THE RELATIONSHIP BETWEEN RISK MANAGEMENT PRACTICES AND FINANCIAL DISTRESS AMONG COMMERCIAL BANKS IN KENYA

LUCYANNE WANJIKU NJUGUNA

D61/77464/2015

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION DEGREE AT THE UNIVERSITY OF NAIROBI

NOVEMBER 2016

DECLARATION

This research proposal is my original work and has not been presented for a degree in any other university.

Signature... Date................................

LUCYANNE WANJIKU NJUGUNA
D61/77464/2015

This research proposal has been submitted for examinations with my approval as the university supervisor.

Signed... Date.............................

Mr. James Karanja
School of Business,
University of Nairobi.

ACKNOWLEDGEMENTS

I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project. The process of carrying out this research needed adequate preparation and therefore called upon many personalities in terms of time and other multiple resources. Carrying out of this research has been made possible by continuous and priceless support of many people. While it is not possible to name all of them, recognition has been given to a few. I am eternally grateful to my supervisor Mr James Karanja and Dr Okiro for their relentless professional guidance and advice. To my nuclear family for their encouragement, prayers and support as I was undertaking this study. I would also wish to extend my sincere gratitude my close friends and to all the MBA students for the relentless encouragement and motivation you accorded to me. Thank you all. May God bless you in abundance.

DEDICATION

I dedicate this work to my mother Margaret Nduta and all those who supported me in the completion of this project.

ABSTRACT

The reason for the study was to decide the relationship between hazard administration hones and monetary misery in business banks in Kenya. The study was an expressive review concentrate on and used auxiliary information on budgetary execution from the 43 Commercial banks in Kenya with the time of study being the year 2015. The information was investigated by utilizing enlightening measurements and also inferential insights. Enlightening insights was valuable for thinking of a comprehension of the information and in this manner helped in sorting out and compressing of the information while inferential measurements was to help in making of substantial conclusions from the information. Connection and relapse examination was utilized as a part of request to discover the level of relationship and consequently help in satisfying the motivation behind the study. The study set up that there is a solid relationship between budgetary trouble and hazard management practices. This implies that financial distress of commercial banks is highly influenced by risk management practices. These practices account for 18.5% of the changes in financial distress. The study further concludes that credit risk and interest rate risk have a positive effect on financial distress while capital risk and liquidity risk have a negative effect of financial distress.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

AKI Association of Kenya Insurers

CAR Capital Adequacy Ratio

ERM Enterprise Risk Management

HSE Health Safety and Environmental

IIC Insurance Intelligence Center

IRA Insurance Regulatory Authority

IRR Interest Rate Risk

ROA Return on Assets

ROI Return on Investment

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In the previous couple of decades, an extensive number of business banks have battled with money related misery of differing degrees of seriousness, and some have endured rehashed episodes of trouble (Hardy, 2008). Money related pain is profoundly associated with poor hazard administration hones. Hazard administration is a consistent test to every single budgetary organization. Banks are urged to consistently create and enhance their hazard administration hones. Ross et. al. (1999) characterized budgetary trouble as 'Financial disappointment' meaning that the association's incomes don't take care of its aggregate expenses including its expenses of capital. As an aftereffect of the way of their business; business banks are presented to the dangers of default from borrowers. Reasonable credit hazard appraisal and production of sound arrangements for terrible and farfetched obligations can mitigate the banks chance.

The study is tied down on Modigliani and Miller, Capital Structure Irrelevancy and Stakeholder hypothesis. Modigliani and Miller approach expresses that money related influence influences the cost of value straightforwardly. That is, value shareholders see high hazard an expansion owing debtors part, builds cost of obligation. Partner hypothesis can be characterized as "any gathering or person who can influence or is influenced by the accomplishment of the association's goals" (Fernando, 2009).

In the last decade, commercial banks have been faced with various challenges from the external environment such as globalization and internal environment such malpractices such as what the Central Bank termed as "liquidity challenges, capital deficiencies and insider lending" in the Banks. For instance, On 13 October 2015, the Central Bank of Kenya placed Imperial Bank under receivership and appointed Kenya Deposit Insurance Corporation because of what the Central Bank termed as "unsafe and unsound business conditions" at the Bank. Other banks that have faced with challenges and were placed under receivership for 12 months in the years 2015-2016 include Dubai Bank and Chase Bank Ltd. All three of the recent bank runs were prompted by unethical and unprofessional activities at the relatively small banks.

1.1.1 The Concept of Risk Management

Chance administration is the procedure intends to in keeping money monetary hazard characterized as the likelihood that the result of an activity or occasion could hinder the ability to yield satisfactory returns. Such results may bring about a potential bankruptcy, coordinate loss of profit/capital, included changeability in income pper share and may bring about inconvenience of limitations on the bank's money related influence. Such imperatives represent a hazard as these could thwart bank's capacity to create adequate sources of income to cover its continuous business or accept advantage of open doors.

Hazard administration includes recognizing, appraisal, assessment, moderating and determining danger to guarantee that the individual dependable of dangers comprehends it obviously; the association's helplessness is inside the levels set up and worthy to the administration. Chance introduction choices are in accordance with business technique and objectives set by administration, the normal return in venture is a compensation for the hazard attempted. Chance taking choices are direct and clear, as a pad to the business adequate capital is required and looked into in basic leadership to go out on a limb. The objective of hazard administration is to upgrade chance reward exchange off. Money related establishments ought to have set up hazard administration structure that fuses a venture wide approach on extent of dangers to be recognized, measured and controlled, the arrangements and methods to oversee hazard, liabilities and obligations of people in charge of hazard administration.

It is urgent for establishments to have in instruments to gauge potential dangers proficiently and arranges ahead of time to manage instances of irregular circumstances in an opportune and powerful way. Potential dangers to which this guideline applies covers all dangers of various types. Possibility readiness exercises incorporate fiasco recuperation plans, picture and brand administration, harm regulation, case moving and open relations in reaction to critics. Inside sensible time allotments, emergency courses of action ought to be inspected in readiness of sensibly plausible occasions that could negatively affect the organization. Arrangements ought to be tried with regards to the propriety of reactions, acceleration and correspondence channels (State Bank of Pakistan, 2003).

1.1.2 Financial Distress

Ross et al. (1999) portray money related trouble and disappointment as the consequence of incessant misfortunes which cause an unbalanced increment in liabilities joined by shrinkage in the benefit esteem. According to Gestel et al. (2006), Firms under financial distress will show several signs. Financial distress is an early indication of looming trouble, in relation to the capital structure; firms with a higher debt financing will experience financial distress earlier than firms with less debt.

