

**THE RELATIONSHIP BETWEEN NON-PERFORMING LOANS MANAGEMENT
PRACTICES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN
KENYA**

BY

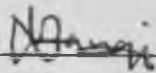
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signature: 

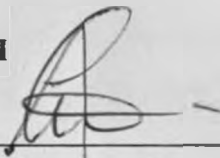
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I would also like to acknowledge the encouragement from all my parents, colleagues, MBA classmates, friends and relatives whose remarkable devotion and dedication throughout the project work was incredible. May God bless you!

DEDICATION

This research study is dedicated to

My loving husband, Samuel Mwangi

And

My dearest son, Tedd Wachira

For their moral support throughout the entire MBA program

And

Especially during this research project.

I owe all this to you!

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LIST OF ABBREVIATIONS

NPLs-Non Performing Loans

FRL-Financial Reconstruction Law

RTC -Resolution Trust Corporation

DEFINITION OF TERMS

Management -The acts of planning, controlling and organizing and staffing in preventing, utilizing and controlling non performing loans

Non Performing Loans- Loans that are not being serviced after 90 days of the agreement.

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ABSTRACT

Most developing economies that undergo the process of financial liberalization have banking systems that are burdened by a large proportion of bad loans and risky credits. Bad loans have created several problems for commercial banks in Kenya hindering efficient functioning of banks. It is for this reason that commercial banks need to adopt non-performing loans management practices so as to improve financial performance. This study seeks to establish the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. A causal design was adopted as the research design major emphasis was on determining a cause-and-effect relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. The population of this study consisted of all 46 commercial banks in Kenya. The primary data was collected using structured questionnaires and consisted of responses offered on management techniques that commercial banks apply in managing their non-performing loans. The research was both quantitative and qualitative in nature. The data collected was checked for completeness and analyzed using the statistical package for social sciences (SPSS version 17) package. Tables and charts were used for presentation of the analyzed data.

The study concludes that there is a need for commercial bank to adopt non-performing loans management practices. Such practices include; ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities and use of procedures in solving on problematic loans among others. The study further concludes that there was a positive relationship between non-performing loans management practices and the financial performance of commercial banks in Kenya which implies that adoption of non-performing loans management practices leads to improved financial performance of commercial banks in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Emerging economies experience banking crisis. This crisis has multiple causes and there is no single solution to their occurrence (Tirapat 1999). However, Goldstein and Turner (1996) suggest that there are several measures that can significantly reduce the incident of each of the factors underlying banking crises. For example, greater macroeconomic stability, a larger role for foreign owned banks, the wider use of market-based hedging instruments and higher levels of bank capital would help to make the consequences for the domestic banking system less damaging. Limiting the allocation of bank credit to particularly interest-rate-sensitive sectors, close monitoring of lending by weakly capitalized banks and employing the right mix of macroeconomic and exchange rate policies would similarly limit vulnerability to lending booms, asset price collapses and surges of capital inflows, (Goldstein and Turner, 1996).

Practices such as strict asset classification and loan provisioning could reduce the increases of bad loans. Tirapat (1999) agrees with Goldstein and Turner on the role of government in determining the success of efforts made to manage such crises. It starts out by reviewing the banking structure, problems faced and some of the causes of recent banking crises. According to the Bank of Japan (2003), the remedies to the problem of non-performing loans can be grouped into three broad categories, all of which work towards enhancing the banks' earning power. First is to improve efficiency through cost reduction, second is to pursue a new lending strategy backed by appropriate credit risk evaluation, and third is to provide new financial services to increase fee income.

From an accounting perspective, loans should be recognized as being impaired and necessary provisions be made. This happens, if it is likely that the bank will not be able to collect the entire amount due that is the principal and interest according to the contractual terms of the loan agreement(s). Loan loss provisioning is thus a method that banks use to recognize a reduction in the realizable value of their loans. Bank managers are expected to evaluate credit losses in their loan portfolios on the basis of available information a

process that involves a great deal of judgement and is subject to opposing incentives. Sometimes banks may be reluctant to account for the whole amount of incurred losses because of the negative effect of provisions on profits and on shareholders' dividends. In other cases, if provisions are tax-deductible, banks have an incentive to overstate their loss provisions and to smooth profits over time in order to reduce the amount of tax liability (Laurin and Majnoni, 2003).

1.1.1 Non performing loans

There is no global standard to define non-performing loans at the practical level. Variations exist in terms of the classification system, the scope, and contents. Such problem potentially adds to disorder and uncertainty in the NPL issues. Se-Hark Park (2003), during 1990s, indicated that there were three different methods of defining non-performing loans in Japan: the 1993 method based on banking laws; the “Bank’s Self-Valuation” in March 1996; and the “Financial Revival Laws-Based Debt Disclosure” in 1999. These measurements have gradually broadened the scope and scales of the risk-management method. Similar to the trend in Japan, more countries, regulators, and banks are moving towards adopting and adapting better and more consensus practices. For example, in the U.S., federal regulated banks are required to use the five-tier non-performing loan classification system according to BIS which are Pass, Special mention, Substandard, Doubtful, and Loss. The five-tier system is the most popular risk classification method, or, in some cases, a dual system of reporting according to their domestic policy guidelines as well as the five-tier system (Herr and Miyazaki 1999).

The immediate consequence of large amount of non-performing loans in the banking system is bank failure. Most of the researches done on the cause of bank failures found that asset quality is a statistically significant predictor of insolvency (Siems 1994), and that failing banking institutions always have high level of non-performing loans prior to failure.

It is argued that the non-performing loans are one of the major causes of the economic stagnation problems. Each non-performing loan in the financial sector is viewed as an obverse mirror image of an ailing unprofitable enterprise. From this point of view, the

eradication of non-performing loans is a necessary condition to improve the economic status. If the non-performing loans are kept existing and continuously rolled over, the resources are locked up in unprofitable sectors; thus, hindering the economic growth and impairing the economic efficiency (Kieso et al., 2001).

Non-performing loans can lead to efficiency problem for the banking sector. It is found by a number of economists that failing banks tend to be located far from the most-efficient frontier, because banks do not optimize their portfolio decisions by lending less than demanded. What is more, there are evidences that even among banks that do not fail; there is a negative relationship between the non-performing loans and performance efficiency (Krueger et al, 1999).

In a high NPL condition, banks increasingly tend to carry out internal consolidation to improve the asset quality rather than distributing credit. Further, the high level of non performing loans requires banks to raise provision for loan loss that decreases the banks' revenue and reduces the funds for new lending. The cutback of loans impairs the corporate sector as they have difficulties in expanding their working capital, blocking their chances of resuming normal operation or growing. Unavailability of credit to finance firm's working capitals and investments might trigger the second round business failure which in turn exacerbates the quality of bank loans, resulting in a re-emerging of banking or financial failure. In a worse scenario, it triggers an endless vicious liquidity spiral. As a result of poor economic condition and the depressed economic growth, the rise in the level of non performing loans makes banks more reluctant to provide additional credits resulting to insufficient capital. The production sector is further weakened, resulting in decreases in aggregate demand again, even worse still, borrowers' condition creates more Non performing loans (Kroszner, 2002).

Non-performing loans (NPLs) are the most common causes of bank poor performance. This has made all regulatory institutions to prescribe minimum standards for credit risk management. The basis of sound non-performing loans management is the identification of the existing and potential risks inherent in lending activities. Measures to counteract these risks normally comprise clearly defined policies that express the bank's credit risk management philosophy and the parameters within which credit risk is to be controlled.

deServigny and Renault (2004) opined that specific management of non performing loans measures typically includes three kinds of policies. One set of policies include those aimed to limit or reduce credit risk, such as policies on concentration and large exposure, adequate diversification, lending to connected parties, or over-exposure. It is worthy to clearly point to the fact that non performing loans are major intents of banking business. The degree of success of a bank greatly depends on the ability of management to ensure that the practice of risk management mitigates the impact of non performing loans in such a way, and to such an extent that recorded surplus is not only robust and covers the interests of various stakeholders, but also assures the health integrity of the bank.

1.1.2 Management of non-performing loans in commercial banks

The management and credit personnel should have not only the favorable moral ethics, but also enough professional knowledge, skills and experience to solve problems to analyze and judge the strategic location and credit business correctly, and solve the existing problems suitably. And the most important principle is to transform the operation mechanism comprehensively, and the core is to construct healthy interest driven and long term effective risk management mechanism, and apply the ideas throughout all levels and all parts of operation management. Making provision stemmed from the credit transactions such as credit sales. Sales on any basis other than for cash make possible the subsequent failure to collect the account.

An uncollectable account receivable is a loss of revenue that requires, through proper entry in the accounts, a decrease in the asset accounts receivable and a related decrease in income and stockholders' equity. Recording the bad debt expense recognizes the loss in revenue and the decrease in income. Of the two methods of recording uncollectible accounts receivable, the allowance method is appropriate in situations where it is probable that an asset has been impaired and that the amount of the loss can be reasonably estimated since the collectability of receivables is considered a loss contingency. A receivable is a prospective cash inflow, and the probability of its collection must be considered in valuing this inflow (Kieso et al., 2001).

According to Kroszner (2002), non-performing loans are closely associated with banking crises. Sultana (2002) also links the Japanese financial crisis to non-performing loans. According to Sultana (2002), Japanese banks still suffer under the weight of thousands of billions of yen of bad loans resulting from the collapse in asset prices a decade ago in the country's financial system. According to Central Bank of Kenya, (2003), there was a 4.5 per cent decline in pre-tax profit for the banking industry in the year 2002. Non-performing loans can be treated as undesirable outputs or costs to a loaning bank, which decrease the bank's performance (Chang, 1999). The risk of non-performing loans mainly arises as the external economic environment becomes worse off such as economic depressions. Controlling non-performing loans is very important for both the performance of an individual bank (McNulty, Akhigbe, and Verbrugge, 2001) and the economy's financial environment.

1.1.3 Commercial banks in Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), govern the Banking industry in Kenya. The banking sector in Kenya was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Ministry for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members (Kenya Bankers Association Annual Report, 2008).

There are forty-six commercial banks (46) and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. The banking industry in Kenya is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Six of the major commercial banks are listed on the Nairobi Stock Exchange. Commercial banks and non-banking financial

institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (Kenya Bankers Association Annual Report, 2008).

1.2 Statement of the problem

Most developing economies that undergo the process of financial liberalization have banking systems that are burdened by a large proportion of bad loans and risky credits. The most common cause of bad loans is directed lending to preferred individuals or favored sectors of the economy. These loans have created several problems for financial sectors and have seriously hindered the growth of developing economies. The crises in experience by commercial banks in Kenya were mainly attributed to non performing loans (Murugu, 1998). For example, Daima bank, according to (Mullei, 2003) was placed under statutory management for failing to meet the minimum core capitalization threshold among as well as poor management of loan portfolios.

There is a need for the commercial bank to find ways of managing non performing loans as they are inevitable in any sector of economy and are also major causes of the economic stagnation problems in an economy. The management of non-performing loans is a necessary condition to improve bank profitability and lead to economic efficiency. In an effort to Management of non-performing loans, banks needs for instance to restructure and become innovative in their efforts to remain in business and continue performing well. The management needs to have an insight on the relationship between management of non performing loans and financial performance so that they can geared towards ensuring non performing loans are kept at a lowered level as possible to improve it financial performance

Management of the commercial banks should adopt both prevention and resolution measures in the management of the non performing loans .The prevention measure needs to be placed on credit screening, loan surveillance and loan review functionalities both at individual bank levels and in the central bank of the country while resolutions measures must be accompanied by legal measures that is improving the efficiency of the legal and the judicial system and developing other out of the court settlement measures like

compromise settlement schemes, incentive packaging, formation of asset management companies, factoring and asset securitization. Non-performing loans are still being experienced in the balance sheets of commercial banks in Kenya as in 2002 , non performing loans was 76.1 billion ,74.0 billion in the year 2003 and . There is a need for commercial banks to adopt best management techniques to manage non-performing loans which are major causes of the economic stagnation problems in an economy.

