in Loan Performance. This means that unsecured commercial banks loans had a positive effect on Loan Performance.

4.3.2 Year 2011 Analysis and Interpretations

Table 4.3: ANOVA Statistics for 2011 Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.999	0.998	0.998	7.689E6

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.015E18	3	3.384	5.723E4	0.000
	Residual	0.225E16	38	0.006		
	Total	1.017E18	41			

Table 4.4: Coefficients of 2011 Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.250E6	1.451E6		2.929	0.006
	Unsecured commercial bank loans	5.971	0.351	0.884	17.011	0.000
	Interest income on lending by commercial banks	4.878	1.717	0.147	2.841	0.007
	Net Non-performing loans by commercial banks	-9.569	2.290	-0.045	-4.179	0.000

The data findings for 2011 statistics were processed using SPSS and the output presented in table 4.3 and 4.4 above. According to the ANOVA table 4.3 above, the parameters predicted in the table

above had a significance level of 0.000 which is adequate to be used as a population parameter in predicting the effect of unsecured commercial banks loans on Loan Performance of commercial banks. The regression model drawn from table 4.4 above is presented below:

`

LP = 4.250E6 + 5.971UCBL + 4.878 IIN – 9.569 NPLS

According to the table, the Loan Performance had a value of 4.250E6 that is when the value of all the independent variables is zero. A unit increase in unsecured commercial banks loans increases the Loan Performance by 5.971 when the Interest Income and Non-Performing Loans variables are held constant. A unit increase in Interest Income, holding other variables constant, increased Loan Performance by 4.878. A unit increase in Non-Performing Loans, holding other variables constant, decreased the Loan Performance by -9.569. This shows that only Non-Performing Loans had a negative relationship with the Loan Performance.

4.3.3 Year 2012 Analysis and Interpretations

Table 4.5: ANOVA Statistics for 2012 Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.999	0.998	0.998	7.550

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.015E18	3	3.384E17	5.936E3	0.000
	Residual	2.166E15	38	5.701E13		
	Total	1.017E18	41			

Table 4.6: Coefficients of 2012 Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.591E4	1.451E6		0.039	0.969
	Unsecured commercial bank loans	5.997	0.257	0.961	0.234E2	0.000
	Interest income on lending by commercial banks	0.780	0.929	0.035	0.840	0.406
	Net Non-performing loans by commercial banks	0.749	1.834	0.005	0.409	0.685

From the finding of the study on the 2012 market statistics as analyzed and presented in the above table, the following regression equation was established by the study for the year 2012:

LP = 5.591E4 + 5.997 UCBL + 0.780 IIN + 0.749 NPLS

From the findings of the data it can be concluded that when the value of Unsecured Commercial Banks Loans, Interest Income and Non-Performing Loans were zero, Loan Performance was 5.591E4. The table also shows that holding Interest Income and Non Performing Loans constant, an increase by one unit of Unsecured Commercial Banks Loans increases Loan Performance by 5.997, when other factors are held constant an increase in Interest Income by one unit increases Loan Performance by 0.780. If one unit of Non-Performing Loans was increased by one unit while holding other factors constant, the Loan Performance would increase by

0.749. This shows that all the independent variables have a positive relationship with Loan Performance with the Unsecured Loans having the highest value.

4. 3.4 Year 2013 Analysis and Interpretations

Table 4.7: ANOVA statistics for 2013 Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.997	0.993	0.992	1.365

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.010E18	3	3.367E17	1.808E3	0.000
	Residual	7.078E15	38	1.863E14		
	Total	1.017E18	41			

Table 4.8: Coefficients of 2013 Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.493E7	2.645E6		-1.863	0.070
	Unsecured commercial bank loans	6.761	0.450	1.221	15.015	0.000
	Interest income on lending by commercial banks	-7.088	2.070	-0.302	-3.424	0.001
	Net Non-performing commercial loans	10.608	2.941	0.089	3.608	0.001

The market data for 2013 was regressed on SPSS and the output presented in table 4.7 and 4.8 above. From the data analyzed and presented in the tables above, the model for the year 2013 is presented below:

LP = -0.493E7 + 6.761 UCBL – 7.088 IIN + 10.608 NPLS

According to the model above, holding Unsecured Commercial Banks Loans, Interest Income and Non-Performing Loans constant at zero, Loan Performance will be -0.493E7. This table shows that when all the three independent variables are constant at zero, Loan Performance is negative. This is in contrast with the other tables above where when the three independent variables are constant at zero, Loan Performance is positive. When the Interest Income and Non-Performing Loans are held constant, a unit increase in Unsecured Commercial Banks Loans will increase the Loan Performance by 6.761. When other factors are held constant, a unit increase in Interest Income will decrease the Loan Performance by -7.088. The model also shows that Non-Performing Loans had a positive relationship with Loan Performance such that a unit increases in Non-Performing Loans holding other factors constant will lead to an increase in Loan Performance of 10.608. From the above model it can be concluded that Unsecured Commercial Banks Loans, and Non-Performing Loans positively influenced Loan Performance while Interest Income negatively influenced Loan Performance.

4.4 Summary and Interpretation of Findings

The following regression equations were established by the study for each year of the study:

2010 - LP = 6.145E6 + 8.728 UCBL + 1.045 IIN – 6.025 NPLS

2011- LP = 4.250E6 + 5.971UCBL + 4.878 IIN – 9.569 NPLS

2012 - LP = 5.591E4 + 5.997 UCBL + 0.780 IIN + 0.749 NPLS

2012- LP = -0.493E7 + 6.761 UCBL – 7.088 IIN + 10.608 NPLS

From the above regressions models for the four years, the study found out that there were several factors influencing Loan Performance of Commercial Banks in Kenya which are unsecured commercial banks loans, Interest Income and Non-Performing Loans. They either influenced it positively or negatively. The study found out that the intercept varied. The highest value was 6.15E+6 and the lowest value was -0.49E+7. The study found out that the coefficient of unsecured commercial banks loans was positive throughout the period of study. This means that Unsecured Commercial Bank Loans positively influenced the Loan Performance.

The study found out that the Interest Income varied in value and it was positive in most cases except for year 2013. This means that Interest Income positively influenced the Loan Performance of Commercial Banks. The study further found out that the coefficients of the Non-Performing Loans to be negative in two out of the four regression models. This means that, according to the findings, Non-Performing Loans negatively influences the Loan Performance of Commercial Banks on two occasions and also influenced it positively on two other occasions.

The three independent variables that were studied i.e. Unsecured Commercial Banks Loans, Interest Income and Non-Performing Loans explain 99.7% of Loan Performance of Commercial Banks as represented by the average R^2 (0.997). This therefore means the three independent variables contribute about 99.7% of Loan Performance decision while other factors not studied in this research contribute only 0.3% of the Loan Performance decision.

There have been several studies carried out on the effects of Unsecured Lending on Loan Performance of Commercial Banks. A lot has been reviewed in terms of lending activities of various commercial banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credit to some sector of the economy without security, while some discussed effect of such extension of such credits on productivity and output. Findings have to a large extent corroborated the findings on the effects of Unsecured Lending by Commercial Banks on the Loan Performance of Commercial Banks in Kenya. The study concludes that Unsecured Lending by Commercial Banks has a strong positive influence on Loan Performance of Commercial Banks in Kenya. My results are consistent with prior research by Finscope (2009) who observed that the credit landscape in South Africa has changed such that commercial credit providers, including banks, are able to charge higher interest rates on short- term unsecured loans to poor citizens. As a result they can make money from extending lots of loans to lower income groups through unsecured 'high-risk' loans, as opposed to just extending less risky and thus less profitable loans to the propertied classes.

The findings are also consistent with Okundi (2011) who did a study on the financial challenges facing savings and credit co- operative societies in Kenya. Okundi (2011) observed that savings and credit co- operative societies in Kenya suffered challenges as members of the societies preferred Unsecured Loans from banks to the one from societies because the amount of the loan granted is not

pegged on savings as is the case in societies and loans from banks are quickly delivered.