1.1.3 Risk Management and Financial Distress

An inside and out perspective of monetary trouble earlier the 2008 money related emergency and despondency and the post emergency period uncovered that reckless loaning, silly hazard administration frameworks and lack of concern in hazard taking of the in banks was the underlying drivers of their misery (Sanusi, 2013). Numerous banks in both created and creating economies of the world experienced tremendous misfortunes stemming this (Ekpo, 2012). Subsequently it provoked Basel Committee on Bank Supervision (BCBS) to detail a progression of proposals on keeping money laws and directions tending to issues of hazard administration in managing an account as caught in Basel I, II, &III from 2008 to 2013.Its order is to reinforce the control, supervision and practices of banks worldwide with the motivation behind improving budgetary dependability. Money related misery was principally created by poor hazard administration rehearses (Nanab et al., 2012). Rosen and Zenios (2001) underscored that hazard administration practices is critical for powerful Enterprise Risk Management(ERM) and just a couple of the ERM objectives can be accomplished without hazard administration hones consistence.

Chance administration practices and hazard administration are related and interrelated (Quon, Zeghal, and Maingot, 2012). The solidness and change of any bank's execution are exceedingly subject to the successful part of both segments (Sabel and Reading, 2004; Manab et al; 2010). The ERM for the most part helps associations to accomplish their destinations by giving strategies and systems of dealing with a full range of potential dangers by utilization of contemporary hazard administration procedures, similar to the Bow-Tie technique, work to help banks accomplish powerful hazard administration in their operation. The ERM helps in assessing and overseeing comprehensively every one of the dangers in saving money operation.

The ERM and the Bow-Tie 7 strategies, supplement each other in accomplishing a viable hazard administration in monetary organizations. Absence of the same in managing an account operation would not allow a bank to be capable in indentifying the inalienable dangers, asses, and direct them. Adeyemi (2011) states that insufficient capital, absence of straightforwardness and colossal advances defaults are the prime underlying foundations of bank disappointments in Nigeria. Notwithstanding those the above essential variables, he observationally recognized some different elements as quantifiable supporters to bank disappointments in Nigeria. These among others are poor inward control frameworks, feeble ineffective administration and proprietorship structure,. As per Sanusi (2009), banks in Nigeria are confronting basic difficulties deciding the satisfactory hazard levels.

1.1.4 Commercial Banks in Kenya

In reference to the Central Bank of Kenya, bank supervision Homepage (June, 2016), there are a total of 42 licensed commercial banks in the country and one mortgage finance institution. Out of the 42 establishments, 39 business banks and the home loan back organization are exclusive while the Kenya Government and state company controls more than half shareholding in the rest of the 3 business banks. 24 of the 39 exclusive banks and the 1 contract back organization are privately controlled while 15 are remote possessed. Toward the end of June 2016, 3 out of the 24 private locally owned institutions were not in operation, 2 were under receivership while one was under statutory management.

The banking sector in Kenya has grown exponentially and has diversified to the central and east African region. The industry has also made significant investments in distribution channels striving to capture network effects, meet new customers and globalization challenges. Increased competition from local and international players has led to the growth Kenyan economy as well as the customers and shareholder reaping benefits and satisfying their needs.(Banking in Kenya, 2016)

The National treasury expects the banks in Kenya to raise a minimum core capital of Kshs 5 billion by December 2018. So far 21 commercial banks have met the 5 billion core capital requirement which is intended to strengthen local commercial banks cushioning them to the adverse business climate and allow for expansion to upcoming opportunities. The central bank has put forward a new guideline on the same without proposing a particular capital figure, however shareholders will have to inject capital in the cases where banks do not have enough free cash to cover their risks. The new regulations are expected to increase the number the banking space hence increasing financial inclusion.

1.2 Statement of the Problem

Past financial crisis and volatility in financial sector point to the need for risk management. A stable financial sector is critical for the economy. Pyle (2007) indicates that banks and other financial institution should meet regulatory requirements for risk measurement and core capital. These measures provide approximations of the extent of probable losses hence strive to stay within the acceptable degree of risk imposed by the stakeholders inclusive of loan bosses, clients and controllers. They oblige components to screen positions and make motivating forces for judicious hazard taking (Pyle, 2007).

A nearby take a gander at budgetary misery preceding the world's money related emergency of 2008 and the post emergency period uncovered that administration disappointment of indentifying inalienable dangers in banks was the key issue that prompted to monetary pain (Sanusi, 2013). A colossal number of banks in created and creating economies of the world experienced different misfortunes stemming this (Ekpo, 2012). Monetary trouble is fundamentally created by poor hazard administration and hazard management rehearses issues (Nanab et al., 2012.

In Kenya the banking industry has continued to grow both in terms of customers and deposit base and increased from new local and foreign entrants. The CBK has therefore adopted Risk based supervision (RBS) to monitor the effectiveness of risk management systems in each institution and has set up techniques to indentify, measure, monitor and control risks. Increased scrutiny from the regulators have resulted to local banks been forced to re-state their financial results to reflect non-performing loans and some like imperial bank have been forced to into receivership due to mismanagement of depositors money, an understanding of the bank risk management failures will greatly contribute to business management.

Literature review confirms there has been a considerable research effort in the area of risk management. Locally, most of the studied are biased towards various tools and techniques of credit risk management used by different institutions. Locally, studies by Wambua (2003) carried out an an observational examination concerning the fleeting reactions to money related trouble for the organizations cited in the Nairobi stock trade. Simiyu (2014) built up that that larger part of foundations utilized credit measurements to gauge credit movement and default hazard. Yusuf (2012) showed that evaluation of dangers into different classes was not generally honed by Kenyan business banks. Mwirigi (2012) in his study on evaluation of credit hazard administration strategies received by Micro Finance Institutions in Kenya, he discovered that dominant part of foundations utilized swaps took after by advances, fates and in conclusion alternatives in hazard administration.

Alexakis (2008) broke down whether the Z-score, as inspected by Altman and different scientists, could foresee accurately organization disappointments. He inferred that the Altman Z-score show performs well in foreseeing disappointments for a period up to five years prior and could be utilized by portfolio chiefs as a part of stock choice and by organization administration for merger choices or other corporate vital moves. Samarakoon and Hasan (2003) likewise researched the capacity of Altman's Z-Score model to foresee corporate pain in the developing business sector of Sri Lanka.