Much of Local studies have focused on the effects of credit risk management and significance of factors leading to occurrence of non performing loans, Mutwiri (2003) analyzed the use of 6 C's credit risk appraisal model and its relationship with the level of non performing loans of commercial banks in Kenya, Chemjor (2007) studied the significance of the factors contributing to non performing loans problems in commercial banks in Kenya. There is no known study which has focused on investigation of management of non performing loans of commercial banks in Kenya .This study therefore seek to fill this gap of knowledge by establishing a relationship between non performing loans management practices and financial performance of commercial banks in Kenya. The study seeks to answer the question what is the relationship between non performing loans management practices and financial performance of the commercial banks?

1.3 Objective of the Study

To establish the relationship between management practices for non performing loans and financial performance for commercial banks in Kenya

1.4 Importance of the Study

Commercial Banks in Kenya

The study will provide an insight on the best approaches commercial banks should adopt in order to effectively managing of the non performing loans and enhance profitability. Managers in banking industry will find this study significant as it will provides an insight on the relationship between non performing loans management practices and

it financial performance to be in a position to make the strategic decision for management of the non performing loans.

Government

The study will be useful to the government in policy making regarding the loan requirements and also for the supervision of commercial bank management the occurrence of non performing loans and the responses that are appropriate should they occur. This study will therefore act as a guide in designing appropriate policies that will ensure commercial banks adopt managing practices for the non performing loans to enhance their financial performance.

Scholars and Researchers

The study will also be useful to scholars who will find this study useful as it will provide information on the relationship between non performing management practices and financial performance of the commercial banks .It will also be of significance to researchers as it will provide basis upon which further studies on broad subjects of non performing loans in commercial banks can be carried out as well as provide reference for scholars particularly on the effects on management practices for the non performing loans on commercial bank financial performance .

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, past studies have been reviewed in regards to management of non performing loans in commercial banks. Issues on theories of non performing loans, causes and approaches of management of non performing loans are critically reviewed as well as effects management of non performing loans on the bank financial performance.

2.2 Non-performing Loans

There is no global standard to define non-performing loans at the practical level. Variations exist in terms of the classification system, the scope, and contents. Such problem potentially adds to disorder and uncertainty in the NPL issues. For example, as described by Se-Hark Park (2003), during 1990s, there were three different methods of defining non-performing loans in Japan: the 1993 method based on banking laws; the “Bank’s Self-Valuation” in March 1996; and the “Financial Revival Laws-Based Debt Disclosure” in 1999. These measurements have gradually broadened the scope and scales of the risk-management method (Reddy, 2002).

Today’s financial market is unpredictable and fraught with risk, but opportunities to benefit financially can still be found in the non-performing loans market. Non-performing loans are loans that have defaulted or are in danger of defaulting, when payments are no longer able to be made. Typically, loans that have not received payments for three months are considered to be non performing, though specific contract terms may differ occasionally, (Mikiko, 2003).

Similar to the trend in Japan, more countries, regulators, and banks are moving towards adopting and adapting better and more consensus practices. For example, in the U.S., federal regulated banks are required to use the five-tier non-performing loan classification system according to BIS: Pass, Special Mention, Substandard, Doubtful, and Loss (Bank Committee of Banking Supervision, 2005).

Presently, the five-tier system is the most popular risk classification method, or, in some cases, a dual system of reporting according to their domestic policy guidelines as well as the five-tier system is used. According to BIS, the standard loan classifications are; passed solvent loans, special mention (loans to enterprises which may pose some collection difficulties, for instance, because of continuing business losses) and substandard (loans whose interest or principal payments are longer than three months in arrears). The banks make 10% provision for the unsecured portion of the loans classified as substandard, doubtful, virtual loss and loss (unrecoverable): Outstanding debts are regarded as not collectable, usually loans to firms which applied for legal resolution and protection under bankruptcy laws. Banks make 100% provision for loss loans. Non-performing loans comprise loans in the latter three categories, and are further differentiated according to the degree of collection difficulties (Yousaiken, 2001)

In addition to the standardized system, efforts have been made to improve the classification of loans. For example, more countries are shortening the period when unpaid loans become past due, intending to put loans on lenders' timetable sooner and require them to address these loans before losses start to escalate. The International Accounting Standard 39 revised in 2003 focuses on recognition and measurement of financial instruments and, most importantly, defines and establishes the measurement and evaluation of impaired loans, (Kroszner, 2002).

As lenders usually make little or no loss provision for impaired loans, they are at risk to be suddenly forced to reclassify such loans as a loss and take a full write-down if the borrowers go bankrupt. The initiation of this standard is to prevent lenders from being caught off-guard. In addition, many global economists, rating agencies, and organizations such as the World Bank and the Asian Development Bank have begun to evaluate the effects of NPLs on GDP growth. They reduce growth estimates to reflect the time and cost of resolving large non-performing loan issues (Ruthenberg, 2003).

2.3 Causes of non performing loans

2.3.1 Competition Among the commercial banks

Financial crises became a serious threat for the world economy especially after the financial deregulation process of the 1980s. This process and increased competition affected banking system safety and soundness therefore banking system vulnerability increased during last decades (Gorter and Bloem 2002).

According to Brownbridge (1998), the single biggest contributor to the bad loans of many of the failed local banks was insider lending. In at least half of the bank failures, insider loans accounted for a substantial proportion of the bad debts. Most of the larger local bank failures in Kenya, such as the Continental Bank, Trade Bank and Pan African Bank, involved extensive insider lending, often to politicians. The threat posed by insider lending to the soundness of the banks was exacerbated because many of the insider loans were invested in speculative projects such as real estate development, breached large-loan exposure limits, and were extended to projects which could not generate short-term returns, with the result that the maturities of the bank's assets and liabilities were imprudently mismatched.

It is agreed that a stable macroeconomic environment is not sufficient for achieving high and sustained growth, macroeconomic stability needs to be complemented and strengthened by the development of a strong financial sector. The relationship between financial sector and real sector makes the intermediation efficiency, the indicator of capital accumulation and productive efficiency. Therefore the stability of financial system is very important to economic growth. After the banking deregulation process in 1980's, international over-borrowing syndrome became an important threat for the banking systems of developing countries. In this process, the banking sectors in developing countries faced with the default risk because of inefficient portfolios, specifically, in terms of international funds. Over-borrowing problem follows a cyclical pattern in the recovery phase of business cycle. Increased demand leads prices to rise and attracts new investment. In a feedback relationship the new investments stimulates income.

According to Gorter and Bloem (2002), non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products). Under such circumstances, the holders of loans can make an allowance for a normal share of non performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. The problem of NPL's is widespread. Nishimura, Kazuhito, and Yukiko, (2001) state that one of the underlying causes of Japan's prolonged economic stagnation is the non-performing or bad loan problem.

2.3.2 Lack of Risk identification and Controls

Banks are profit maximizing institutions but the risks that they face are quite different from non-financial institutions and subject to several kinds of specific risk such as liquidity, credit risk and interest rate risk. A failure of a bank changes the expectations of bank depositors and investors (Klingebiel, 2000,). A sudden change of the expectations in the same direction can lead systemic problems without government intervention. This process usually ends with a banking crisis. Central banks and supervisory authorities need to always be prepared to respond effectively to bank distress and failure, to minimize contagion risk and restore investor confidence in the financial system (Tang2001).

Lack effective measures to identify, quantify and control the regional and industrial risk, constrained by obtaining historical data, decentralized information systems, and immature portfolio management skills. So they have to make judgment mainly based on personal experience and consequently have weak management measures on concentrated and systematic risk. McNulty, Akhigbe, and Verbrugge, (2001) indicated that banks are short of quantitative measures on specific customers' risk, the underlying reasons are: firstly, insufficiency of fundamental information system support. Secondly, the accumulation of historical information on risk revaluation is not enough, quality of data needs to be enhanced, quantitative modeling technology in risk revaluation standard needs to be improved, and relationship between customers rating and five degrees

classification results should be established. Thirdly, it is short of effective measures to calibrate the matching between risk and revenue.

During pre-loan investigation, some relationship managers put little emphasis on authenticity and integrality review on related materials; they have not clarified the true intended usage of the loan (especially when extending short-termed credit); the review is too optimistic, which does not analyze the potential influence of changes in related factors, no deep review of the market, no enough understanding of enterprises' operation management situation, and no thorough risk revaluation; assessment is inaccurate and the risk of loans is not fully covered; the risk on group customers and affiliated enterprises are not identified effectively (Kieso et al., 2001).

Furthermore, some banks neglect the fact that loan procedures are not completed and the review materials are not enough; some operate anti-procedure, for instance, extending credit before enterprises' application, signing loan contract before approval of the loan, issuing letter of credit or bank acceptance before approval; consolidated credit is not fully realized, and credit to some group members is not included in the consolidated credit management; extending credit against the rules, that is, exceeding authority to offer loans, splitting one big number into several small pieces to avoid the authority constraint, issuing bank acceptance to fund enterprises on a rolling basis, or issuing acceptance, discount without actual trade background.

No full consideration on possible loss of potential risk and having not realized business expansion, which are constrained by capital. Focusing on the possible revenue from business growth will lead to issue loans based on savings only and develop business blindly. Secondly, some relationship managers ignore the review on fundamental information, admittance conditions and collateral revaluation of customers, which impair the authenticity and reliability of pre-loan investigation information (Laurin and Majnoni, 2003). Additionally, some risks managers unduly rely on the materials provided by relationship managers and only review the written reports and financial reports. They do not make risk review from the second angle objectively so as to damage the independence of review conclusions. Misunderstanding in credit conception may arise due to the market share which may be the most important, loaning method to strive for

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other business. it is safe to rely on the government, customers approached by other banks are good customers and foreign enterprises are good customers.

2.3.3 Ineffective Management

There was no balance mechanism for power in banks, whose governance structures were similar to the SOEs before the recent transformation of commercial banks in China. There is no difference between Board of Director and Senior Management, so the internal monitoring systems on decision making do not exist. The obvious shortcomings of this arrangement are: firstly, the quality of important decision making such as strategy planning is not high; secondly, the moral hazard risk of senior management is easy to appear (Herr and Miyazaki,1999). Frankly speaking, there is strong and direct relationship between deficiency in monitoring system and levels of non performing loans, which should be the powerful method to enhance the control power inside the banks, and reduce many serious problems that have appeared. The fundamental reasons are: independent audit and monitoring are not strong; monitoring, review and post-assessment on subsidiaries are not well-located; risks are not identified timely; qualities of asset are not authentic and provisions are not enough.

In addition, there are evident flaws, which are important reasons for formation of NPL, in specialization of decisions and control on moral hazard risk of decision making process, although most banks have experienced the shift from simple “Three Level Approval” to “Separation between the checking process and the actual lending” in decision making mechanism (Siems,1994).

2.3.4 Bureaucratic Leadership

Past extensive strategic management mechanism leads to over-extending credit in some regions and industries and exacerbating risk for banks. Firstly, strategic management focuses only on the analysis of market opportunity and neglects huge potential risk, so the business development strategy and risk management strategy are disconnected seriously.

Bonin, John, Huang, Yiping,(2000) argued that bureaucratic thinking, internal resource distribution and power allocation are entirely based on bureaucratic levels of institutions, not on the real demand and contribution. Some institutions with low growth potential, poor credit environment, and weak management capability, can have large business scale and high credit approval authority, for the sake of their high bureaucratic level. There are separate plans for operation, decentralized information systems, and no uniform management on industries and regional risk, so the capability to resist systematic risk in industries and regions is weak. There is no integration of marketing resources and weak interaction between marketing and business growth among institutions, so it is difficult to unify all the resources to marketing the strategic valuable customers for banks (Ding, Shandre and Qing 2001).

Meanwhile, different institutions in one bank may even have contrary admittance and exit strategies for the same customers. Capital resource, which is limited and costly, is the constraint to expand the scale. Without capital constraint mechanism, the management will measure the performance only based on scale growth, and even behave irrationally such as attracting savings with interest, and extending credit with high risk and cost (Yousaiken, 2001). Subsequently, the accumulated risk exceeds the expected loss because of over expanded asset scale and large ratio of high-risk asset, so the banks have to use capital to cover risk and face hot water of insolvency.

2.3.5 Poor performance assessment and accountability system

It is difficult to inspire the initiative of institutions at the aspects of different territory loans and group and affiliated enterprises' loans, and post-loan management and monitoring, since the internal revenue distribution process is not perfect. Performance assessment mechanism has obvious orientation effect. Incomplete assessment may lead institutions to deal with operation management mistakenly, wrongly grasp the key points of the task, breed plenty of moral hazard risk, and impair the security of credit assets (Kroszner, 2002).