The findings are also consistent with Ezirim (2005) who further stressed that bank lending decisions without security generally are fraught with a great deal of risks, which calls for a great deal of caution and tact in this aspect of banking operations. The success of every lending activity to a great extent therefore, hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting.

The findings also are in agreement with Omara (2007) who in his study of the credit assessment process and repayment of bank loans in Barclays Bank Uganda, observed that the unsecured loans attract more interest than the secured ones. Secured loans attracted lower interest rates unlike the unsecured that costs between 24 - 38%.

From the findings, it is observed that Unsecured Lending by Commercial Banks affect Commercial Banks Loan Performance positively. For any increase in Unsecured Lending by Commercial Banks, there is a corresponding increase in Loan Performance of Commercial Banks. The study also deduced that the independent variables, Interest Income and Non Performing Loans influence Loan Performance positively and negatively respectively. Therefore the conclusion of this study is that Unsecured Commercial banks loans and Interest Income have a strong positive correlation with Loan Performance of Commercial Banks while Non Performing Loans have a negative correlation with Loan Performance of Commercial Banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The secondary data in this analysis covered a period of 4 years from 2010 to 2013. The population of study comprised of 42 licensed operational commercial banks in Kenya. The purpose of the study was to investigate the effects of unsecured commercial banks loans on Loan Performance of Commercial Banks in Kenya.

This study was conducted through the use of a descriptive design. The study used census approach for all the 42 commercial banks in Kenya for the period 2010-2013 which was exposed to sensitivity analysis using OLS regression.

The study found that the regression equations for the period 2010 to 2013 related Loan Performance of Commercial Banks to their Unsecured Commercial Banks loans, Interest Income and Non-Performing Loans of Commercial Banks. From the above regression models for the four years, the study found out that there were several factors influencing the Loan Performance of Commercial Banks, which are Unsecured Commercial Banks Loans, Interest Income and Non-Performing Commercial Banks Loans. They either affected it positively or negatively.

The three independent variables that were studied i.e. Unsecured Commercial Banks Loans, Interest Income and Non-Performing Commercial Banks Loans explain 99.7% of Loan Performance of Commercial Banks in Kenya as represented by the average R^2. The study concludes that Unsecured Commercial Banks Loans have a strong positive effect on the Loan Performance of Commercial Banks in Kenya.

Since the study has established that Loan Performance of Commercial Banks is significantly influenced by Unsecured Commercial Banks Loans, Commercial Banks should ensure that they have the right policies in place as regards the Unsecured Lending and to make sure that controls are in place to uphold the policies. Each Commercial Bank should have Credit management policies which include origination, approval, monitoring and recovery of the debt.

5.2 Conclusions

This paper examines the effects of Unsecured Commercial Banks Loans on Loan Performance of Commercial Banks in Kenya. The study concludes that Unsecured Commercial Banks Loans have a strong positive effect on the Loan Performance of Commercial Banks in Kenya. Commercial Banks have changed their approach and now the target is small savers who have been induced with personal loans which were the domain of Savings and credit co-operative societies. Currently, individuals and retail customers are being literally begged for Unsecured Loan business by commercial banks, the ones Commercial Banks were uncomfortable to do business with in the recent past.

There is a very strong and fierce competition among the main stream commercial banks which has seen Commercial Banks increase their product range to both their clients and non-clients and their marketing techniques that ensures wide coverage. Competition in the financial sector in Kenya has made nearly all Commercial Banks to introduce Unsecured Lending as one of their major products to customers and non customers. Unsecured Lending has immensely grown over the past few years and has surpassed the Secured Lending by some of Commercial Banks in Kenya.

Some of the Commercial Banks have gone a notch higher and have started inducing Small and Medium enterprises to take Unsecured Loans from banks. These are in the form of LPO (Local Purchase Order) borrowing, Term Loans to pay for things such as Insurance Premiums for Insurance Policies for their Machinery and Landed Properties. Small and Medium enterprises are also invited by Commercial Banks to take unsecured Overdrafts. All this is meant to increase the volume of unsecured lending for Commercial Banks.