While the above research result gives bits of knowledge in hazard administration, they just give halfway understanding as they primarily centered around credit chance administration by Micro Finance Institutions and business banks in Kenya. This study will concentrate on a wide range of dangers experienced by business banks and specifically monetary trouble in business banks and delivers a comprehension of hazard administration botches made and in this way recognize regions of change and subsequently the examination address, what is the relationship between hazard administration rehearses and budgetary misery among Commercial banks in Kenya?

1.3 Objectives of the Study

The target of the study is to build up the relationship between hazard administration rehearses and monetary misery among Commercial banks in Kenya.

1.4 Value of the Study

The outcomes and discoveries of this study will help different partners to better comprehend chance administration and in what ways the banks can actualize great hazard administration rehearse that adjusts to bank execution. The study discoveries will likewise be of advantage to the administration and representatives of the money related foundations who will pick up comprehend into how their establishments can successfully oversee hazard and abstain from adjusting the organization to plausible hazard. This study will offer understanding on the significance of keeping up a compelling operational and review strategies so as to mind the hazard introduction levels.

The comprehension of hazard administration rehearses in associations will help strategy makers– governments and different partners to define focused on approaches and projects that will effectively help in decrease of counterparty hazard that prompt to bankruptcy. This strategy of hazard administration practice can serve as a valuable instrument for brisk assessment of the corporate hazard profile and also be utilized to track the organizations to check for their FICO.

This research will make contributions to literature on corporate management and risk management. This study is further justified since it will be of value to those interested in setting up commercial banks in the country since they will be able to understand what to do right to succeed and what if done wrong would bring the business down.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This segment compresses the information from various masters who have finished their examination in a comparative field of study. The section presents hypothetical foundation, risk management practices and the resulting financial performance and distress,

2.2 Theoretical Review

The fundamental reason for this writing survey is to recognize and analyze what has been finished by different researchers and specialists in connection to the Relationship between hazard administration practices and bank disappointment. The accompanying segment will depict and examine the Stakeholder hypothesis and Modigliani and Miller, Capital Structure Irrelevancy.

2.2.1 Modigliani and Miller, Capital Structure Irrelevancy

Modigliani and Miller (1963) thought of hypotheses which shape the reason for cutting edge thinking on capital structure. Modigliani and Miller approach expresses that money related influence doesn't matter to the estimation of the firm. That is a firm can be exceptionally utilized or have a larger part of value however an adjustment in the financing of the firm will have an inconsequential change on the company's esteem .

This hypothesis operates under suspicion of nonappearance of duties, exchange costs liquidation costs,, disparity in acquiring costs for financial specialists and organizations, deviated data, and in a proficient market, the capital structure of a firm is autonomous of the association's esteem . They guessed the organizations vale is influenced by the development prospects and the basic resource chance. MM later demonstrated that money related pain decreases the estimation of the firm. They contended that the present estimation of the intrigue assess shield increments with acquiring however so does the present estimation of the expenses of budgetary pain. In any case, the expenses of monetary misery are entirely immaterial with direct obligation because of the tax cuts of the intrigue cost not at all like profits paid which are not assess deductible. However as obligation expands the danger of liquidation increments surpassing the tax breaks costs therefore raising the likelihood of monetary pain increments . The ideal purpose of the capital structre happens when the present estimation of the tax break gets to be equivalent to the present estimation of the expenses of money related trouble (Brealey and Richard, 2008).

2.2.2 The Stakeholder Theory

Accomplice theory was embedded in the organization prepare in 1970 and well ordered made by Freeman (1984) set up that an association is careful to a more broad social affair of accomplices other than the shareholders. Generally the accomplice speculation solidifies the interest of shareholders, customers, suppliers, agents government and the more broad society. Accomplice speculation can be portrayed as "any social event or individual who can impact or is affected by the achievement of the affiliation's objectives" (Fernando, 2009). Not at all like office speculation in which the executives are working and serving for the accomplices, accomplice researchers recommend that boss in affiliations have an arrangement of associations with serve.

The accomplice speculation attempts to address the social event of accomplice justifying and requiring organization's thought (Sundaram&Inkpen,2004). However, Donaldson and Preston (1995) ensured that all social events share in a business to get benefits. In light of current circumstances, (Clarkson, 1995) prescribed that the firm is a structure, where there are accomplices and the explanation behind the affiliation is to make wealth for its accomplices. (Freeman, 1984) fights that the arrangement of relationship with various social occasions can impact essential authority frames as accomplice theory is concerned with the method for these associations to the extent both strategies and results for the firm and its accomplices. This study gets in transit that progressive accomplice's out and out add to the danger profile of the affiliation and impact the execution of the affiliation.

2.3 Types of Risk

The dangers connected with the arrangement of keeping money administrations contrast by the sort of administration rendered .The sort and level of dangers an association might be presented to rely on various variables, for example, its size, many-sided quality of business exercises, volume and so on, it is trusted that for the most part that banks confront showcase or systemic, credit, counter gathering, liquidity, operational, execution, office, methodology, consistence, legitimate, administrative and notoriety dangers (State Bank of Pakistan, 2003).

2.3.1 Market or Systemic Risk

An Analysis of the Process, portrays advertise or systemic hazard as the danger of progress in net resource esteem because of changes connected with precise elements, that is, the hidden financial elements, for example, loan fees, trade rates, and value and item costs. Be that as it may, banks convey just little net exposures to market hazard from exchanging exercises. The market hazard capital charge for the real banks utilizing their inside models have been around one for each penny of capital over late years. In perspective of the centrality of this hazard, proceeding with edge weights and the simplicity with which the hazard can be supported or exchanged, loan fee chance on the managing an account book is probably going to be the subject of expanding supervisory concentration universally (State Bank of Pakistan, 2013).

What constitutes satisfactory market hazard administration practices can change significantly from one establishment to the next. For instance, less intricate establishments whose senior directors are effectively required in the subtle elements of everyday operations might have the capacity to depend on generally fundamental market chance administration forms. Nonetheless, foundations that have more perplexing and far reaching exercises are probably going to require more detailed and formal showcase chance administration procedures, to address their expansive scope of budgetary exercises and to give senior administration the data they have to screen and direct everyday exercises. The hazard emerging from market chance components can be ordered into the accompanying: Interest rate chance, Price Risk and Foreign Exchange chance (CBK, 2013).