The main disadvantages of past assessment mechanism are as follows: firstly, no deep analysis on macro economic trend, characters of regional economy, structure of

customers groups, and extent of competition in the same business, and no combination between the above factors and banks' strategic plan when decomposing assessment tasks. Secondly, no risk-adjusted revenue is assessed (The East African 2001). Thirdly, institutions prefer growth to risk in order to perform well in assessment, since there is strong relationship between business growth indicators and short-term financial indicators. Fourthly, people tend to pursue short-term performance through expanding market share at the cost of banks' security of credit asset, since there is no assessment on medium and long term benefit and credit business is risk lagged in nature (Westermann, 2003).

The major shortcomings of current accountability system are: firstly, some managers are not fearless and determined to take responsibilities. Secondly, sometimes it is difficult to apply accountability because there are no clearly defined descriptions of relevant departments and processes in credit business. Thirdly, based on the above analysis of NPLs, there are various reasons concerning pre-loan period and post-loan management, but the current accountability measures mainly focus on approval process since the measures are not comprehensive, clear and scientific. Fourthly, there is no integration between accountability and quality of loans and no dynamic accountability system, so the accountability is often applied late after the actual loss (Sultana, 2000).

2.3. 6. Poor Human Capital Management

Human resource management in banks is still planned economy pattern that has been found to contribute to occurrence of non performing loans in banking industry. Firstly, the quality of personnel in the credit business is not guaranteed, since there is no admittance and exit management of qualification of those people. Secondly, lack of effective motivation, cannot fully inspire employees' enthusiasm and responsibility. Thirdly, it is difficult to allocate a suitable person to a suitable position because of the so called "only promotion, no demotion" management system of leaders. Fourth, the human resource deployment is often behind the actual demand of business development and management function reform, so there are no enough people in credit business, which directly affects the quality and effect of the tasks relative to supporting functions (Tirapat, 1996).

2.4 Theories of non performing loans

2.4.1 Agency Theory

According to the agency theory, the principal agency problem can be reduced by better monitoring such as establishing more appropriate incentives for managers. These are lacking in Malaysia for the following reasons; firstly, market take-over of poorly managed firms by raiders is more difficult in Malaysia because of various government restrictions on corporate equity ownership. Market takeover serves as a check on the behavior of managers. Secondly, many major banks in Malaysia are owned by the government through various government-owned agencies. The principal-agent problem becomes worse when a bank is owned by government (McColgan, 2001). This is because the principal of the bank now is the government, and directors are appointed to run the bank based on political allegiance instead of competence. Thirdly, stock options are rarely used in Malaysia to award bank managers. When bank managers are given remuneration in terms of stock options they will make decisions which will increase the price of the company in the stock market .Fourthly .Managers' horizon is short in Malaysia because their gratuity is not tied to the long term performance of the bank (Bonin et al 2001).

2.4.2 Transaction Cost Theory

Transaction cost theory has proven an essential framework for decisions on the vertical boundaries of a firm. In that context, this research paper analyses under what conditions workout of distressed real estate debt should be done as an internal service of the bank or rather externally by an external loan servicer. Transaction costs are the costs associated to the division of work. Williamson (2000), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins. Variables that describe a transaction are, among others, the specificity, the uncertainty, and the frequency of the transaction, whether an asset or a service is only or much more valuable in the context of a specific transaction. In the following, human capital specificity (the workout managers), the asset specificity (on loan and real estate level) and the site specificity (the location of the collateral) are taken into account, Reddy (2002).

Goods and services are of a high specificity, if the supply is limited and unique and if there is no comparability. A threat to breach the contract can be seen as untrustworthy, since there is no alternative. A lock-in of one transaction party leads to a hold up. Low specificity exists, if there is a range of homogeneous services or goods and supply is secured. Since goods or services are comparable and competition exists, there is no pricing problem. Further more, high competition may imply motivation and quality (Yousaiken 2001).

2.5 Empirical Review on non performing loans

Karabulut and Bilgin (2007) carried out a study with the purpose of examining the impact of the unlimited deposit insurance on Non-performing Loans (NPLs) and market discipline. They argued that deposit insurance program play a crucial role in achieving financial stability. Governments in many advanced and developing economies established deposit insurance schemes for reducing the risk of systemic failure of banks. The report shows that deposit insurance has a beneficial effect of reducing the probability of a bank run. However deposit insurance systems have their own set of problems. Deposit insurance systems create moral hazard incentives that encourage banks to take excessive risk. In conclusion, the study shows that unlimited deposit insurance caused a remarkable increase at Non-performing Loans (NPLs). What this means is that deposit insurance institutions established by monetary authorities must re-examine the current policy of blanket guarantee of deposits in the banking sector.

In Taiwan, Hu, Li and Chu (2004) carried out their own study examining how ownership structure affects Non-performing Loans (NPLs). Their findings revealed that an increase in the government's shareholding facilitates political lobbying. On the other hand, private shareholding induces more Non-performing Loans (NPLs) to be manipulated by corrupt private owners. The results show that the rate of NPLs decreased as the ratio of government shareholding in a bank rose (up to 63.51%), while the rate thereafter increased. The report posits further that joint ownership has the lowest rate of NPLs among Taiwanese public, mixed and private commercial banks. The joint ownership effect on NPLs ratios is negative and its magnitude is sufficiently large in Taiwan's

banking industry. Bank size is negatively related to the rate of NPLs, which supports their argument that larger banks have more resources for determining the quality of loans.

In Africa, Fofack (2005) investigated the determinants of non-performing loans in sub-Saharan Africa using correlation and causality analysis. The analysis was based on data drawn from 16 African countries (7 CFA and 9 non-CFA). The sub-panel of CFA countries includes: (1) Benin, (2) Cameroon, (3) Chad, (4) Cote d'Ivoire, (5) Senegal and (7) Togo. The sub-panel of non-CFA countries includes: (8) Botswana, (9) Cape Verde, (10) Ethiopia, (11) Kenya, (12) Malawi, (13) Rwanda, (14) South Africa, (15) Swaziland and (16) Zimbabwe. The sample selection was dictated by the scope of the database and availability of financial information on these countries. The data are provided on an annual basis end-of-period, between 1993 and 2002, included. The minimum length of the panel covers a period of 3 years for the shortest series (Chad and Rwanda), and up to 10 years for the longest series, producing an unbalanced panel. The correlation and causality analysis focuses on a number of macroeconomic and microeconomic (banking-sector) variables.

At the macroeconomic level, the study investigates the correlation between non-performing loans and a subset of economic variables: per capita GDP, inflation, interest rates, changes in the real exchange rate, interest rate spread and broad money supply (M2). At the microeconomic level, it focuses on the association between Non-performing Loans (NPLs) and banking-sector variables. The key banking variables include return on asset and equity, net interest margins and net income, and inter-bank loans. These variables were chosen in the light of theoretical considerations and subject to data availability. Non-performing Loans (NPLs) are adjusted for specific provisions (non-performing loans as a proportion of loans loss provisions) to provide the basis for cross-country comparisons.

In the correlation analysis, the results showed a negative association between real GDP per capita and non-performing loans expressed as a percentage of loans loss provision. This implies that falling per capita income is associated with rising scope of Non-performing Loans (NPLs) to the extent that changes in per capita income is proxy for

changes in economic growth. The negative association with non-performing loans may reflect the impact of cyclical output downturns on the banking sector; a result that is expected in the literature (Gonzalez-Hermosillo (1997)). The sign of the coefficient is consistent across state and private banks, though the magnitude of the correlation is stronger for state banks and financial institutions.

The study also investigates the association between non-performing loans (NPLs) and, domestic credit, broad money supply (M2) and inflation. Though the magnitude of the coefficient of correlation between inflation and Non-performing Loans (NPLs) is low, the sign is negative; unexpected rise in inflation under cyclical downturns is likely to negatively affect the performance of the banking sector and recovery of loans to private operators and investors. In the extreme case, the study shows that hyper-inflation may erode banks assets and equity and weaken banks position through the interest rate channel. However, the magnitude of the coefficient is relatively low, and may reflect the general context of declining inflationary pressures in the nineties, especially in the sub-panel of CFA countries. The results also show a positive association between real exchange rate appreciation and Non-performing Loans (NPLs). The magnitude of this association is particularly strong in the sub-panel of CFA countries, which underwent a devaluation of their currency in the early nineties. This direction is not consistent throughout the sample, however. This relationship is ambiguous for the sub-panel of non-CFA countries. In spite of its magnitude, the coefficient associated with these countries has a negative sign.

It can be said unequivocally that NPLs are the result of economic slowdown. For instance, Shiozaki (2002), have identified Japan's high level of NPLs as an outcome of prolonged economic stagnation and deflation in the economy since the bursting of the "bubble" in the early 1990s. In addition, Hanazaki et. al. (2002) and Yanagisawa (2001) highlight cross-shareholdings, stock market volatility, virtual blanket guarantee of bank debts and the system of "relationship banking" as factors responsible for the prolonged fragility of the Japanese banking sector. According to the definition of the Financial Reconstruction Law (FRL), the total amount of NPLs of all banks in Japan as of the end

of March 2003 was 35.3 trillion yen, although there are claims that the actual amount of NPLs might have exceeded 100 trillion yen.

On the other hand, the causes of the financial and exchange rate crisis that erupted in East Asia (Thailand, Taiwan, Malaysia and Indonesia) in 1997 are viewed as high short term external debts, excessive loans for real estate, large current account deposits, high international interest rates and weaknesses in the balance sheets of financial institutions (Government of Japan, 2001). In addition, Kwack (2000) finds that the 3-month LIBOR interest rate and nonperforming loan rates of banks were the major determinants of the Asian financial crisis. Huang and Yang (1998) report that unlike the other countries of East Asia, China did not face financial fragility because of the size of its foreign exchange reserve, its current account surplus, the dominance of foreign direct investment in capital flows and the control of the capital account. As of June 2003, China recorded only 5.68% of its total loans as non-performing while, in contrast, Thailand, Indonesia, Philippines and Malaysia recorded NPLs at 15.29%, 8%, 15% and 8.7% respectively. Unfortunately, the rate of NPLs in China had increased to 8.6% in the year 2005.

In the Indian subcontinent (India, Pakistan, Sri Lanka, Bangladesh and Nepal), the causes of non-performing loans are usually attributed to the lack of effective monitoring and supervision on the part of banks (as required by the BASEL principles of bank monitoring and supervisions), lack of effective lenders' recourse, weaknesses of legal infrastructure, and lack of effective debt recovery strategies. Among the countries in the Indian sub-continent, the rate of NPLs as a percentage of total loans disbursed in 2005 is seen to be minimal in India (5.2%), followed by Sri Lanka (9.6%). Bangladesh, however, still records a staggering rate of 13.56% (Reddy 2002).

The issue of non-performing loans in Bangladesh is not a new phenomenon. In fact, the seeds were cultivated during the early stage of the liberation period (1972-1981), by the government's "expansion of credit" policies on one hand and a feeble and poor banking infrastructure combined with an unskilled work force on the other. Moral et al. (2000) argue that the expansion of credit policy during the early stage of liberation, which was

directed to disbursement of credit on relatively easier terms, did actually expand credit in the economy on nominal terms.

However, it also generated a large number of willful defaulters in the background who, later on, diminished the financial health of banks through the “sick industry syndrome”. Islam et al. (1999) add that despite the liberalizing and privatizing of the banking sectors in the 1980s with a view to increasing efficiency and competition, the robustness of the credit environment deteriorated further because of the lack of effective lenders’ recourse on borrowers. Choudhury et al. (1999) find that Government direction towards nationalized commercial banks to lend to unprofitable state owned enterprises, limited policy guidelines (banks were allowed to classify their assets at their own judgments) regarding “loan classification and provisioning”, and the use of accrual policies of accounting for recording interest income of NPLs resulted in malignment of the credit discipline of the country.

The German non-performing loan market is still young in comparison to more mature markets in the US and several Asian countries. A make, buy or sale decision of non-performing loans and its workout can be seen as a question on the outsourcing potentials in the loan granting process. Lautenschlager, Mettler and Volkart (1998), indicated that inclusion or exclusion of the workout unit into a bank’s business and balance uncertainties related to this potential organizational transformation of the lending institution.