The study revealed that there is a strong positive relationship between Unsecured Commercial Banks Loans and Loan Performance of Commercial Banks in Kenya. From previous studies it has been confirmed that unsecured lending attracts higher rate of interest and hence Commercial Banks are eager to increase the volume of unsecured lending so as to gain from the higher rates of interest.

5.3 Recommendations for Policy and Practice

Since the study has established that Loan Performance of Commercial Banks is significantly influenced by Unsecured Commercial Banks Loans, Commercial Banks should ensure that they have the right policies in place as regards the Unsecured Lending and to make sure that controls are in place to uphold the policies. Each Commercial Bank should have Credit management policies which include origination, approval, monitoring and recovery of the debt. Commercial Banks should review their Lending Policies from time to time in order to capture continuous changes in both the Money and Financial Markets.

Commercial Banks should go a notch higher and start approaching Small and Medium enterprises to take Unsecured Loans from banks. These could be in the form of LPOs (Local Purchase Order) borrowing, Term Loans to pay for things such as Insurance Premiums for Insurance Policies for their Machinery and Landed Properties. Commercial Banks should also invite Small and Medium enterprises to take unsecured Overdrafts from banks. This is meant to increase the volume of unsecured lending for Commercial Banks which enhances their Loan Performance and enables them gain on benefits of Unsecured Lending. Commercial Banks should also strategize and increase both customer and product range under Unsecured Lending so as to increase the volume of Unsecured Lending and hence increase the possibilities of higher performance of their Loans.

Central Bank of Kenya should also put in place strong Guide lines and Regulations to check Unsecured Lending by Commercial Banks so that banks to not go overboard and give more Unsecured Loans to their customers and non customers that might become hard to recover and bring failure of some commercial banks in future. This will assure Commercial Banks to continue enjoying the gains from Unsecured Lending and strong loan performance.

5.4 Limitations of the Study

There were challenges which were encountered during the study. The study was limited by the fact that time was really limited and the constraints of work involved in Data collection. There was a fear of wrong data being given to the researcher as some of employees of Commercial Banks were not willing to assist.

Some Commercial banks treat some information to be confidential and hence were reluctant to release information which was vital for the completion of the Data collection and hence caused delay in the completion of the Research Project. However, the Data was easy to compute since the researcher was using secondary data from the commercial banks' Financial Statements which are standardized.

The model may not be reliable due to some shortcoming of the regression models. However, other models can be used to explain various relationships between the variables due to shortcomings of regression models.

5.5 Suggestions for Further Research

This paper examines the effects of unsecured commercial banks loans on Loan Performance of Commercial Banks in Kenya. The researcher suggests further research to be carried on the effects of Unsecured Lending by other banks which are not Commercial Banks in Kenya on their Loan Performance. This will allow a broader area and generalization of the effects of Unsecured Lending on Loan Performance of all Banks involved in lending in Kenya.

The study also suggests that further research to be carried on the effects of Unsecured Lending by other Financial Institutions such as Micro Finance Institutions in Kenya on their Loan Performance. This will allow a broader area and generalization of the effects of Unsecured Lending on Loan Performance of all

firms involved in lending in Kenya.

The study also suggests that further research to be carried on the effects of Unsecured Lending by Commercial Banks in Tanzania and Uganda on their Loan Performance. This will allow a broader area and generalization of the effects of Unsecured Lending on Loan Performance of Commercial Banks in East African Region.

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APPENDICES

APPENDIX I:

LOANS AND ADVANCES BY COMMERCIAL BANKS

	2013	2012	2011	2010
Bank Name	'000'	'000'	'000'	'000'
ABC Bank	10,851,417.00	9,789,658.00	7,074,000.00	5,288,180.00
Bank of Africa	31,091,347.00	29,882,472.00	21,640,000.00	14,122,485.00
Bank of Baroda	23,578,560.00	21,922,597.00	19,144,000.00	13,434,459.00
Bank of India	10,672,752.00	10,014,941.00	7,229,000.00	5,923,970.00
Barclays Bank	118,361,911.00	104,204,295.00	99,072,000.00	87,146,982.00
CFC Stanbic Bank	69,133,486.00	66,149,841.00	64,257,000.00	58,984,960.00
Chase Bank	39,564,255.00	29,284,044.00	18,139,000.00	11,131,009.00
Citi Bank	24,337,983.00	23,331,003.00	28,451,000.00	21,322,597.00
Commercial Bank of Africa	57,180,199.00	42,504,096.00	36,610,000.00	32,608,876.00
Consolidated Bank	10,855,492.00	10,077,068.00	9,197,000.00	6,047,276.00
Co-operative Bank of Kenya	137,051,537.00	119,087,748.00	109,409,000.00	86,618,311.00
Credit Bank	4,328,080.00	3,112,099.00	2,883,000.00	1,926,918.00
Development Bank of Kenya	8,108,467.00	6,931,620.00	5,902,000.00	5,392,436.00
Diamond Trust Bank	75,292,211.00	59,930,459.00	50,944,000.00	37,850,277.00
Dubai Bank	2,214,481.00	1,782,897.00	1,517,000.00	1,086,032.00
Eco Bank	18,459,837.00	13,968,266.00	11,381,000.00	9,693,275.00
Equatorial Commercial Bank	9,029,000.00	7,538,422.00	6,635,000.00	4,851,414.00
Equity Bank	152,028,916.00	122,410,013.00	106,486,000.00	72,902,021.00
Family Bank	27,943,360.00	17,868,745.00	16,332,000.00	10,208,137.00
Fidelity Commercial Bank	7,258,702.00	6,638,611.00	6,546,000.00	4,472,541.00
Fina Bank	10,303,477.00	8,742,625.00	7,277,000.00	6,718,235.00
First Community Bank	7,211,504.00	5,452,627.00	4,258,000.00	2,983,550.00
Giro Commercial Bank	6,908,548.00	5,519,203.00	6,360,000.00	4,933,235.00
Gaurdian Bank	8,604,312.00	7,153,027.00	6,113,000.00	4,732,471.00
Gulf Africa Bank	10,665,498.00	9,446,582.00	7,440,000.00	6,270,084.00
Habib A.G.Zurich Bank	3,029,425.00	2,328,071.00	2,667,000.00	2,249,351.00
Habib Bank of Kenya	3,880,753.00	3,340,924.00	2,177,000.00	1,595,752.00
I&M Bank	73,369,588.00	55,374,811.00	46,779,000.00	35,658,053.00
Imperial Bank	26,171,720.00	19,038,319.00	14,904,000.00	11,262,362.00
Jamii Bora Bank	3,809,603.00	1,308,915.00	302,000.00	327,331.00
Kenya Commercial Bank	198,370,069.00	187,022,664.00	179,844,000.00	137,344,568.00
K-Rep Bank	8,892,085.00	6,954,783.00	6,754,000.00	5,252,438.00
Middle East Bank	3,711,305.00	3,144,797.00	2,564,000.00	2,213,290.00
National Bank of Kenya	39,566,678.00	28,346,668.00	28,068,000.00	20,844,636.00
NIC Bank	77,114,087.00	66,381,215.00	52,025,000.00	38,340,879.00
Oriental Commercial Bank	4,074,515.00	3,498,626.00	2,851,000.00	2,450,600.00

Paramount Universal Bank	3,272,190.00	2,739,612.00	2,067,000.00	1,735,099.00
Prime Bank	26,751,542.00	21,150,662.00	18,394,000.00	14,836,692.00
Standard Chartered Bank	126,672,004.00	112,694,523.00	96,098,000.00	60,336,829.00
Trans-National Bank	5,297,179.00	4,359,518.00	3,382,000.00	1,991,178.00
United Bank of Africa	789,933.00	439,993.00	506,000.00	279,274.00
Victoria Commercial Bank	8,363,452.00	5,291,220.00	4,110,000.00	3,484,944.00

APPENDIX II:

UNSECURED LOANS BY COMMERCIAL BANKS

	2013	2012	2011	2010
Bank Name	'000'	'000'	'000'	'000'
ABC Bank	6,510,850.20	5,873,794.80	4,244,400.00	3,172,908.00
Bank of Africa	18,654,808.20	17,929,483.20	12,984,000.00	8,473,491.00
Bank of Baroda	14,147,136.00	13,153,558.20	11,486,400.00	8,060,675.40
Bank of India	6,403,651.20	6,008,964.60	4,337,400.00	3,554,382.00
Barclays Bank	71,017,146.60	62,522,577.00	59,443,200.00	52,288,189.20
CFC Stanbic Bank	41,480,091.60	39,689,904.60	38,554,200.00	35,390,976.00
Chase Bank	23,738,553.00	17,570,426.40	10,883,400.00	6,678,605.40
Citi Bank	14,602,789.80	13,998,601.80	17,070,600.00	12,793,558.20
Commercial Bank of Africa	34,308,119.40	25,502,457.60	21,966,000.00	19,565,325.60
Consolidated Bank	6,513,295.20	6,046,240.80	5,518,200.00	3,628,365.60
Co-operative Bank of Kenya	82,230,922.20	71,452,648.80	65,645,400.00	51,970,986.60
Credit Bank	2,596,848.00	1,867,259.40	1,729,800.00	1,156,150.80
Development Bank of Kenya	4,865,080.20	4,158,972.00	3,541,200.00	3,235,461.60
Diamond Trust Bank	45,175,326.60	35,958,275.40	30,566,400.00	22,710,166.20
Dubai Bank	1,328,688.60	1,069,738.20	910,200.00	651,619.20
Eco Bank	11,075,902.20	8,380,959.60	6,828,600.00	5,815,965.00
Equatorial Commercial Bank	5,417,400.00	4,523,053.20	3,981,000.00	2,910,848.40
Equity Bank	91,217,349.60	73,446,007.80	63,891,600.00	43,741,212.60
Family Bank	16,766,016.00	10,721,247.00	9,799,200.00	6,124,882.20
Fidelity Commercial Bank	4,355,221.20	3,983,166.60	3,927,600.00	2,683,524.60
Fina Bank	6,182,086.20	5,245,575.00	4,366,200.00	4,030,941.00
First Community Bank	4,326,902.40	3,271,576.20	2,554,800.00	1,790,130.00
Giro Commercial Bank	4,145,128.80	3,311,521.80	3,816,000.00	2,959,941.00
Gaurdian Bank	5,162,587.20	4,291,816.20	3,667,800.00	2,839,482.60
Gulf Africa Bank	6,399,298.80	5,667,949.20	4,464,000.00	3,762,050.40
Habib A.G.Zurich Bank	1,817,655.00	1,396,842.60	1,600,200.00	1,349,610.60
Habib Bank of Kenya	2,328,451.80	2,004,554.40	1,306,200.00	957,451.20
I&M Bank	44,021,752.80	33,224,886.60	28,067,400.00	21,394,831.80
Imperial Bank	15,703,032.00	11,422,991.40	8,942,400.00	6,757,417.20
Jamii Bora Bank	2,285,761.80	785,349.00	181,200.00	196,398.60
Kenya Commercial Bank	119,022,041.40	112,213,598.40	107,906,400.00	82,406,740.80
K-Rep Bank	5,335,251.00	4,172,869.80	4,052,400.00	3,151,462.80
Middle East Bank	2,226,783.00	1,886,878.20	1,538,400.00	1,327,974.00
National Bank of Kenya	23,740,006.80	17,008,000.80	16,840,800.00	12,506,781.60
NIC Bank	46,268,452.20	39,828,729.00	31,215,000.00	23,004,527.40
Oriental Commercial Bank	2,444,709.00	2,099,175.60	1,710,600.00	1,470,360.00
Paramount Universal Bank	1,963,314.00	1,643,767.20	1,240,200.00	1,041,059.40
Prime Bank	16,050,925.20	12,690,397.20	11,036,400.00	8,902,015.20

Standard Chartered Bank	76,003,202.40	67,616,713.80	57,658,800.00	36,202,097.40
Trans-National Bank	3,178,307.40	2,615,710.80	2,029,200.00	1,194,706.80
United Bank of Africa	473,959.80	263,995.80	303,600.00	167,564.40
Victoria Commercial Bank	5,018,071.20	3,174,732.00	2,466,000.00	2,090,966.40