2.3.2 Credit Risk

This is a consequence of the adjustment in net resource esteem because of changes in the apparent capacity of counter gatherings to meet their legally binding commitments. Is characterized as changes in portfolio values accordingly disappointment of counter-gatherings to meet their commitments or because of changes in the market's impression of their capacity to keep meeting their commitment. (State Bank of Pakistan, 2013). In a perfect world, a bank chance administration framework ought to coordinate this wellspring of hazard with market hazard to deliver general measure of the bank's potential misfortune. Credit hazard emerges from the potential that an obligor is either unwilling to perform on a commitment or its capacity to perform such commitment is hindered bringing about monetary misfortune to the bank. In a bank's portfolio, misfortunes originate from by and large default because of failure or unwillingness of a client or counter gathering to meet responsibilities in connection to loaning, exchanging and settlement.

2.3.3 Liquidity Risk

Liquidity hazard is the potential for misfortune to an organization emerging from either its powerlessness to meet its commitments or to store increments in resources as they fall due without causing unsuitable cost or misfortunes. Perceiving liquidity hazard drives the bank to perceive liquidity itself as an advantage, and portfolio outline notwithstanding illiquidity worries as a test (Santomero, 1997).

Liquidity push can prompt to monetary misery or even indebtedness. All the more critically, if not managed enough and in an opportune way, the liquidity stretch of an individual bank may trigger an emergency of trust in the saving money segment in general. Liquidity hazard administration frameworks includes not just breaking down banks on and shaky sheet positions to conjecture future money streams additionally how the subsidizing prerequisites could be met. The last includes recognizing the subsidizing business sector to which the bank has admittance, understanding the way of those business sectors, assessing the bank's present and future utilization of the market and checking indications of disintegration of certainty.

2.3.4 Operation Risk

Operation risk occur because of costs caused through missteps made in doing exchanges, for example, settlement disappointments and unfavorable accumulations. Operational hazard is the danger of misfortune coming about because of lacking or fizzled interior procedures, individuals and framework or from outer occasions. It is characterized in the Basel II Capital Framework as the danger of misfortune coming about because of deficient or fizzled inward procedures, individuals and frameworks, or from outer occasions, operational hazard is one of the biggest dangers now confronting managing an account organizations, a conspicuous result of the more noteworthy multifaceted nature of keeping money action and its expanding reliance.

From a prudential point of view, the repeat of little operational issues would not be an issue in a vast, complex managing an account organization (Laker, 2007). the worry is the unordinary singular issue or occasion that conveys possibly substantial presentation to money related misfortunes, or loss of notoriety

2.3.5 Bank Capital Risk

Generally the risk an institutions faces on loosing value on invested capital is defined as capital risk. Bank capital is defined as the net worth of the bank's assets less its liabilities and debt. Bank capital risk is measured using the the capital adequacy ratio (CAR)which calculates the ratio of capital to risk.

$$CAR = \frac{\text{Tier 1 capital} + \text{Tier 2 capital}}{\text{Risk weighted assets}}$$

Tier 1 capital is permanently and easily accessible to cushion the banks losses without stopping the day to day operations, its inclusive of ordinary share capital, intangible assets future tax benefits and audited revenue reserves. Tier 2 capital is secondary to

Tier 1 and cushions depositors and creditors losses in the cases of insolvency after a bank losses all tier one capital. It is consists of general loss reserves, revaluation reserves ,subordinate term debts ,undisclosed reserves and, hybrid capital requirements .Risk weighted exposures compromises of the weighted sum of the banks credit hazard, showcase chance and operational both on and shaky sheet exposures, for example, remote trade contracts and certifications.

CAR is controlled by the national bank and bank controllers to ensure investors and advance overall solidness and effectiveness of monetary establishments. Least capital sufficiency proportions are topped guarantee that banks can assimilate misfortunes and meet capital prerequisites and keep the banks from going up against abundance influence which would fundamentally build the bankruptcy hazard . Auto beneath least statutory prerequisite shows in the likelihood of bankruptcy, investors will lose their reserve funds if a bank registers a misfortune surpassing the measure of capital it has, in this manner the higher the CAR the more secure the level of insurance to the contributors monies.

2.3.6 Compliance Risk

Also known as legal or regulatory risk. Occurs due to failure of a bank to comply with regulatory requirements. Lawful dangers are endemic in budgetary contracting and are separate from the lawful implications of credit, counterparty, and operational dangers. New statutes, assess enactment, court suppositions and controls can put in the past entrenched exchanges into conflict notwithstanding when all gatherings have already performed sufficiently and are completely ready to perform later on.

A second kind of legitimate hazard emerges from the exercises of a foundation's administration or workers. Misrepresentation, infringement of directions or laws, and different activities can prompt to cataclysmic misfortune, as late cases in the thrift business have illustrated. Every single money related organization confront every one of these dangers to some degree. Non-vital or organization movement includes operational hazard essentially. Since foundations for this situation don't claim the basic resources in which they exchange, orderly, credit and counterparty chance accumulates straightforwardly to the advantage holder. On the off chance that the last encounters a monetary misfortune, in any case, legitimate plan of action against an operator is frequently endeavored. Just office exchanges bear some legitimate hazard, if just by implication (Santomero, 1997).

2.3.7 Interest Risk

Otherwise called Interest Rate Risk (IRR). This happens as an aftereffect of changes in loan costs to lessen a bank's acquiring and brings down its total assets. IRR exists when an enthusiasm bearing resource, for example, an advance or a security because of the likelihood of the an adjustment in resources esteem coming about because of the inconstancy of loan fees. These results to an adjustment in the speculations esteem because of an adjustment in without a doubt the level of financing cost, in the spread between two rates such as fixed deposit rates earnings and lending rate earning. Administrative powers thusly utilize crevice investigation to gauge the level of IRR for a Bank and the whole managing an account industry. This includes evaluating the adjustment in the estimation of benefits and liabilities inside every time band at a given establishment for an adjustment in loan cost, then figuring the total distinction inside the two. This sum generally speaks to the misfortune in net worth a bank would endure if the interest rates moved unexpectedly. The interest rate capping currently introduced by the government in Kenya is expected to have an industry wide negative effect on bank earnings in both the short-term and the long term.

IRR management has therefore become very crucial due to continuous arising circumstances of unpredictability. Derivative instruments have been developed to hedge risks for both the business and the consumer.

2.4 Empirical Studies

Various researches have been conducted on the relationship of risk management practices and financial performance, and on the effects of sound risk management in alleviating financial distress and reduction on the uncertainty of a return the resulting to failure in financial performance. A greater part of this inquires about strengthen and reason that there is a positive relationship between powerful hazard administration practices and banks 'monetary execution, various studies and examination however infer that there is a negative relationship between them, as takes after. Waweru and Kalani (2008) researched the fundamental driver of the money related emergencies that confronts business banks in Kenya in the 1990s which finished in the disappointment of a few noteworthy banks and built up it as non-performing credit books. They credited this to absence of forceful obligation gathering approaches by the money related institutions. Keige (1992) did a study on business disappointment forecast utilizing separate investigation. He inferred that proportions can be utilized to anticipate organization disappointment. Notwithstanding, the sorts of proportions that will best segregate between falling flat organizations and fruitful ones have a tendency to vary from place to put. In Kenya current proportion, altered charge scope, return on gaining to aggregate resources, and profit for total assets can be utilized effectively as a part of foreseeing for a period up to 2 years before it happens. Keige infers that partners ought to pay consideration on liquidity, influence and movement proportions.