Hardymon and Lerner (2003) argue that large German banks are the biggest group holding distressed assets in Germany. This is due to the bank’s strong business relationship with the *Mittelstand*, a sector strongly hit by the recessional environment. Further on, they visualise a matrix of distressed investment targets concerning internal/external workout and whether it is resolvable/irresolvable by a fund. In the context of the ongoing crisis, Klingebiel and Daniela. (2000) discusses recent developments in the German banking and real estate sectors. She points out three factors; the restructuring in the German banking sector, the economic slowdown and the typical real estate cycle. Garthe and Turner (1996) argues that German banks have to solve the distressed debt issue during the next three years aiming to comply with the Basel II regulations and

successfully restructure the over-banked sector with the result of a “more sophisticated and innovative real estate lending in the future”.

The US non-performing loan cycle is embedded in the Saving & Loan Crisis from 1989 to 1994. Distressed real estate debt can be regarded as a sub-problem within the biggest banking crisis in the US. Woo and David, (2000) concentrated on the valuation of complex distressed real estate and real estate loans and derived a valuation methodology which is especially designed for that asset class. Cargill et al (2004) published probably the most distinguished collections of associated publications on the Saving & Loan Crisis and distressed debt resolution. Focus is the complex combination of causes that led to and fostered the banking crisis.

Bank Committee of Banking Supervision (2005) concentrates on the role of the governmental institutions, the FDICs and the Resolution Trust Corporations (RTCs), and their experiences in the resolution of troubled banks as well as the asset management and workout of distressed assets. The renegotiation and restructuring of distressed debt is subject to pay-off-model (Hardings and Sirmans 2002). They determine the different reactions of borrowers (underinvestment/ over-investment) with regard to the different workout strategies and identify renegotiation strategies regarding the maturity being most efficient to the debtor due to a decreasing risk profile.

Berger and DeYoung (1997) analyse the relationship between cost efficiency and non-performing loans in an ambivalent way. The higher the NPL volume, the lower the cost efficiency; nevertheless, mismanagement also lead to a rising amount of bad loans. Gibler and Black (2004) analyses outsourcing potentials of real estate function with respect to the agency problem related to that. Those findings may have important implications for the outsourcing of servicing and workout of real estate loans. Peiser and Wang (2000) analyze the resolution strategy of distressed debt in China through the foundation of state-owned asset management companies for the four biggest state-owned banks. They also identify the country specific problems of China by comparing the situation to the United States, where the Resolution Trust Corporation (RTC) was established to foster a quick workout of the engagements (McIver 2005).

A study on securitization of non-performing loans in China was conducted (Chen 2004). His examination of the legal and economical framework concerning securitization of non-performing loans results in a call for government participation via policy adjustments and debt restructuring plans, which are crucial for successful large scale securitization.

Herr and Miyazaki (1999) address the non-performing loans problem and suggest securitization as a solution by transferring the distressed debt into securities and therefore achieve a positive balance sheet effect. As result, they also mention the necessity of the involvement of politicians who can foster the scheme of securitization on the private banks side and in the Ministry of Finance. The Japanese market of non-performing loans and the role of Governmental intervention are also subject of securitization, (Barseghyan, 2004). He identifies a link between the Japanese government's reluctance to solve the bad loan problem and the economic slowdown. He opines that the Governments behaviour deteriorated the economic situation of Japan and affirms this hypothesis by a normative study. A more general comparative study on the structuring of asset management companies was undertaken (Klingebiel 2000). She analyses and compares the use of asset management companies in the resolution of banking crisis in a cross country comparison and identifies success stories and drivers for different types of asset management companies of distressed debt.

China evidences active non-performing loans resolutions since 1999. The origin of the Chinese non-performing loans crisis is a political matter. During the centrally planned economy from 1949 onwards, loans were granted by state owned banks to state owned companies without proper credit due diligence at predetermined standardized conditions by the government. Especially, in the overheated economy of the 1990s domestic credits extended enormously and grew by 30% per year between 1992 and 1995 (Kroszner, 2002).

2.6 Non performing loans in Kenya

According to a study by Brownbridge (1998), most of the bank failures were caused by non-performing loans. Arrears affecting more than half of the loan portfolios were typical of the failed banks. Many of the bad debts were attributable to moral hazard: the adverse

incentives on bank owners to adopt imprudent lending strategies, in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets.

According to the Central Bank of Kenya Supervision Report (Central Bank of Kenya Supervision Report, 1999) profitability of the banking sector declined sharply from Kshs.4.4bn in 1998 to only Kshs 0.2 billion in 1999. This was due to increased provisions for the non-performing loans by most institutions. Non-performing loans remained a major problem for the Co-operative Bank of Kenya Ltd, for instance. Although the volume of total non-performing loans declined, provisions on loan losses increased in 2002.

The central bank of Kenya defines NPLs as those loans that are not being serviced as per loan contracts and expose the financial institutions to potential losses (CBK, 1997). It is important to note that non-performing loans refer to accounts whose principal or interest remains unpaid ninety days or more after due date. According to the Central Bank of Kenya Supervision Report (CBK, 1999), the level of non-performing loans has been increasing steadily from Kshs.56 billion in 1997, Kshs.83 billion in 1998 to Kshs.97 billion in 1999. This high level of non-performing loans continues to be an issue of major supervisory concern in Kenya.

The bank made provisions to the tune of Kshs 4.7 billion indicating that it is still adversely weighed down by non-performing loans. Besides the impact of these provisions on profitability, the concentration of such loans made recovery difficult owing to the poor state of the economy (Central Bank of Kenya, 2003).

In his address to the Annual General Meeting the Kenya Commercial banks Kenya Commercial banks Chief Executive, Davidson (2003) observed that the bank had reported a loss principally caused by an increase in loan loss provisions, which increased from Kshs 2.8 b in 2001 to Kshs. 4.9 billion in 2002. These provisions were largely related to the non-performing loans that were booked in the nineties. Davidson further observed that KCB had gone further and segregated the non-performing loans into a separate area. The aim was to centralize all the non-performing loans into one unit in order to be accounted for separately. The end result was a computerized debt

management system, which would enable the bank to monitor progress far more accurately.

In response to the challenge of non-performing loans, banks have been forced to become innovative in their efforts to remain in business. According to Chudasri (2002), retail customers have now taken centre stage in Bangkok in banking business. State banks have moved aggressively to increase new lending. In Kenya, banks have also responded to the competitive environment. According to the Co-operative Bank of Kenya Ltd. (2003), the bank signed a partnership with International Money gram Worldwide Network for the provision of cash transfer services across the world and this product has grown remarkably.

The bank followed this by launching the Co-op Cash Visa Electron Card, popularly known as Co-op Cash. The bank has completed the centralization of banking services by networking all its branches and operations countrywide, making it a branchless operation. This achievement has been extremely vital in the consolidation of the bank's business. Muriuki (1998) adds that the bank has developed high quality products through its personal and consumer-banking department to meet the need of its retail customers and other emerging markets. These products include the Personal Loan, the launch of ATMs and the friendly service structure among others.

According to Omuodo (2003), as pressure mounts on the banking industry's profitability resulting from over reliance on interest income by banks, it is strategically imperative that banks focus on other revenue streams. National Industrial Credit Bank, NIC, has introduced new products to diversify revenue and to keep its head above the water. Omuodo adds that part of NIC Bank's strategy has been to diversify revenues, by expanding the scope of its activities in addition to its predominant asset finance focus and offering more general commercial banking facilities and other products. Premium financing and provision of custodial services have reduced over reliance on interest income. According to CBK (2002), public sector banks that gave loans without proper documentation are finding the loans difficult to recover. They have now shifted away from security based lending to the emphases on the customers ability to meet the loan repayments.

2.7 Non performing Loans Management Practices in Commercial Banks

2.7.1 Credit Risk Assessment

Management of non-performing loans is very important for both the performance of an individual bank (McNulty, Akhigbe, and Verbrugge, 2001) and the economy's financial environment. In response to the challenge of non-performing loans, banks have been forced to restructure and become innovative in their efforts to remain in business. According to Chudasri (2002) retail customers have now taken centre stage in Bangkok in banking business. State banks have moved aggressively to increase new lending, in line with government policy. All banks, private and state-owned alike, have also sharply increased their efforts in the consumer market, leading to a boom in credit cards, personal loans and hire-purchase lending. In a high NPL condition, banks increasingly tend to carry out internal consolidation to improve the asset quality rather than distributing credit. Further, the high level of non performing loans requires banks to raise provisions for loan loss that decreases the banks' revenue and reduces the funds for new lending to difficulties in expanding their working capital, blocking their chances of resuming normal operation or growing. Non-performing loans can lead to problem in efficiency operations

The Bank of Japan (2003) documented one of the remedies to the problem of Non-performing loans as the pursuance of a new lending strategy backed by appropriate credit risk evaluation used successfully in Japan. The Central Bank of Kenya (2002) has also documented that interest rates in Kenya have reduced significantly.

The adoption of specific areas of credit risk assessment to check on occurrence of non performing loans such as the use of specific limits and ratios, based on cash flows as well as the use of forecasts and feasibility studies, the use of a standard lending procedure and the use of clear loan

2.7.2 Improve Loan Recovery

The success in the use of non performing loans management techniques and remedies at the disposal of banks to ensure debtors paid their debts was good. There is a need for governments in countries such as Kenya to strengthen their judicial systems if Banking

crises are to be minimized. Bank managers should also take action to reduce the default rate and the perceived level of success of such actions in an emerging economy which may be able to reduce their levels of non performing loans.

The main problem related to very low recovery lies in the very slow execution of the decrees. The Financial Sector Reform Project (FSRP) argues that the huge loan delinquency of the Bangladesh banking system reflects, among other things, the weakness of the legal infrastructure, which cannot ensure lenders' recourse on borrowers. The inefficacy on the part of the legal system also sometimes encourages borrowers to refrain from paying legitimate dues to the banks. The Center for Policy Dialogue (CPD) Task Force

Report (2001) also indicates that the main hindrance at this moment in Bangladesh is the existing legal framework and its lengthy procedures. However, if the delay in the settlement process arises due to the shortage of judges, then separate posts like "Bank Magistrates" can be created to settle NPL issues. It is to be kept in mind, however, that without having the proper cooperation and sincerity of the concerned individuals, the law itself can by no means expedite the process. Thus, the third challenge before the banking sector is how to ensure cooperation, sincerity and accountability of the involved parties like plaintiff, defendants, lawyers and judges, in order to make the settlement process vibrant and speedy

2.7.3 Corporate Management

The starting point of transforming the operation mechanism is to enhance the corporate governance structure, so as to push banks to become internationally active commercial banks with abundant market value and great influence. According Woo and David (2000), commercial bank can minimize occurrence of non performing loans by improving governance structure and construct a healthy and responsible Board of Directors, which is the core part of western corporate governance.

Set up Audit Committee, Risk Management Committee, Remuneration Committee, and Nomination Committee to make sure all things are carried forward. This will lead to

establishment of scientific and clear business development strategy and risk management strategy, adjust and improve the strategies according to the changing situations to make sure the implementation of strategies and plans. (Kroszner, (2002) found that capital constraint mechanism, dual mechanism of constraint on risk asset scale and orientation of value-added of economic capital are effective measures to improve the efficient allocation of credit resource, financial resource and to optimize the asset structure and profit mode. Complete motivation and constraint mechanism, through enhancing monitoring, assessment, accountability and remuneration mechanism improve credit decision mechanism and control the quality of newly issued credit asset under reasonable level (Kroszner ,2002).

Caprio and Klingebiel (1996) identified deficient management, faulty supervision and regulation, government intervention and weak corporate governance as major causes of the 68 banking sector insolvencies they documented in the 1980s and 1990s. Garber (1998) and Mishkin (1999) showed that poor management and unwise lending were major causes of the crises in Chile 82-83, Turkey 1994 and Mexico 94-95. In the Pakistani banking crisis of 1996-1998, Hardy and di Patti (2001) show that credit managers contributed directly to the bank failures by diverting substantial amounts of funds for their personal gain.

