# AN INVESTIGATION OF THE RELATIONSHIP BETWEEN CREDIT RISK DISCLOSURE AND FIRM CHARACTERISTICS FOR KENYAN COMMERCIAL BANKS.

**BY:**

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# Declaration

This project is my original work and has not been submitted to any other University or college for academic credit. All information from other sources has been duly acknowledged.

Signed **…………………………………………** Date **………………………**

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

Signed**. ………………………………………..** Date **………………………**

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# Abstract

This study investigates the relationship between credit risk disclosures and firm characteristics among the Kenyan commercial banks. A credit risk disclosure index was constructed for the banks under study and then used to rank the banks. The index was related to other bank characteristics of profitability as measured by the reported profits, size of the loan book, capitalization base and ownership structures. The study was descriptive in nature and targeted all the commercial banks operating in Kenya as 31st December, 2007. All the forty two banks operating in the country at 31st December, 2007 were targeted but only twenty three responded, which shows a response rate of 54.7%.

From the findings of this study, credit risk disclosure practices varied remarkably among different banks and so were accounting practices. In addition to the above findings, a bank's level of credit risk disclosure showed no relationship with its capital base, reported profits and or the size of loan book. Majority of the banks in Kenya are not listed, however among the listed banks, none recorded a poor rating of credit risk disclosures and this underscores the role of regulators in enforcing disclosures among listed firms including banks. With only 6 banks managing to attain good credit risk disclosure standards, more emphasis by the regulators on full credit disclosures is required as banks are central to the growth and development of any economy. The global financial meltdown is leading investors and governments want to know more about investment activities undertaken by financial institutions in order that important decisions can be made regarding risk. Without good information, investors may shy away from banks and financial institutions. Banks may need to disclose more of their credit information in the unaudited part of their annual reports.

With many of our local banks going regional, there is need to embrace the Basel Committee, (1999) credit risk disclosure guidelines as this are international guidelines aimed at enforcing uniformity in the international banking industry and reducing bank failures worldwide. Moreover, banks meeting these international guidelines may be viewed favourably in the international financial markets by receiving good ratings which might further increase their business leading to higher profits.