Hosna Manzura and Juanjuan (2009) induced that Non-performing propels marker influenced on benefit as measured by Profit for esteem more than capital adequacy extent, and the effect of credit risk organization on efficiency was not the same for each one of the banks fused into their study. Njanike (2009) found that the nonappearance of intense credit chance organization provoked to occasion of the sparing cash crisis, and lacking risk organization structures brought on the budgetary crisis. Kithinji (2010) exhibited that the greater part of the banks' advantages was affected by various variables other than credit and nonperforming propels. Aduda and Gitonga (2011) found that the credit risk organization influenced on efficiency at a sensible level. They found a strong relationship between peril parts and the banks' cash related execution.

Boahene, Dasah and Agyei (2012) examined the relationship between credit risk and banks' efficiency. They found a positive relationship between credit peril and bank profit. Gakure, Ngugi, Ndwiga and Waithaka (2012) investigated the effect of credit peril organization systems on the banks' execution of unsecured advances. They contemplated that cash related peril in a dealing with a record affiliation may realize weight of impediments on bank's ability to meet its business goals. Kolapo, Ayeni and Oke (2012) showed that the effect of credit danger on bank execution measured by ROA was cross-sectional invariant, however how much individual banks were impacted was not got by the strategy for examination used in the study.

Poudel (2012) explored the distinctive credit peril organization markers that impacted banks' cash related execution; he found that the most pointers affected the bank budgetary execution was the default rate. Musyoki and Kadubo (2012) attempt to review diverse parameters pertinent to recognize chance organization as it impacts banks' budgetary execution. They construed that each one of these parameters had an inverse Venture Administration and Monetary Developments, influence on banks' budgetary execution; however the default rate was the most pointer of bank cash related execution, in spite of what may be anticipated from exchange markers of credit risk organization. Nawaz and Munir (2012) observed that credit chance organization influenced on the banks' advantage, and they endorsed that organization should becautious in setting up a credit game plan that may not antagonistically impact profitability. Abdelrahim (2013) assumed that liquidity and bank measure affected unequivocally on ampleness of credit danger organization. Adeusi, Akeke, Adebisi and Oladunjoye (2013) Presumed that risk organization markers (address credits, and capital asset extent) influenced on banks execution.

Berrios (2013) exhibited that less cautious crediting influenced conversely on net interest edge. Kaaya and Pastory (2013) showed that credit risk markers unfavorably impacted on the bank execution. Ogboi and Unuafe (2013) contemplated that bank's cash related execution had been affected by sound credit chance organization and capital adequacy.

Abiola and Olausi (2014) revealed that banks' profitability had been affected by credit chance organization. Singh (2013) revealed that Compelling risk organization was fundamental to any bank for achieving money related soundness. Idowu and Awoyemi (2014) revealed that credit chance organization influenced the banks' advantage.

Li and Zou (2015) found that the marker of Non-performing credits had constructive outcome on banks profitability as measured by benefit for esteem (ROE) and benefit for assets (ROA). Kurawa and Garba (2014) revealed that the variables of credit risk organization influenced on the banks benefit. This investigation upgrades a bit of the present studies, in that it analyzes the sub-total and general effect of credit danger organization and its markers on budgetary execution of Jordanian business banks using certain individual pointers of credit risk organization.

2.5 Summary of Empirical Literature

The discoveries of the observational writing audited above shows distinctive connection. A few studies demonstrate a positive relationship between hazard administration and bank execution. A greater part of this investigates strengthen and reason that there is a positive relationship between viable hazard administration practices and banks 'monetary execution, various studies and examination however infer that there is a negative relationship between them, as takes after. Concentrate on discoveries by Kithinji (2010) uncovered that there was no criticalness relationship between the banks benefit and credit hazard administration.

It is a direct result of these reasons that the present research will concentrate on effect of budgetary hazard administration on gainfulness of life certification organizations in Kenya. Ogboi and Unuafe (2013) observed that bank's money related execution had been influenced by sound credit hazard administration and capital ampleness. Abiola and Olausi (2014) uncovered that banks' benefit had been influenced by credit hazard administration. Singh (2013) uncovered that Effective hazard administration was urgent to any bank for accomplishing monetary soundness.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section diagrams the examination strategy used to do the study. It likewise covers the proposed look into outline, information gathering and information examination.

3.2 Research Design

Investigate outline is characterized as a blue print, an all-inclusive strategy that indicates the strategies, systems and methods used to gather and dissect the required data or essentially a structure or plan of activity for the exploration (Charmaz, 2003). The exploration outline for the study will be a review investigate plan and will use auxiliary information.

Overview alludes to information accumulation devices utilized for doing review look into. Pinsonneault and Kraemer (1993) characterized overview as a "methods for social affair data about the attributes, activities, or suppositions of a huge gathering of individuals. Likewise, studies can be utilized to survey needs, assess request, and look at effect (Salant and Dillman, 1994). Along these lines , the point of the study was to build up the relationship between hazard administration rehearses and monetary trouble among business banks in Kenya.

3.3 Data Collection

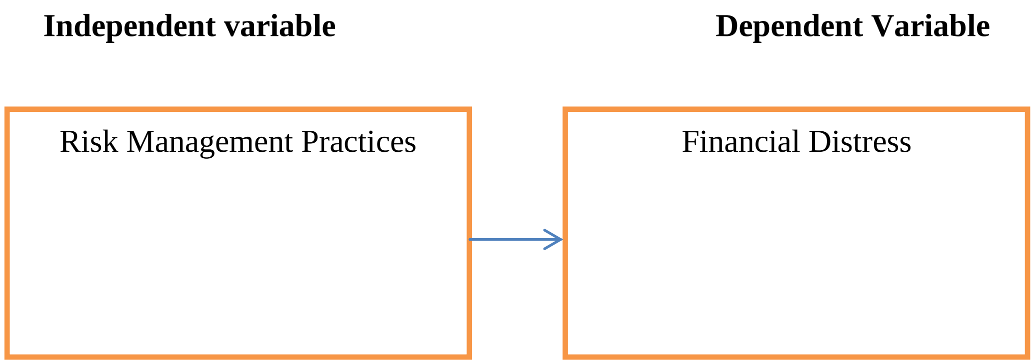
The study utilized auxiliary information. Optional information alludes to information beforehand gathered and recorded by another person and for a reason other than the present venture. Optional information will be acquired from monetary explanation of business banks got from the Central Bank of Kenya and the individual banks site.