2.7.4 Centralized Management Approach

Decentralized management is one of the major reasons of formation of NPL according to the above analysis. So it is necessary to change the decentralized management to the centralized one controlled by the head office of banks. The sophisticated, specialized and scientific management is the basis of high level centralized management (Kwack Sung and Yeung. 2000). So it should integrate and unify the business process, bring forward capital constrained risk asset management, improve limited management on industrial and regional risk, enhance quantitative management skills, based on deep data mining & analysis and advanced risk management instruments. And it introduces systems of relationship managers, product managers, risk managers, specialized credit committee members and specialized approvers so as to guarantee the centralized and scientific

management. In the coming few years, it is the inevitable choice to move towards the centralized, specialized and scientific management for banks facing rapid developing, high risk and non-standard outside environment, in order to achieve sustainable healthy development (Mikiko, 2003).

2.7.5 Credit Analysis

Banks have to deepen the independent credit review process and avoid blind lending. On one hand, banks should have correct and clear understanding on national policies and local governments' behaviors to grasp the true commercial opportunities and avoid the risk. On the other hand, banks should assign high quality person with excellent capability of independent review to the credit review positions (Sinkey and Joseph 1999). However, there are still many difficulties ahead. For example, in the near future, the Chinese economy will still be government-dominated, and some local governments will continue to intervene into banks' credit extending process, especially on municipal and below level. So it urges banks to enhance the independent review as soon as possible.

It is a hard and long-term task to construct healthy credit culture, and the process of construction should be throughout the whole process of management systems. During the process, banks should enhance motivation and constraint mechanism, infuse new ideas and instruments of credit operation management into pre-loan, during and post-loan processes, make sure every people incorporate the good risk, cost and revenue awareness into operation and management of every credit business self-consciously, combined with implementation of strategic objectives, adjustment of organization structure, integration of business process, transformation of information system, and team construction (Sinkey and Joseph 1999).

2.7.6 Human Resource Management

The management and credit personnel should have not only the favorable moral ethics, but also enough professional knowledge, skills and experience to solve problems to analyze and judge the strategic location and credit business correctly, and solve the existing problems suitably (Bonin *et al* 2001). Commercial banks professional teams are profound strategic eyesight, to enhance capability of management through powerful

marketing ability, excellent risk management skills, and correct conception of revenue, personal value and power. Good commercial bank managers should enhance the unification and effectiveness of banks based on the organic combination of personal authority and post authority.

2.7.7 Staff Training and Development

Commercial banks management should also enhance construction of employee teams through providing training to improve the business knowledge by employees, train and attract persons with compound abilities to enhance the capability to prevent and mitigate the financial risk, strengthen the admittance and exit management of qualification of credit business people, and establish capable and self-disciplined teams based on the combination of employee team building and construction of credit culture and motivation mechanism (Cargill *et al.* 2004).

Due to increased customer awareness and availability of choice in the sector, institutions in order to retain their customers have been forced to invest in modern information systems in order to offer better quality services. Greater use of automated technology has reduced risks of manual processing errors. However these have been transformed to system failure risks (CBK, 2002). Internationally active institutions have moved into new products especially financial derivatives in line with international trends in demand. In attempt to equip their staff with the understanding of these products, the banks have had to invest in staff training (CBK, 2002).

2.7.8 Personality Profile Assessment

Banks have suffered loan losses through relaxed lending standards, unguaranteed credits, the influence of the 1980s culture, and the borrowers' perceptions. It was suggested that bankers should make a fairly accurate personality-morale profile assessment of prospective and current borrowers and guarantors. Besides considering personal interaction, the banker should try to draw some conclusions about staff morale and loyalty, study potential borrowers' personal credit report, do trade-credit reference checking, check references from present and former bankers, and determine how the borrower handles stress. In addition, banks can minimize risks by securing the borrower's

guarantee, using Government guaranteed loan programs, and requiring conservative loan-to-value ratios. Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of 'wrong economic decisions by individuals and plain bad luck for example inclement weather and unexpected price changes for certain products

2.7.9 Establishment of Professional Teams

The management and credit personnel should have not only the favorable moral ethics, but also enough professional knowledge, skills and experience to solve problems to analyze and judge the strategic location and credit business correctly, and solve the existing problems suitably (Bonin *et al* 2001). Commercial banks professional teams are profound strategic eyesight, to enhance capability of management through powerful marketing ability, excellent risk management skills, and correct conception of revenue, personal value and power. Good commercial bank managers should enhance the unification and effectiveness of banks based on the organic combination of personal authority and post authority. Commercial banks management should also enhance construction of employee teams through providing training to improve the business knowledge by employees, train and attract persons with compound abilities to enhance the capability to prevent and mitigate the financial risk, strengthen the admittance and exit management of qualification of credit business people, and establish capable and self-disciplined teams based on the combination of employee team building

2.8 NPLs Management Practices and Commercial Banks Financial Performance

In china for example, one method that has been successfully used is turning over the non-performing assets to Asset management companies (China Daily, 2002). According to Reddy (2002), appropriate provisioning for non-performing assets (up to 50% of gross non performing assets) has been successfully used to cushion banks agents the debilitating effects of non-performing loans. indicates that lead that as long as the demand for liquidity from depositors and borrowers is not too highly correlated, the intermediary should pool these two classes of customers together to conserve on its need to hold costly liquid assets the buffer against unexpected deposit withdrawals and loan take downs. The

Basel Committee on Banking Supervision and the International Institute of Finance has set high hurdles in terms of principles and recommendations in management of non performing loans which leads better financial performance of the banks.

Several commercial banks in Kenya are already harvesting the fruits of prudent risk management practices. As reported by Wahome (2004), the Cooperative Bank of Kenya announced a 70 per cent rise in its pre-tax profitability for year 2003 and declared its first dividend in six years. This is the second straight year of profitability for the bank, which had earlier reported a Sh2 billion loss in 2000. The chief executive officer attributed the impressive results to aggressive cost manage and which requires the use of more efficient management practices. Industry experts point to many different underlying causes for the demise of growth in deposits, such as the increased financial sophistication of the public, demographic shifts, the rise of nonbank competitors offering a whole wave of alternative investment products, new delivery systems such as the Internet, and competition from credit unions and insurance companies.

The main contributor to commercial bank improved operating results due to effective management practices for non performing loans is the improvement in financial performance leading to increase in assets. This is demonstrated by a reduction in non-performing assets of 51.9% from the same time period in 2009. However, even with the improvement in asset quality, commercial banks will continue to seeking more management techniques and strategies to convert non performing loan to more profitable assets. Bank board of Directors committed to maintaining adequate reserves should the national economy present unforeseen future challenges. The Risk-Based Capital Regulation by the Basle Accord II has been playing increasing critical role in commercial bank decisions. It mandates that banks hold capital in proportion to their perceived credit risks. The Risk-Based Capital (RBC) is viewed as a regulatory tax that is higher on assets in categories that are assigned higher risk weights. (Berger and Udell, 1994) As capital is usually more expensive to rise than other assets, such as insured deposits, therefore, the implementation of RBC is expected to further magnify the substitution effect, which encourages banks to switch from the 100 percent risk credit category, such as commercial loans, to assets in 0 percent risk category, such as government bonds and treasury bills.

2.9 Conclusion of the Literature Review

Non-Performing loans are one of the major causes of the economic stagnation problems in an economy. Each non-performing loan in the financial sector is viewed as an obverse mirror image of an ailing unprofitable business enterprise. From this perspective, the management of non-performing loans is a necessary condition to improve the economic status. If the non-performing loans are kept existing and continuously rolled over, the resources are locked up in unprofitable sectors; thus, hindering the economic growth and impairing the economic efficiency.

While non-performing loans are a phenomenon that is permanently present in the balance sheets of banks and other lending institutions, the significant rise of non-performing loans in banks' balance sheets and the emergence of a non-performing loan (NPL) market are a temporary phenomenon. Several economies have experienced such distressed debt cycles. In the USA, the non- and sub-performing loans resolution was embedded into the savings and loans crisis from 1989 to 1994.

Krueger and Tornell (1999) support the credit crunch view and attribute the credit crunch in Mexico after the 1995 crisis partially to the bad loans. They point out that banks were burdened with credits of negative real value, thereby reducing the capacity of the banks in providing fresh fund for new projects. Agung et. al. (2001) using the macro and micro panel data analyses to study the existence of a credit crunch in Indonesia after the crisis. Both the macro and micro evidences show that there was a credit crunch, characterised by an excess demand for loans, starting to emerge in August 1997, one month after the contagion effects of the exchange rate turmoil in Thailand spreading to Indonesia.

They investigate the relationship between the loan supply and real lending capacity, lending rates, real out put, bank's capital ratio, and non-performing loan. The results show that the coefficients on non performing loans are negative and significant, which indicate that bank credit supply declines with the worsening of the Non performing loans problem. Westermann (2003) compares the cases of Germany after the credit boom of the late 1990s and Japan aftermath of the bubble burst in early 1990s. He argues that even though the German banks were in a better condition than Japanese banks, as the path of

German's aggregate credit looks so similar to that of Japan, it is at least unlikely that the German credit slowdown was entirely driven by demand, while that of Japan was mostly caused by lack of supply. There must at least be some supply side changes that affect the aggregate credit, and differences only exist in the magnitude of the problem. He further points out that the one of the main reasons in Germany for the credit crunch is the increased risk of non-performing loans after the credit boom. The management practices for non performing loans ensure commercial bank secure better returns on Equity. Banks have moved aggressively to increase new lending, in line with government policy, employ qualified personnel and analyzing risks all geared towards improvement of bank general performance .

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology of the study; it provides a full description of the research design, the research variables as well as broad description of the population and its selection. The chapter further discusses research instruments, data collection techniques and data analysis procedures.

3.2 Research Design

The research design according to Chandran, (2004) provides answers for questions such as; what techniques were used to gather data, what kind of sampling strategies and tools were used and how will time and cost constraints be dealt with. In other words, it is an arrangement of conditions for collection and analysis of data in a way that combines their relationship with the purpose of the research (Chandran, 2004). It is a means to achieve the research objectives through empirical evidence that is required economically.

The choice of a design is determined by; research purpose as described by the research problems and questions, categories of data needed, sources of data and cost factors. For the purpose of this study, a causal design was adopted as the research design major emphasis was on determining a cause-and-effect relationship between management practices for non performing loans and financial performance of the commercial banks in Kenya. The design sought to obtain causal inferences that were objective, and therefore have the best chance of revealing scientific truths on what was the relationship between the non-performing loans management practices and financial performance of the commercial banks in Kenya. This causal design enabled the researcher to establish the relationship between non-performing loans management practices and financial performance of Commercial banks in Kenya.

3.3 Target Population

Target population is that population to which a researcher wants to generalize the results of a study (Mugenda and Mugenda, 2003). The target population in a research study

comprises all those potential participants that could make up a study group (Kothari, 2004). The population of this study consisted of all 46 commercial banks in Kenya (Central Bank of Kenya Annual Report, 2007).

3.4 Data Collection

The primary data was collected using structured questionnaires. The primary data included the responses the respondents offered on management techniques the commercial banks applied in managing their non-performing loans. The questionnaire was appropriate as a research tool for the study because less time was required in the collection of data as compared to carrying out direct interviews. A questionnaire with both open and closed ended questions was administered to the respondents who were Credit managers of commercial banks using the drop and pick method. Secondary data refers to data that already exists in that it was collected and stored in a systematic way by other researchers and was collected for different purposes (Cooper and Schindler, 2006). The secondary data for the study was collected from journals, magazines and annual reports Kenyan banks and included procedures and framework put in place to prevent occurrence of non performing loans.

3.5 Validity and reliability

Mugenda and Mugenda (2003) asserted that, the accuracy of data to be collected largely depended on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which the results obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective questions included in the questionnaire. This was achieved by pre-testing the instrument that was used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Cooper and Schindler (2003). Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda and Mugenda, 2003). In this study, reliability was ensured by pre-testing the questionnaire with a selected sample from one of the commercial bank which was not included in the actual data collection. The pre-test

was conducted by both the principal researcher and the research assistant to enhance clarity of the questionnaires.