APPENDIX III:

INTEREST INCOME ON LOANS & ADVANCES

	2013	2012	2011	2010
Bank Name	'000'	'000'	'000'	'000'
ABC Bank	1,763,882.00	1,713,948.00	949,000.00	791,137.00
Bank of Africa	4,238,598.00	4,455,766.00	2,256,000.00	1,236,772.00
Bank of Baroda	3,754,528.00	4,118,995.00	2,422,000.00	1,641,980.00
Bank of India	1,253,658.00	1,317,879.00	822,000.00	749,608.00
Barclays Bank	14,850,421.00	14,897,931.00	13,694,000.00	13,552,480.00
CFC Stanbic Bank	7,533,054.00	10,023,280.00	7,409,000.00	4,891,742.00
Chase Bank	8,078,947.00	5,523,456.00	2,769,000.00	1,603,461.00
Citi Bank	2,227,362.00	3,183,922.00	2,182,000.00	1,542,101.00
Commercial Bank of Africa	5,712,429.00	6,098,692.00	3,983,000.00	3,233,011.00
Consolidated Bank	1,940,870.00	2,286,104.00	1,318,000.00	776,380.00
Co-operative Bank of Kenya	20,044,538.00	21,231,015.00	13,292,000.00	9,274,912.00
Credit Bank	733,824.00	786,847.00	434,000.00	331,790.00
Development Bank of Kenya	1,017,205.00	979,111.00	649,000.00	586,937.00
Diamond Trust Bank	9,962,725.00	10,374,522.00	6,479,000.00	4,514,442.00
Dubai Bank	237,359.00	396,832.00	188,000.00	145,094.00
Eco Bank	2,148,891.00	2,231,720.00	1,547,000.00	1,090,159.00
Equatorial Commercial Bank	1,498,768.00	1,585,648.00	805,000.00	506,540.00
Equity Bank	24,811,111.00	25,383,447.00	15,267,000.00	10,497,539.00
Family Bank	4,686,232.00	4,213,735.00	2,366,000.00	1,588,280.00
Fidelity Commercial Bank	1,362,721.00	1,436,409.00	823,000.00	533,958.00
Fina Bank	1,483,502.00	1,567,999.00	1,033,000.00	938,427.00
First Community Bank	908,767.00	645,686.00	458,000.00	379,136.00
Giro Commercial Bank	1,046,060.00	1,287,273.00	887,000.00	601,018.00
Gaurdian Bank	1,171,299.00	1,233,384.00	764,000.00	556,309.00
Gulf Africa Bank	1,351,107.00	1,250,260.00	787,000.00	657,699.00
Habib A.G.Zurich Bank	326,037.00	373,304.00	282,000.00	231,963.00
Habib Bank of Kenya	476,834.00	390,757.00	262,000.00	182,226.00
I&M Bank	9,324,040.00	8,756,661.00	5,608,000.00	3,789,441.00
Imperial Bank	6,168,488.00	5,977,771.00	3,705,000.00	2,474,966.00
Jamii Bora Bank	465,012.00	125,570.00	94,000.00	141,143.00
Kenya Commercial Bank	28,311,468.00	30,763,441.00	21,293,000.00	16,162,740.00
K-Rep Bank	1,701,879.00	1,746,991.00	1,255,000.00	1,010,871.00
Middle East Bank	499,025.00	517,835.00	301,000.00	193,491.00
National Bank of Kenya	4,765,803.00	5,376,734.00	3,517,000.00	2,302,655.00
NIC Bank	8,592,080.00	9,048,895.00	5,527,000.00	4,097,644.00
Oriental Commercial Bank	613,941.00	566,251.00	369,000.00	269,862.00
Paramount Universal Bank	615,513.00	484,805.00	358,000.00	275,625.00
Prime Bank	3,357,882.00	3,475,592.00	2,311,000.00	1,651,436.00