The way of the study was quantitative and information was gathered from optional sources. The gathered information empowered the scientist to get evaluated information that aided while making determinations and thinking of suggestions using a loan hazard administration and liquidity proportion of business banks in Kenya. The study utilized auxiliary information wellsprings of a five year time frame from 2011-2015 in light of the accessibility and availability of information.

3.4 Data Analysis

Optional information acquired from the Central Bank of Kenya (CBK) reports and library was explored for fulfillment and consistency with a specific end goal to complete measurable examination. As per Mugenda (2003), all information must be cleaned, coded and appropriately investigated keeping in mind the end goal to get a significant report. The information gathered will be sorted and composed before catching the same in Statistical Packages for Social Sciences (SPSS) for examination.

3.4.1 Conceptual Model



3.4.2 Analytical Model

Data collected will be put in purposeful and usable categories, edited and coded. The coded data will be analyzed using Microsoft excel. After tabulation the below analytical model together with percentages and coefficients was calculated to support or conflict the study tests.

The regression model used was as follows:

$Y=\beta 0+ \beta 1x1 + \beta 2x2 + \beta 3x3 +\varepsilon$

Where,

Y = Financial Distress will be measured using interest cover ratio which is (profit before interest and tax divide by interest expense),

X1 = is the credit risk for the bank, credit risk for the bank was measured using the level of non-performing loans which was the ratio of non-performing loans to total loans and advances.

X2 = is the capital management risk of the bank, capital management risk was measured using the ration of capital and reserve to total assets

X3 = is the liquidity risk, liquidity of the bank was measured using the banks liquidity ratio, which will be the ratio of total loans to total deposit.

X4 = is the interest rate risk for the bank, interest rate risk for the bank was measured using the ratio of the interest rate sensitivity gap between assets and liabilities maturing within a period less or equal to one year to total assets.

ε =Error term and

$\beta 0$, $\beta 1$, $\beta 2$ and $\beta 3$ are regression coefficients

3.4.3 Diagnostic Tests

The study will perform significance testing using Analysis of variance (ANOVA). ANOVA measures differences between variables. Correlation coefficient (R) was used to establish the degree of association between the variables. Coefficient of determination (R2) shows the proportion by which dependent variable (Y) is predicted by the independent variable (X). The study will use T statistic since the sample at 95% confidence level. A t-test's statistical significance was used in order to indicate regardless of whether the distinction between two factors' midpoints doubtlessly mirrors a "genuine" contrast in the populace from which the gatherings were chosen.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Section four displays the elucidation and presentation of the exploration discoveries drawn from the examination instrument by method for information investigation. This part likewise introduces the examination and discoveries of the study as delineated in the exploration technique. The specialist solely utilized auxiliary information.

4.2 Descriptive Statistics

The study purposed to decide the relationship between hazard administration rehearses and budgetary pain in Commercial banks in Kenya. This was measured through relationship investigation between the study autonomous factors of credit hazard administration, capital hazard administration, liquidity chance administration, capital hazard administration and loan cost chance administration contrasted with budgetary trouble pointers. Subsequently illustrative measurements of the gathered information was investigated utilizing exceed expectations examination apparatus Pack and the rundown of the discoveries are introduced in table 4.1 below

Table 4.1 Summary of study variables

	Financial Distress	Credit Risk	Capital Risk	Liquidity Risk	Interest Rate Risk
Mean	1.554	0.760	0.0683	0.596	0.718
Stdev	0.088	0.225	0.0128	0.376	0.203
Skewness	-0.288	-1.651	0.3630	0.305	-1.557
Kurtosis	-0.645	1.331	-1.934	-1.743	3.654

According to the findings in Table 4.1 Commercial banks in Kenya on average have financial distress ratio of 1.554 measured as EBIT/Interest expense; indicating strong profits brought forth by low interest expense. Credit risk had a mean of 0.760 an indication that bad debts make up less than 1% of the total loans. Liquidity risk recorded a mean of 0.596 while interest rate risk recorded a mean of 0.718. All the values recorded skewness and kurtosis values within the range of ±1.96 indicating that the data was normally distributed. This was with the exception of Interest Rate Risk where a kurtosis values of 3.654 was recorded indicating possible presence of outlier values.

4.3 Relationship between Risk Management Practice and Financial Distress

With a specific end goal to decide relationship between hazard administration hones and budgetary trouble by Commercial banks in Kenya, connection examination was embraced. The autonomous variable (credit hazard, capital hazard, liquidity hazard and loan fee chance proportions) were correlated against the dependent variables financial distress ratio .The findings and summarized and presented in the table below.

Table 4.2 Correlation Analyses

Correlations						
		Y	X_1	X_2	X_3	X_4
Financial distress (Y)	Pearson Correlation	1				
	Sig. (2-tailed)					
Credit risk (X_1)	Pearson Correlation	$.362^{**}$	1			
	Sig. (2-tailed)	.009				
Capital risk (X_2)	Pearson Correlation	.220	$.322^{*}$	1		
	Sig. (2-tailed)	.121	.021			
Liquidty risk (X_3)	Pearson Correlation	$-.427^{**}$	$-.300^{*}$	$-.479^{**}$	1	
	Sig. (2-tailed)	.002	.033	.000		
Interest rate risk (X_4)	Pearson Correlation	-.005	-.143	$-.333^{*}$	.148	1

	Sig. (2-tailed)	.973	.318	.017	.301	
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: Research Findings (2016)

Findings in the table 4.2 above shows that there was a significant correlation between Credit risk and financial distress, credit risk and capital risk, Liquidity risk and Financial distress, Liquidity risk and Credit risk, Liquidity risk and Capital risk and then between Interest rate risk and Liquidity risk. All of them recorded significant values (p-values) of less than 0.05.

4.4 Regression Analysis

The scientist utilized relapse model to build up the relationship between hazard administration rehearses and budgetary pain in business banks in Kenya. Thinks about ward variable was money related misery in business banks in Kenya while the autonomous variable is hazard administration rehearses. The expository model used to break down the relationship between the reliant and autonomous factors was:

$Y= \alpha+\beta1X1+\beta2X2+\beta3X3+\beta4X4 +e$

Where;

Y = Financial Distress will be measured using interest cover ratio which is (profit before interest and tax divide by interest expense),

X1 = is the credit risk for the bank, credit risk for the bank was measured using the level of non-performing loans which was the ratio of non-performing loans to total loans and advances.