3.6 Data Analysis

The research was both quantitative and qualitative in nature. Collected data was checked for completeness ready for analysis then coded. Data was analyzed through the statistical package for social sciences (SPSS version 17) package. Tables and charts were used for further presentation, easy understanding and analysis. The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Inferential statistic was used to establish the relationship between management practices of non-performing loans and financial performance for the commercial banks in Kenya .The inferential statistic sought to establish a causal effect relating independent variables to the dependent variable.

The Model

The study model was based on two major components namely the management practices of non-performing loans and financial performance for the commercial banks in Kenya. The study conceptualized that financial performance of commercial banks was a function of management practices of the non performing loans in commercial banks.

Equation (1) below presents the conceptual model in this relationship.

$F(\text{FPCB})=f(\text{Credit Risk Assessment, Improve Loan Collection, Corporate Management, and Adoption of centralized Management Approach, Effective Human Resource and Character Assessment(1)}$

Where:

FPCB =Financial Performance for the commercial bank

Credit Risk Assessment = Credit review on Risks facing commercial bank

Improve Loan Collection = Strengthen legal infrastructure (system)

Corporate Management = Construction of a healthy and responsible Commercial bank
Board of Directors

Effective Human Resource = Employment of Qualified Bank Personnel

Character Assessment = Client Personality Profile Assessment

A regression model of management practices of non-performing loans and financial performance for the commercial banks in Kenya applied to examine the relationship between the variables. The model treated financial performance for the commercial banks as dependent variable while the independent variables are the management practices of non-performing loans which included Credit Risk Assessment, Improve Loan Collection, Corporate Management, and Adoption of centralized Management Approach, Effective Human Resource and Character Assessment. The response on management practices of the non performing loans for the commercial bank were measured by computing indices based on the responses derived from the Likert-Scaled questions.

Equation (2) presents the algebraic expression of the analytical model to be applied

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

Y= Depended variable, Financial Performance

α = Constant

β = Coefficient of the factors

X_1 = Credit Risk Assessment

X_2 = Improve Loan Collection

X_3 = Corporate Management

X_4 = Adoption of centralized Management Approach

X_5 = Effective Human Resource

X₆= Character Assessment

Banks are increasingly using return on equity as the ultimate performance scorecard. The adoption of risk-adjusted capital adequacy guidelines, successive years of poor profitability and banks annual earnings by its total assets. They are measuring the ROE's of each of the bank's component parts, such as sectors, lines of business and products Return on assets is an indicator of how profitable a commercial bank is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Using ROA as a comparative measure was the best to compare it against a company's previous ROA numbers or the ROA of a similar company. This indicated that how effective management practices for the non performing loans led to better financial performance by commercial banks in Kenya.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the discussion and conclusion of the study. From the study, the target population was 44, 36 respondents responded and returned the questionnaires. This constituted 81.8% response rate.

4.2 Experience on problems of non-performing loans

Table 4. 1: Whether Commercial Banks in Kenya experience problems of non performing loans

	Frequency	Percent
Yes	31	86.1
No	5	13.9
Total	36	100.0

Source: research data

The study seeks to determine whether there were any non performing loans problems experienced by commercial banks. From the findings, the majority that is 86.1% of the respondents indicated that commercial banks in Kenya experience non performing problems while 13.9% of the respondents indicated that the commercial banks in Kenya never experience any problems of non-performing loans. This clearly indicates that commercial banks greatly experience problems due to the existence of non-performing loans in their books leading to weakening of bank operations.

The respondents were requested to explain their responses. From the findings, the respondents explained that commercial banks in Kenya experience problems of non performing loans due to failure of the banks to undertake clear risks assessment, frauds, change of economic conditions and also financing of available business without assessing risk it faces leading to difficulties in payments. The respondents indicated that advances took longer time to be cleared, installments delayed or even at times failing of the borrowers to settle their liabilities. The respondents further explained that some customers find themselves unable to pay loans and hence the bank uses a lot of resources

during follow up. Those respondents who indicated that commercial banks are not facing any problems due to non performing loans indicated that this was because commercial banks are taking appropriate measures to ensure nonperforming loans are avoided.

Table 4. 2 : Extent of agreeing with the statement on factors causing non performing loans In Commercial banks in Kenya

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	N	Mean	Std dev
Lax credit risk assessment and untrained personnel	23	13	0	0	0	36	4.74	0.95
Lack of aggressive credit collection methods	5	10	8	6	7	36	4.43	0.35
Banks negligence in monitoring loans	7	11	9	7	2	36	2.61	0.17
The speedy process in granting loans	3	14	5	11	3	36	2.91	0.18
Insider lending and owner concentration	25	7	4	0	0	36	4.54	0.22
Incomplete assessment mechanism and accountability	25	11	5	0	0	36	4.50	0.12
Bank strategies management focuses only on the analysis of market opportunity	5	17	10	4	0	36	3.97	0.27
Moral hazards risk leading to impaired security of credit assets	4	14	5	9	4	36	3.86	0.24
Poor quality of human resources who are training	6	10	4	12	4	36	3.94	0.32
Legal and economical on securitization of NPL results in government participation	6	12	5	8	5	36	2.83	0.34
Internal resource distribution and power allocation are based on bureaucratic levels of institutions	4	9	21	2	0	36	3.53	0.33

Source: Research data

The study sought to find the extent to which the respondents agreed on the statement on factors that causes nonperforming loans among commercial banks. From the findings majority of the respondents strongly agreed that lax credit risk assessment and untrained personnel in commercial bank, insider lending and owner concentration and incomplete assessment mechanism and accountability are the factors contributing causes of non performing loans as indicated by a mean of 4.74,4.54and 4.50 with standard deviation of 0.95, 4.54 and 0.12 .The study found that most of the respondents agreed that lack of aggressive credit collection methods, bank strategies management focusing only on the analysis of market opportunity , poor quality of human resources on training, moral hazards risk leading to impaired security of credit assets and internal resource distribution and power allocation based on bureaucratic levels of institutions were yet other factors leading to non performing loans for the commercial banks as indicated by a mean of 4.43,3.97 , 3.94 , 3.86 and 3.53 supported by standard deviation of 0.35,0.27,0.32 0.24 and 0.33.The study further found that most of the respondents were neutral on whether the speedy process in granting loans ,legal and economical on securitization of NPL resulting in government participation and banks negligence in monitoring loans causes non performing loans for the commercial banks as indicated by a mean of 2.91, 2.83 and 2.61 with standard deviations of 0.81, 0.34 and 0.17.

Table 4. 3 : Extent of agreeing that there is a need to adopt various non performing loans management practices in Commercial Banks in Kenya.

	Frequency	Percent
very great extent	18	50.0
great extent	14	38.9
moderate extent	2	5.6
less extent	2	5.6
Total	36	100.0

Source: Research data

The study sought to find the extent to which the respondents agreed on the issues of the commercial banks having the need to adopt various non-performing loans management practices to enhance its financial performance. From the findings majority of the respondents indicated that they agreed to a very great extent that there is a need for adoption of non-performing loans management practices as indicated by 50% of the respondents.38.9% of the respondents indicated that they agreed to a great extent that the banks need to adopt non-performing loans management practices. The study found that most of the respondents indicated that there is need for the backs to adopt management practices of non-performing loans to a moderate and less extent as indicated by 5.6% and 5.6% of the respondents respectively

Table 4. 4 : Extent to which non performing loans management practices are adopted

	Very great extent	Great extent	Moderate	Less extent	No extent	N	Mean	Std dvt
Limiting lending to various kinds of businesses	16	12	1	5	2	36	4.67	0.25
Improved credit information during loan application	12	15	1	4	4	36	3.75	0.33
Ensuring critical review of prevailing market	15	9	1	0	0	36	4.08	0.87
Ensuring clear assessment framework of lending facilities	17	14	4	1	0	36	4.30	0.78
Better economic decisions for example considering future change in prices of operation	12	18	3	2	1	36	4.05	0.95
Information sharing among banks about borrowers	20	6	2	3	5	36	3.91	0.50
Ensuring sufficient collaterals	26	10	0	0	0	36	4.83	0.23
Ensure all the information about the client in	19	9	2	6	0	36	4.08	0.83
Putting more emphasis on forecasts and feasibility studies	5	18	5	8	0	36	3.55	0.99

Use of specific lending and projects appraisal techniques	19	10	3	2	2	36	4.16	0.15
Use of procedures in solving on problematic loans	17	9	0	2	1	36	4.22	0.92
Offering appropriate loans to clients	13	10	9	4	0	36	3.88	0.03
Ensuring that the clients operate businesses they are experienced in	13	8	8	3	4	36	3.63	0.35
Transfer to loan recovery agency	11	19	1	2	3	36	3.91	0.15
Restructuring of loans	14	12	6	4	0	36	3.88	0.25
Loans sales	8	14	4	7	3	36	3.47	0.27
Loan securitization	26	8	1	1	0	36	4.61	0.80

Source: Research Data

The sought to know the extent to which non performing loans management practices are adopted by commercial banks in Kenya. From the findings, majority of the respondents indicated that Ensuring sufficient collaterals, limiting lending to various kinds of businesses and loan securitization are management practices adopted by the banks to management non performing loans to a very great extent as indicated by a mean of 4.83, 4.67, 4.61 supported by standard deviation of 0.23, 0.25 and 0.80 .Most respondents indicated Ensuring clear assessment framework of lending facilities, Use of procedures in solving on problematic loans, Use of specific lending and projects appraisal techniques, Ensure all the information about the client in known, Transfer to loan recovery agency, offering appropriate loans to clients and restructuring of loans were non management practices for non performing loans adopted by commercial banks to a great extent as indicated by a mean of , 4.30, 4.22, 4.16, 4.08, 3.91, 3.98 and 3.88 with 0.78, 0.92, 0.15, 0.87, 0.95 and 0.25. The study further found that most respondents indicated that improved credit information during loan application, putting more emphasis on forecasts and feasibility studies and ensuring that the clients operate businesses they are experienced are management practices for non performing loans adopted to a greater extent by commercial banks in Kenya as indicated by a mean of , 3.75, 3.63 and 3.55 with standard deviation of 0.33, 0.35 and 0.99 .The study further found most of the respondents indicated that commercial banks used loan sales as a management practices

for non performing loans to a moderate extent as indicated by a mean of 3.47 with a standard deviation of 0.27. This implies that commercial bank adopts various management practices for preventing occurrence of non performing loans and management the existing non performing loans as well as seeking ways of recovery non performing loans

Table 4. 5 : Extent to which Non performing Loans management practices are adopted

	Very great extent	Great extent	Moderate	Less extent	No extent	N	Mean	Std dvt
Limiting lending to various kinds of businesses	16	1 2	1	5	2	36	4.67	0.25
Improved credit information during loan application	12	1 5	1	4	4	36	3.75	0.33
Ensuring critical review of prevailing market	15	9	1	0	0	36	4.08	0.87
Ensuring clear assessment framework of lending facilities	17	1 4	4	1	0	36	4.30	0.78
Better economic decisions for example considering future change in prices of operation	12	1 8	3	2	1	36	4.05	0.95
Information sharing among banks about borrowers	20	6	2	3	5	36	3.91	0.50
Ensuring sufficient collaterals	26	1 0	0	0	0	36	4.83	0.23
Ensure all the information about the client in	19	9	2	6	0	36	4.08	0.83
Putting more emphasis on forecasts and feasibility studies	5	1 8	5	8	0	36	3.55	0.99
Use of specific lending and projects appraisal techniques	19	1 0	3	2	2	36	4.16	0.15
Use of procedures in solving on problematic loans	17	9	0	2	1	36	4.22	0.92
Offering appropriate loans to clients	13	1	9	4	0	36	3.88	0.03

		0						
Ensuring that the clients operate businesses they are experienced in	13	8	8	3	4	36	3.63	0.35
Transfer to loan recovery agency	11	1	1	2	3	36	3.91	0.15
Restructuring of loans	14	1 2	6	4	0	36	3.88	0.25
Loans sales	8	1	4	7	3	36	3.47	0.27
Loan securitization	26	8	1	1	0	36	4.61	0.80

Source: Research Data

The respondents were requested to indicate the extent to which they agreed on the effects of non-performing loans management practices on financial performance of commercial banks. From the findings, majority of the respondents strongly agreed that loan securitization leads to high financial returns for commercial banks, accurate personality morale profile assessment leads to enhanced credit risk management and that assessment of borrowers personality profile reduces loan defaulters leading to high earning as indicated by a mean of 4.75, 4.66 and 4.58. The study also found that most respondents agreed that use of specific lending and project appraisal techniques enhance financial performance, that credit risk assessment leads to optimization of commercial banks profitability, independent and functional judicial systems enhances loan collection thus leading to high financial performance, enhanced corporate governance improves financial performance and that use of specific lending and project appraisal techniques enhance financial performance as indicated by a mean of 4.27,4.11,402 ,400.The study also found that most of the respondents agreed that adoption of centralized management approach improve credit risk management leading to high financial performance and that transforming operation mechanism comprehensively leads to achieving objectives as indicated by a mean of 3.97 and 3.83 respectively. The study also found that most respondents agreed that employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks thus leading to high financial performance as indicated by a mean of 3.77.The study further found that most respondents agreed that adoption of an independent credit review process as a foundation for analysis increases sufficient bank capital for loan loss provision and that an

increased uses of credit reference bureaus lower credit risk facing commercial banks thus increasing banks interest as indicated by a mean of 3.72 and 3.58 respectively.