Standard Chartered Bank	15,528,161.00	14,902,560.00	9,547,000.00	5,995,819.00
Trans-National Bank	835,145.00	774,528.00	451,000.00	307,454.00
United Bank of Africa	98,719.00	941,253.00	78,000.00	13,737.00
Victoria Commercial Bank	992,027.00	918,691.00	582,000.00	462,637.00

APPENDIX IV:

NON – PERFORMING LOANS OF COMMERCIAL BANKS

	2013	2012	2011	2010
Bank Name	'000'	'000'	'000'	'000'
ABC Bank	346,306.00	204,769.00	74,000.00	38,744.00
Bank of Africa	1,088,758.00	553,573.00	318,000.00	202,970.00
Bank of Baroda	109,251.00	153,065.00	55,000.00	117,358.00
Bank of India	30,568.00	40,913.00	64,000.00	43,933.00
Barclays Bank	664,670.00	618,028.00	552,000.00	1,118,949.00
CFC Stanbic Bank	828,852.00	296,890.00	269,000.00	657,648.00
Chase Bank	540,058.00	168,114.00	107,000.00	153,069.00
Citi Bank	0	0.00	0.00	0.00
Commercial Bank of Africa	309,105.00	336,893.00	474,000.00	483,191.00
Consolidated Bank	677,916.00	767,045.00	452,000.00	379,262.00
Co-operative Bank of Kenya	3,059,513.00	2,895,643.00	309,000.00	1,473,225.00
Credit Bank	140,662.00	156,350.00	155,000.00	216,053.00
Development Bank of Kenya	530,445.00	0.00	789,000.00	467,814.00
Diamond Trust Bank	0.00	809,946.00	1,000.00	1,104.00
Dubai Bank	794,079.00	280,108.00	125,000.00	147,429.00
Eco Bank	709,710.00	204,192.00	370,000.00	826,460.00
Equatorial Commercial Bank	838,836.00	341,720.00	228,000.00	663,697.00
Equity Bank	3,887,777.00	808,787.00	1,462,000.00	2,108,199.00
Family Bank	1,064,044.00	887,641.00	729,000.00	302,982.00
Fidelity Commercial Bank	505,829.00	569,207.00	376,000.00	350,610.00
Fina Bank	49,232.00	89,465.00	163,000.00	496,885.00
First Community Bank	423,207.00	694,078.00	507,000.00	209,394.00
Giro Commercial Bank	285,721.00	67,321.00	31,000.00	64,707.00
Gaurdian Bank	113,354.00	72,369.00	46,000.00	218,677.00
Gulf Africa Bank	497,765.00	210,802.00	419,000.00	120,095.00
Habib A.G.Zurich Bank	0.00	1,442.00	5,000.00	6,622.00
Habib Bank of Kenya	241,913.00	259,740.00	4,000.00	4,289.00
I&M Bank	344,670.00	145,437.00	209,000.00	438,325.00
Imperial Bank	844,014.00	335,554.00	157,000.00	309,022.00
Jamii Bora Bank	144,714.00	67,079.00	92,000.00	64,743.00
Kenya Commercial Bank	7,430,338.00	6,202,569.00	4,691,000.00	4,875,213.00
K-Rep Bank	242,408.00	389,281.00	423,000.00	512,908.00
Middle East Bank	525,298.00	1,899.00	15,000.00	1,727.00
National Bank of Kenya	2,411,936.00	652,728.00	300,000.00	225,053.00
NIC Bank	1,142,396.00	467,727.00	70,000.00	61,577.00
Oriental Commercial Bank	36,019.00	56,231.00	25,000.00	30,698.00
Paramount Universal Bank	173,386.00	168,318.00	181,000.00	207,261.00
Prime Bank	47,531.00	115,451.00	225,000.00	163,027.00

Standard Chartered Bank	1,597,265.00	1,077,542.00	253,000.00	310,453.00
Trans-National Bank	294,809.00	225,625.00	96,000.00	269,980.00
United Bank of Africa	721.00	2,433.00	17,000.00	0.00
Victoria Commercial Bank	0.00	0.00	0.00	0.00