X2 = is the capital management risk of the bank, capital management risk was measured using the ration of capital and reserve to total assets

X3 = is the liquidity risk, liquidity of the bank was measured using the banks liquidity ratio, which will be the ratio of total loans to total deposit.

X4 = is the interest rate risk for the bank, interest rate risk for the bank was measured using the ratio of the interest rate sensitivity gap between assets and liabilities maturing within a period less or equal to one year to total assets.

ε =Error term and

$\beta 0$, $\beta 1$, $\beta 2$ and $\beta 3$ are regression coefficient

Coefficient of assurance portrays the degree to which changes in the needy variable influence the adjustment in the free factors or the rate at which the reliant variable (budgetary pain) is clarified by all the autonomous factors (hazard administration hones). The specialist utilized factual bundle for sociologies (SPSS V 21.0) to code, enter and process the estimations of the different relapses.

Table 4.3: Model Summary

Relation between risk management practices and profitability

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.500[a]	.250	.185	.07922119
a. Predictors: (Constant), Interest rate risk , Credit risk, Liquidity risk, Capital risk				

Source: Research Findings (2016)

Regression analysis results reveals that there is a strong relationship (R= 0.500) between financial distress and risk. The adjusted R-Square value of 0.185 implies that 18.5% of the total variance in market financial distress is attributed to combined effect of the predictor variables.

Table 4.4: Analysis of Variance

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.096	4	.024	3.834	.009[a]
	Residual	.289	46	.006		
	Total	.385	50			
a. Predictors: (Constant), Interest rate risk , Credit risk, Liquidty risk, Capital risk						
b. Dependent Variable: Financial distress						

Source: Research Findings (2016)

The analyst utilized One-route ANOVA to decide the importance of the relapse demonstrate from which a likelihood estimation of short of what one (0.9%) was at distinguished. This shows there is a profoundly noteworthy relapse relationship in foreseeing how hazard administration hones influence money related pain of Commercial banks in Kenya. This demonstrates the general model was solid and had decency of fit with respect to the information gathered.

Table 4.4 Regression Coefficients results.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.506	.108		13.998	.000
	Credit risk	.105	.054	.268	1.957	.056
	Capital risk	-.010	.106	-.014	-.090	.929
	Liquidity risk	-.085	.034	-.366	-2.478	.017
	Interest rate risk	.036	.059	.083	.612	.544
a. Dependent Variable: Financial distress						

Source: Research Findings (2016)

It can be said with 95% confidence that only Credit risk (t= 1.957, p= 0.056) and Liquidity risk (t= -2.478, p= 0.017) produced statistically significant effect on commercial banks financial distress. Overall, Credit risk and Interest rate risk produced positives effects while Capital risk and Liquidity risk produced negative effects of financial distress.

The equation for the regression model is expressed as:

$Y= 1.506 +0.105X1-0.010X2-0.085X3+0.036X4$

The constant value of 1.506 implies that financial distress of Commercial banks in Kenya would be 1.506 holding all other factors constant. Increase in Credit risk and Interest rate risk by 1 unit would lead to increase in financial distress by 0.105 and 0.030 respectively while an increase in a unit of a Capital risk and Liquidity risk would lead to decrease in financial distress by 0.010 and 0.085 respectively. For the purpose of estimating the regression equation, the researcher estimated the stochastic error term to be zero.

4.4 Interpretation of the Findings

The examination contemplate meant to set up the relationship between hazard administration rehearses and money related trouble among Commercial banks in Kenya. Advance, the study found that there is an exceptionally solid relationship (R= 0.500) between budgetary misery and risk management practices. The adjusted R-Square value of 0.185 implies that 18.5% of the total variance in financial distress of commercial banks can be attributed to changes in risk management practices. Further, ANOVA statistics established that the regression model was highly reliable and fit for data.

CHAPTER FIVE

OUTLINE OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Part five introduces a rundown, conclusions and proposals of the examination. Segment 5.2 compresses the discoveries of the study, while area 5.3 makes the determinations. Area 5.4 points out the suggestions from the study discoveries. Area 5.5 states the confinements of the study while segment 5.6 gives proposals to further research.

5.2 Summary of the Findings

The examination and presentation of results was done through enlightening and inferential insights particularly utilizing connection, relapse and ANOVA to build up the criticalness/wellness of the model furthermore to decide the connection between money related bothers with financing cost spread. The concentrate facilitate set up the relationship between the free factors utilized as a part of the study i.e. money related misery and loan fee spread. Relapse examination was utilized to decide the degree and nature of relationship inside the studies autonomous factors furthermore between free factors and the reliant variable.

The study discovered that there is a solid relationship (R= 0.500) between monetary misery and hazard administration rehearses. The balanced R-Square estimation of 0.185 suggests that 18.5% of the aggregate fluctuation in budgetary trouble of business banks can be ascribed to changes in hazard administration hones. The concentrate additionally settled that credit hazard and loan fee chance created positives impacts while capital hazard and liquidity chance delivered negative impacts of monetary misery. Advance, ANOVA insights set up that the relapse model was exceptionally solid and fit for information.

The discoveries are in accordance with Malombe (2011) who found a negative yet inconsequential relationship between monetary misery and hazard administration rehearses in Commercial banks in Kenya. Njoroge (2001) discoveries showed that there is a negative relationship between hazard administration practices and execution for organizations recorded at the Nairobi Stock Exchange in Kenya.

5.3 Conclusions

In light of the discoveries of the study, the study presumes that there is a solid relationship between financial distress and risky management practices This suggests budgetary trouble of business banks is profoundly affected by hazard administration rehearses. These practices represent 18.5% of the progressions in money related misery. The concentrate encourages concludes that credit risks and interest risk positively affect budgetary misery while capital hazard and liquidity chance have a negative impact of money related pain.

5.4 Recommendations of the study

The study built up that risky administration practices are the most critical components impacting financial distress of commercial banks in Kenya. Along these lines, the study suggests that national bank ought to set up measures of observing danger and administration practices related measures, for example, managed sparing store rate, working productivity, and liquidity risks arrangement for credits misfortunes, showcase influence and Gross residential development rate to counteract budgetary trouble of business banks in Kenya.