It was also found that the need for commercial banks to adopt various non-performing loans management practices will ensure that loans are only given to individuals who are qualified and are able to pay. Non performing loans have an adverse effect on commercial banks financial performance justifying the need to manage non performing loans.

Table 4. 6: Management practices of Non performing Loans on financial performance of commercial banks

	Very	Great	Moderate	Less	No extent	N	Mean	Std dvt
Credit risk assessment leads to optimization of commercial banks profitability	17	2	14	2	1	36	4.11	.97
Information sharing among banks borrowers enhance credit risk management	20	12	2	2	0	36	4.27	0.11
Use of specific lending and project appraisal techniques enhance financial performance	11	18	5	2	0	36	4.00	0.98
Enhancing corporate governs improve financial performance	4	29	1	2	0	36	4.02	0.44
Transforming operation mechanism comprehensively leads to achieving objectives	7	20	1	6	2	36	3.83	0.94
Adoption of centralized management approach to improve credit risk management leads to high financial performance	9	18	8	0	1	36	3.97	0.77
Adoption of an independent credit review as a foundation increases sufficient bank capital for loan loss provision	8	11	16	0	1	36	3.72	0.84

Increased uses of credit reference bureaus lower credit risk facing commercial banks thus increasing banks interest	4	20	9	2	2	36	3.58	0.76
Assessment of borrowers personality profile reduces loan defaulters leading to high earning	11	10	7	8	0	36	4.66	0.14
Loan securitization leads to high financial returns for commercial banks	13	4	16	3	0	36	4.75	0.5
Accurate personality morale profile assessment leads to enhanced credit risk management	8	14	7	5	2	36	4.58	0.15
Independent and functional judicial systems enhances loan collection thus leading to high financial performance	9	7	8	4	8	36	4.13	1.49
Employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks thus leading to high financial performance	9	12	13	2	0	36	3.77	.89

Source : Research Data

The respondents were requested to indicate the extent they agree on the effects of management practices of non performing loans on financial performance of commercial banks. From the findings, majority of the respondents strongly agreed that loan securitization leads to high financial returns for commercial banks, accurate personality morale profile assessment leads to enhanced credit risk management and that assessment of borrowers personality profile reduces loan defaulters leading to high earning as indicated by a mean of 4.75, 4.66 and 4.58 with a weak standard deviation of 0.50, 0.14 and 0.15 . The study also found that most respondents agreed that use of specific lending and project appraisal techniques enhance financial performance, that credit risk assessment leads to optimization of commercial banks profitability, independent and functional judicial systems enhances loan collection thus leading to high financial performance, enhancing corporate governs improve financial performance and that use of specific lending and project appraisal techniques enhance financial performance as indicated by a mean of 4.27,4.11,4.02 ,4.00 supported by a standard deviation of 0.11

,0.97, 0.44 and 0.98 .The study also found that most of the respondents agreed that adoption of centralized management approach improve credit risk management leading to high financial performance and that transforming operation mechanism comprehensively leads to achieving objectives as indicated by a mean of 3.97 and 3.83 with a standard deviation of 0.77 and 0.94 respectively. The study also found that most respondents agreed that employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks thus leading to high financial performance as indicated by a mean of 3.77 with strong a standard deviation of 0.89 .The study further found that most respondents agreed that adoption of an independent credit review as a foundation increases sufficient bank capital for loan loss provision and that an increased uses of credit reference bureaus lower credit risk facing commercial banks thus increasing banks interest as indicated by a mean of 3.72 and 3.58 supported by a standard deviation 0.84 and 0.76 of respectively.

It was also found that the need for commercial bank to adopt various nonperforming loans management practices will ensure that loans are only given to individuals who are qualified and are able to pay. Also so because non performing loans to banks impact a lot of cost to the bank once the loan is not performing hence a big loss thus there is the banks need to adopt the nonperforming loans practices. It was also found that the non performing loan reduces the profits therefore if the bank adopts management practices for nonperforming loans the institutions will maintain its profit margins.

The study sought to investigate the opinion of the respondents on the effects on non performing loans management practices on financial performance in the commercial bank. From the finding, majority of the respondents indicated that the effects nonperforming loans management practices more customers will be able to apply for more loans thus increase in profit due to a decrease

It was also found that if there poor non performing loans management practices it will lead to shifting of the customers from one bank to another other banking institutions leading to occurrence of non performing loans in the banking sector.

The study sought to investigate the opinion of the respondents on the effects on non performing loans management practices on financial performance in the commercial

bank. From the findings, majority of the respondents indicated that a reduction in non performing loans leads to increased availability of funds for further lending.

It was also found that poor non performing loans management practices leads to shifting of customers from one bank to the other leading occurrence of non performing loans problems in the banking sector.

4.3 Regression Analysis

A multivariate regression model was applied to determine the relationship between management practices for non performing loans for commercial banks and financial performance for commercial banks in Kenya. The regression equation used in this model was:

$$Y = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \beta X_4 + \beta X_5 + \epsilon$$

Whereby Y = Depended variable, Financial Performance

α = Constant

β = Coefficient of the factors

X_1 = Credit Risk Assessment

X_2 = Improve Loan Collection

X_3 = Corporate Management

X_4 = Adoption of Centralized Management Approach

X_5 = Effective Human Resource

X_6 = Character Assessment

Model Summary

Table 4. 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.677a	.009	.458	.79708	.458	4.086	6	29	.004

Source : Research Data

a. Predictors: (Constant), Credit Risk Assessment, Improve Loan Collection, Corporate Management, and Adoption of centralized Management Approach, Effective Human Resource and Character Assessment.

Adjusted R^2 is called the coefficient of determination and shows how financial performance in commercial bank varied with variation in the management practices for non performing loans in commercial banks employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks, adoption of centralized management approach, accurate personality morale profile assessment , Enhance judicial system, assessment of borrowers personality profile and enhancing corporate governance improve financial performance. From table 4.6 above the value of adjusted R^2 is 0.458. This implies that, there was a variation of 45.8% of financial performance in commercial banks varied management practices for non performing loans which are employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks, adoption of centralized management approach, accurate personality morale profile assessment , Enhance judicial system, assessment of borrowers personality profile, enhancing corporate governance improve financial performance at a confidence level of 95%.

Table 4. 8: Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.242	1.446		.167	.868
	Information sharing among banks borrower enhance credit risk management	.181	.173	.204	-1.048	.303
	Enhancing corporate governance improves financial performance	2.020	.463	.915	4.368	.000
	Adoption of centralized management approach to improve credit risk management leads to high financial performance	.360	.224	-.283	-1.610	.118
	Assessment of borrowers personality profile reduces loan defaulters leading to high earning	.105	.142	-.123	-.741	.464
	Independent and functional judicial systems	.168	.125	.197	1.345	.189

Employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks thus leading to high financial performance	.632	.202	-.576	-3.134	.004
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a. Dependent Variable: Financial performance of Commercial Banks

Source : Research Data

Predictors: (Constant), Credit Risk Assessment, Improved Loan Collection, Corporate Management, and Adoption of centralized Management Approach, Effective Human Resource and Character Assessment .From the data in the table 4.7, there is a positive relationship between financial performance for the commercial banks with Credit Risk Assessment, Improve Loan Collection, Corporate Management, and Adoption of centralized Management Approach, Effective Human Resource and Character Assessment. The established regression equation was as follows

$$Y = 0.242 + 0.181 X_1 + 0.168 X_2 + 2.020 X_3 + 0.360 X_4 + 0.632 X_5 + 0.105 X_6$$

X_1 = Credit Risk Assessment

X_2 = Improve Loan Collection

X_3 = Corporate Management

X_4 = Adoption of centralized Management Approach

X_5 = Effective Human Resource Management

X_6 = Character Assessment

From the above regression model, it was found that financial performance for commercial banks would be at 0.242 holding the management practices which are :employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks, adoption of centralized management approach, accurate personality morale profile assessment, Enhance judicial system, assessment of borrowers personality profile, enhancing corporate governance to a constant zero. A unit increase in credit risk assessment would lead to increase in financial performance for the commercial bank by a factor of 0.181, a unit increase in independent and functional judicial systems would lead to increase in financial performance in commercial bank by factor of 0.186, a unit increase in enhancing corporate governance would result to increase in financial performance by a factor of 2.020. The study found that a unit increase in adoption of centralized management approach would result to increase in financial performance by factor of 0.360, a unit increase in employment of qualified and professional staff would result to increase in financial performance by factor of 0.632 while a further increase in Accurate personality-morale profile assessment leads to increase in financial performance by a factor of 0.105.

CHAPTER FIVE:

SUMMARY OF FINDINGS, CONCLUSION, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to establish the relationship between management practices for non performing loans and the financial performance in commercial banks in Kenya.

5.2 Summary of Findings and Conclusions

5.2.1 Summary of Findings

It was established that commercial banks in Kenya are still facing the problems of non performing loans due to various factors. From the findings, lax credit risk assessment and untrained personnel in commercial bank, insider lending and owner concentration and incomplete assessment mechanism and accountability were found to be the main factors contributing causes non performing loans as indicated by a mean of 4.74,4.54and 4.50 .The study found out that other factors that led to occurrence of non performing loans included lack of aggressive credit collection methods, bank strategies management focusing only on the analysis of market opportunity , poor quality of human resources on training, moral hazards risk leading to impaired security of credit assets and internal resource distribution and power allocation based on bureaucratic levels of institutions .The study further found out that the speedy process in granting loans ,legal and economical on securitization of NPL and banks negligence in monitoring loans causes non performing loans for the commercial banks.

The study also established that due to challenges pose by the non performing loans, there was a need for commercial banks to adopt management practices for non performing loan to improve on financial performance. From the findings majority of the respondents indicated that they strongly agreed that there is a need for adoption of nonperforming loans management practices as indicated by 50% of the respondents. The commercial

banks should adopt management practices for non performing loans which: ensure sufficient collaterals, limit lending to various kinds of businesses and loan securitization, ensure clear assessment framework of lending facilities, use of procedures in solving on problematic loans, use specific lending and projects appraisal techniques, ensure that all the information about the client is known, transfer to loan recovery agency and offer appropriate loans to clients and ensure loans are restructured .The study further found out that improved credit information during loan application, putting more emphasis on forecasts and feasibility studies and ensuring that the clients operate businesses they are experienced were management practices for non performing loans that could be adopted to improve financial performance of commercial banks.

The study established that adoption of non-performing loans management practices led to the improvement in financial performance .From the findings majority of the respondents strongly agreed that loan securitization leads to high financial returns for commercial banks, accurate personality morale profile assessment leads to enhanced credit risk management and that assessment of borrowers personality profile reduces loan defaulters leading to high earning as indicated by a mean of 4.75, 4.66 and 4.58. The use of specific lending and project appraisal techniques enhance financial performance, that credit risk assessment leads to optimization of commercial banks profitability, independent and functional judicial systems enhances loan collection thus leading to high financial performance, enhancing corporate governance improve financial performance and that the use of specific lending and project appraisal techniques enhance financial performance.

The study established that there was a variation of 45.8% in financial performance for commercial banks applying varied non-performing loans management practices which are: employment of qualified and professional staff enhances capability to prevent and mitigate financial risk facing the banks, adoption of centralized management approach, accurate personality morale profile assessment , enhanced judicial system, assessment of borrowers personality profile, enhancing corporate governance improve financial performance at a confidence level of 95%..The established regression equation depicts a positive relationship between non-performing loans management practices and financial performance of commercial banks.

$$Y = 0.242 + 0.181 X_1 + 0.168 X_2 + 2.020 X_3 + 0.360 X_4 + 0.632 X_5 + 0.105 X_6$$

From the above regression model, it was found that financial performance for commercial banks would be at 0.242 holding the non-performing loans management practice which are: employment of qualified and professional staff to enhance capability to prevent and mitigate financial risk facing the banks, adoption of centralized management approach, accurate personality morale profile assessment, enhanced judicial system, assessment of borrowers personality profile and enhancing corporate governance to a constant zero. A unit increase in credit risk assessment, independent and functional judicial systems, enhancing corporate governance, adoption of centralized management, employment of qualified and professional staff and accurate personality-morale profile assessment leads to improved financial performance.

5.2.2 Conclusions

From the findings, the study concludes that commercial banks in Kenya are still facing the problems of non-performing loans which may occur due to: lax credit risk assessment, untrained personnel in commercial bank, insider lending, owner concentration, incomplete assessment mechanism and accountability, lack of aggressive credit collection methods, bank strategies management focusing only on the analysis of market opportunity, poor quality of human resources on training, moral hazards risk leading to impaired security of credit assets and internal resource distribution and power allocation based on bureaucratic levels of institutions.

The study concludes that there is need for commercial banks to adopt non-performing loans management practices such as: ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities, use of procedures in solving on problematic loans, use of specific lending and projects appraisal techniques, ensuring that all the information about the client is known, transfer to loan recovery agency, offering appropriate loans to clients and restructuring of loans so as to improve financial performance of the commercial banks. The study concludes that non-performing loans management practices that could be adopted by commercial banks for the management of non-performing loans includes:

improved credit information during loan application, putting more emphasis on forecasts and feasibility studies and ensuring that the clients operate businesses they are experienced in. These practices could improve the financial performance of commercial banks in Kenya.

The study further concludes that there was a positive relationship between the non-performing loans management practices for managing non-performing loans and the financial performance for commercial banks in Kenya, which implies that adoption of non-performing loans management practices leads to an increase in financial performance of the commercial banks. The established regression equation was;

$$Y = 0.242 + 0.181 X_1 + 0.168 X_2 + 2.020 X_3 + 0.360 X_4 + 0.632 X_5 + 0.105 X_6$$

5.3 Recommendations

The study established that commercial bank is facing problems of non performing loans limiting financial performance of commercial banks. From the findings, it was established that there was a positive relationship between management practices for the non performing loans for managing non performing loans and the financial performance for commercial banks in Kenya, which implies that adoption of management practices for non performing loans leads to increase in financial performing loan for the commercial banks.

The study recommends that commercial banks management and credit personnel should have not only the favorable moral ethics, but also enough professional knowledge, skills and experience to solve problems to analyze and judge the strategic location and credit business correctly, and solve non performing loans

The study recommend that commercial banks management should also enhance construction of employee teams through providing training to improve the business knowledge by employees, train and attract persons with compound abilities to enhance the capability to prevent and mitigate the financial risk, and solve non performing loans in commercial banks in Kenya.

The study further recommends that commercial banks should adopt management practices for non performing loans such as ensuring sufficient collaterals, limiting lending to various kinds of businesses and loan securitization. Ensuring clear assessment framework of lending facilities, Use of procedures in solving on problematic loans and Use of specific lending and projects appraisal techniques to management non performing loans and improve commercial bank financial performance.

The study further recommends that commercial banks should ensure all the information about the client is known, transfer to loan recovery agency and offering appropriate loans to clients and restructuring of loans to improve financial performance of the commercial banks to improve financial performance of commercial bank.

5.4 Limitations of the Study

The main challenge that faced the study was lack of cooperation from the respondents .This was because of the sensitivity of the information required for the study. The researcher explained to the respondents that the information they were to provide was to be held confidential and was only for academic purpose only.

The study could have incorporated more financial institutions. The study faced limitation of time and other resources and making the study to focus only on commercial banks.

This study only covered commercial bank and did not consider other financial institutions like the SACCOs and other financial institutions across all sectors so as to provide a more broad based analysis. However, resource constraints placed this limitation.

The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the respondent delay in filling the questionnaire and travelling for collection of the filled questionnaire.

Uncooperative respondent's .The respondents were found to be uncooperative from the respondents because of the sensitivity of the information required for the study. The researcher explained to the respondents that the information they provided was to be held confidential and was only for academic purpose only.

The study was further limited due to generalising the study as it only focus on commercial banks. Thus the study only focused on commercial banks limiting the finding to commercial banks.

5.5 Suggestions for Further Research

The study investigated the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya.

A further study should be carried to investigate the relationship between management practices for non performing loans and level of non performing loans for the commercial banks in Kenya.

A further study should be undertaken to investigate the effects of management practices of the non performing loans and profitability of commercial banks in Kenya to established the effects of management practices for non performing loans on profitability of commercial banks.

The study further recommends that a further study should be carried out to determine the effects of techniques for management of non performing loans on financial performance of Saving Credit Cooperatives in Kenya.

A further study should be undertaken to investigate the effects of management practices of the non performing loans and profitability of commercial banks in Kenya to established the effects of management practices for non performing loans on profitability of commercial banks.

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APPENDICES

Appendix I: Authorization Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

Tel: phone 427 209162
Telegrams: Nairobi
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For more information
visit our website

DATE

TO WHOM IT MAY CONCERN

TITUS LUCY WANJIRA

The bearer of this letter

D61/70624/2007

Registration No

is a Master of Business Administration (MBA) student of the University of Nairobi

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would therefore appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MSA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P.O. Box 30187
NAIROBI

APPENDIX II: REQUEST OF INVOLVEMENT LETTER TO RESPONDENTS.

Date.....

Mr/Mrs/Ms/Dr.....

.....

P.O. Box.....

Sir, Madam.

RE: REQUEST FOR YOUR INVOLVEMENT

I am student in Nairobi University pursuing Master of Business Administration (MBA) course.

In partial fulfillment of the above course, am conducting a research project in your organization

In this regards, I request for your co-operation in availing information that may be crucial to this study. Any information offered will be handled confidentially.

Thanks in advance

Yours faithfully,

Lucy Wanjira

MBA Student.

U.O.N

Appendix III: Questionnaire

1. Does your Commercial Bank experience problems of non performing loans?

Yes []

No []

Explain your

answer.....

.....

2. The following are factors as causes of non-performing loans among commercial banks. To what extent do you agree with the statement that these are causes non performing loans in Commercial Banks? (1-means strongly disagree, 2-disagree, 3-neutral, 4-agree and 5- strongly agree).

Statement	1	2	3	4	5
Lax credit risk assessment and untrained personnel in Commercial Bank					
Lack of aggressive credit collection methods in					
Banks negligence in monitoring loans					
The speedy process in granting loans					
Insider lending and Owner Concentration					
Incomplete assessment mechanism and accountability					
Bank strategic management focuses only on the analysis of market opportunity and neglects huge potential risk,					
Moral hazards risk and impair security of credit assets					

Poor quality of human resource who have not undergone training on credit information's, and rigid human resource management system in banking institutions					
legal and economical framework concerning securitization of non-performing loans results in a call for government participation via policy adjustments and debt restructuring plans					
Bank internal resource distribution and power allocation are based on bureaucratic levels of institutions					

3. To what extent do you agree with the following statement ,There is a need for commercial banks to adopt various non performing loans management strategies to enhance it financial performance.

- i. Very great extent []
- ii. Great extent []
- iii. Moderate Extent []
- iv. Less Extent []
- v. No extent []

Give reason for your answer

.....

4. The following are management practices for the non performing loans that can be adopted by Commercial Banks management. To what extent do commercial banks adopt them? Use a scale of Very great extent =5 Great extent =4 Moderate Extent =, Less Extent =2 and No extent=1

Statement	1	2	3	4	5
The limiting lending to various kinds of businesses					
Improved credit information during loan application					
Ensure critical review prevailing market conditions during loan appraisal					
Ensuring clear assessment framework of lending facilities					
Better economic decisions considering for example considering future change in prices of operations					
Information sharing among banks about borrowers					
Ensuring sufficient collaterals					
Ensure all the information on about the client is known					
Emphasis on forecasts and feasibility studies					
Use of specific lending and project appraisal techniques					
The use of procedures for management of problematic loans					
Offering appropriate loans to clients					
Ensuring the clients operate businesses they are experienced in					
Transfer to loan recovery agency					
Restructuring of loans					
Loans sales					
Loan securitization					

5. To what extent do you agree with the following statements concerning management practices of non performing loans on financial performance of commercial banks?

(Where 1-Not at all, 2-Less extent, 3-Moderate Extent, 4 –Great extent and 5 -Very Great extent)

Statement	1	2	3	4	5
Credit Risk Assessment leads to optimizing the commercial profitability.					
Information sharing among banks about borrowers enhance credit risk management in commercial bank					
Use of specific lending and project appraisal techniques					
Enhancing Corporate Governance improve financial performance in commercial banks					
Transforming the operation mechanism comprehensively led to better achievement of commercial bank financial objective					
Adoption of centralized Management Approach					
Adoption of an Independent credit review as a foundation increases sufficient bank capital for creation for loan loss					
Increased use of credit reference bureaus lower credit risks facing commercial banks increasing bank interest					
Assessment of Borrowers Personality Profile					
Loan securitization leads to					
Accurate personality-morale profile assessment enhance credit risk management in your bank					
Independence and Functional judicial systems					
Employment of Qualified and Professional Staff enhance the capability to prevent and mitigate the financial risk facing the commercial bank					

6. In your own opinion, indicate other effects of management practices of non performing loans to Commercial Banks in Kenya.

i.....

.....

ii.....

.....

iii.....

.....

Appendix IV: List of Commercial Banks in Kenya

1. African Banking Corporation
2. Barclays Bank of Kenya
3. Bank of Baroda
4. Bank of India
5. Bank of Africa
6. Central Bank of Kenya
7. Charterhouse Bank (under statutory management)
8. Chase Bank
9. CFC Stanbic Bank
10. Citibank NA
11. City Finance Bank/ Jamii Bora Bank
12. Commercial Bank of Africa
13. Cooperative Bank of Kenya
14. Consolidated Bank
15. Delphis Bank
16. Diamond Trust Bank
17. Dubai Bank
18. Industrial Development Bank
19. Eco Bank
20. Equity Bank
21. Equatorial Commercial Bank
22. Family Bank
23. Fidelity Commercial Bank
24. Fina Bank
25. First American Bank of Kenya
26. First Community Bank
27. Giro Bank
28. Gulf Bank
29. Guardian Bank

30. Habib Bank
31. Imperial Bank
32. Industrial Development Bank
33. Investment & Mortgages Bank (I&M)
34. Kenya Commercial Bank
35. K-Rep Bank
36. Middle East Bank
37. National Bank of Kenya
38. NIC bank
39. Oriental bank
40. Paramount Universal Bank
41. Post bank
42. Prime Bank
43. Standard Chartered Bank
44. Transnational Bank
45. United bank of Africa
46. Victoria Commercial Bank

Direct Simultaneous Determination of Soil Nutrients in Soil by Chemometrics-Assisted Energy Dispersive X-Ray Fluorescence Spectrometry

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Abstract

Agricultural productivity and sustainable land use especially in precision farming depend on the management of soil quality and calls for affordable, simple and fast but accurate analysis of labile macro- and micro-nutrients. Conventional methods of soil testing are tedious, destructive and expensive. This paper presents the results of the application of chemometrics-assisted Energy Dispersive X-ray Fluorescence (EDXRF) spectroscopy for direct, non-destructive and simultaneous determination of macro- and micro-nutrients in soils. The method was applied to test and verify the concentrations of Fe, Cu, Zn, organic carbon (OC), N, Na, Mg, and P in soil samples from Kitale and Katumani agricultural research field stations in Kenya. The two sites are located in high agriculturally potential areas. The micro and macro 'bio-available' concentrations determined by laboratory methods of soil analyses