There are number of approach suggestions for the controlling powers of monetary markets and organizations that rise up out of this study. To begin with, controllers ought to warrant that they address the risk shortcomings brought up before. They ought to likewise think of sound practices for the foundations' connections with profoundly utilized establishments. What's more, controllers ought to guarantee that elements for which they have obligation to manage are germane to the scale and unpredictability of the credit administrations they give, ventures they make, and liabilities they acquire. In this regard, banks ought to guarantee that their counter gatherings create significant measures of potential future credit presentation and utilize these measures to set introduction limits. What's more, controllers ought to rouse banks to create strategies setting out the circumstances in which potential future exposures ought to be collateralized. Controlling powers ought to pay consideration on giving direction keeping in mind the end goal to upgrade the nature of reporting money related data by budgetary establishments, national banks ought to in this way think of such directions to decide the hazard administration hones in banks furthermore alleviate moral dangers accidental to monetary misery of business banks.

5.5 Limitations of the study

Since it was a registration overview think about utilizing auxiliary information; information gathering was amazingly dreary and tedious. The length that the study was to be led was constrained henceforth thorough and greatly complete research couldn't be done. The concentrate, nonetheless, minimized these by directing inside and out investigation that fundamentally covers the weaknesses of the study. Encourage, the information was repetitive to gather and register as it was in extremely crude frame. Advance the presentation of the information in the distinctive banks was fluctuated which made the information calculation considerably harder. The confinement of this study was time imperative.

The specialist did not disregard the real constraint of illustrative research plan which is that the outline makes it hard to clarify wonders that happen after some time, henceforth the study's discoveries are just appropriate to the study's time period. This makes it hard to clarify marvels that happen after some time, consequently the study's discoveries are just appropriate to the study's time span. It was hard to get to optional information because of strict privacy showed by generally banks. The yearly budgetary explanations are additionally arranged under the key suspicions and ideas which are subjective and along these lines not be consistently connected particularly as far as arrangements and evaluations. At last, the greater part of the monetary explanations are affirmed in the former years implying that material misquotes of firms' execution can prompt to earlier year's conformities which may not be conveyed to the consideration of the general population thus the example delineated may influence the built up relationship.

5.6 Recommended ranges of further research

The study suggests encourage contemplate which covers a more extended period and investigates the impact of risk management practices and financial distress for business banks in Kenya. The study likewise prescribes advance study that joins more monetary and bookkeeping factors which considers the predominant macroeconomic circumstance in Kenya instead of the four risk management factors. The study prescribes assist inquire about on the impact of administration practices of banks and extra money related foundations organizations so as to set up administration rehearses that prompt to better hierarchical execution.

Different studies on the impact of government approach environment ought to be embraced to get knowledge on the impact of monetary and money related arrangement alterations on the execution of budgetary foundations in Kenya. This is in light to financial and money related strategy shakiness saw as of late in Kenya that has seen the shilling deteriorate quick against the dollar and rising loan fees .This incredibly illuminate the way toward detailing arrangements that that would prompt to better approach changes and administration of the managing an account industry in Kenya and possible monetary condition change and improvement of business intensity

The turbulent way of business environment like innovation, dangers and instabilities, it be proper to reproduce this study after span of ten years and set up the relationship between hazard administration choices and business execution as around then figure out if there are territories of shared characteristics or special variables. The way that this study constrained itself to business banks in Kenya, I recommend that near study ought to be directed in Savings and Credit Society keeping in mind the end goal to evaluate whether there are any similitudes or contrasts from the consequences of this study. These outcomes be valuable into the in benchmarking themselves with different associations in the fund part.

In spite of the fact that this study has been done completed for banks, organizations with various possession structures may utilize distinctive may assess the effects of their getting choices on the subjective and quantitative measures of association execution. A study may along these lines be done on organizations with exceptionally focused and scattered possession to decide the impact of obtaining choices on productivity.

REFERENCES

Brealey & Richard A.; (2008). *Principles of Corporate Finance (9th ed.)*. Boston: McGraw-Hill/Irwin. ISBN 978-0-07-340510-0.

CBK, (2016a): *21 Commercial Banks Meet Cbk Capital Requirement*. Retrieved August, 28th, 2016: http://www.treasury.go.ke/news-updates/172-21-banks-meet-cbk-capital-requirement.html

CBK, (2013); *Risk Management Guidelines January 2013. Retrieved on August 28th ,2016* https://www.centralbank.go.ke/images/docs/legislation/risk-management-guidelines-january-2013.pdf

Central Bank of Kenya, (2012), Risk Management Survey report, Nairobi

Laker John F (2007), The evolution of risk and risk management: A prudential regulator's perspective, Australian Prudential Regulation Authority, Australia

Modigliani, F.; Miller, M. (1963). "Corporate income taxes and the cost of capital: a correction". American Economic Review. **53** (3): 433–443. *JSTOR 1809167*

Mutwiri Joseph Mutuma (2003), The use of 6C's credit appraisal model and it's relationship with level of non-performing loans of commercial banks in Kenya,

Unpublished MBA project, University of Nairobi Mwirigi Patrick (2006), Assessment of Credit risk management techniques adopted by MFIs in Kenya, Unpublished MBA project, University of Nairobi

Ngare M Evans (2008), A survey of credit risk management practices by commercial banks, Unpublished MBA project, University of Nairobi

Njiru George Mbugua (2003), Credit risk management by coffee coops in Embu district, Unpublished MBA project, University of Nairobi

Nocco Brian W. and Stulz René M. (July 2006), Enterprise Risk Management: Theory and Practice, Ohio State University

Obiero Dan (2002, The banking sector regulatory framework in Kenya: It's adequacy in reducing bank failures, Unpublished MBA project, University of Nairobi

Pinsonneault, A., & Kraemer, K. L. (1993). Survey research methodology in management information systems: An assessment. *Journal of Management Information Systems*, 10, 75-105.

Pyle David H., (2007), Research Programme in Finance, Working Paper RPF – 272, Bank Risk management: Theory, University of California

Ross A. Stephen, Westerfield W. and Jaffe Jeffrey (1999) "*Corporate Finance*", McGraw Hill International Editions, 5th Edition.

Salant, P., & Dillman, D. A. (1994). How to conduct your own survey. New York: John Wiley and Sons.

Santomero Anthony M. (1997) Commercial Banks Risk Management: An Analysis of the process, The Wharton working paper 95-11-C, University of Pennsylvania

Simiyu R S (2014), A survey of techniques of credit risk management in MFIs in Kenya, Unpublished MBA project University of Nairobi

State Bank of Pakistan, 2003, Risk Management Guidelines for Commercial Banks & DFIs. Karachi, Pakistan