

**STRATEGIC RESPONSES OF COMMERCIAL BANKS IN  
KENYA TO THE CHALLENGE OF NON PERFORMING  
LOANS**

**BY:/KANYIRI REGINA W.**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
FACULTY OF COMMERCE  
UNIVERSITY OF NAIROBI**

**2005**

UNIVERSITY OF NAIROBI LIBRARY



0282701 2

## Declaration

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

Signed:  \_\_\_\_\_ Date: 2/10/2005  
Regina W. Kanyiri  
Candidate

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

Signed:  \_\_\_\_\_ Date: 3rd/10/2005  
Dr. Martin Ogutu  
Chairman  
Department of Business Administration  
Faculty of Commerce  
University of Nairobi

## **ACKNOWLEDGEMENT**

I would like to acknowledge all the help I received in writing this research paper. First and foremost I thank my family for motivating me academically. I thank my supervisor Dr. Ogutu for his guidance and positive criticism. I would also like to thank all the respondents who took time to complete the questionnaires. I would also like to thank all my colleagues and friends for all the constructive criticism that helped me complete this research paper.

## **DEDICATION**

I would like to dedicate this project to my parents Lucy and Nathan for the opportunity and the continuous inspiration and support they have offered me to be able to reach this height of academic performance.

## TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS.....	iii
DEDICATION.....	iv
GLOSSARY OF ABBREVIATIONS.....	vi
ABSTRACT.....	vii
LIST OF TABLES .....	viii
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 BACKGROUND TO THE STUDY.....	1
1.1.1 ENVIRONMENTAL CHALLENGES AND ORGANIZATIONAL RESPONSE.....	4
1.1.2 COMMERCIAL BANKS IN KENYA .....	5
1.2 STATEMENT OF THE PROBLEM.....	6
1.3 OBJECTIVES OF THE STUDY.....	8
1.4 IMPORTANCE OF THE STUDY.....	8
CHAPTER TWO.....	9
LITERATURE REVIEW .....	9
2.1 THE CONCEPT OF STRATEGY.....	9
2.2 ENVIRONMENTAL CHALLENGES.....	10
2.3 RESPONSES TO ENVIRONMENTAL CHALLENGES.....	12
2.3.1 STRATEGIC RESPONSES.....	13
2.3.2 OPERATIONAL RESPONSES.....	15
2.4 CAUSES OF NON PERFORMING LOANS.....	15
2.5 MAGNITUDE OF CHALLENGE OF NON PERFORMING LOANS.....	18
CHAPTER THREE .....	20
3.0 RESEARCH METHODOLOGY.....	20
3.1 RESEARCH DESIGN .....	20
3.2 POPULATION OF INTEREST.....	20
3.3 DATA COLLECTION .....	20
3.4 DATA ANALYSIS TECHNIQUES.....	21
CHAPTER FOUR .....	22
DATA ANALYSIS AND FINDINGS .....	22
4.1 INTRODUCTION.....	22
4.2 CLASSIFICATION OF COMMERCIAL BANKS OPERATING IN KENYA.....	22
4.3 CHALLENGES OF NON PERFORMING LOANS FACED BY COMMERCIAL BANKS IN KENYA.....	24
4.4 STRATEGIC RESPONSES .....	25
4.5 ADEQUACY OF STRATEGIC RESPONSES.....	27
CHAPTER FIVE :	
CONCLUSIONS AND RECOMMENDATIONS .....	29
5.1 RESERCH FINDINGS.....	29
5.2 CONCLUSIONS.....	30
5.3 LIMITATIONS OF THE STUDY.....	30
5.4 RECOMMENDATIONS FOR FURTHER RESEARCH.....	31
REFERENCES .....	32
APPENDIX 1	
APPENDIX 2	

## **GLOSSARY OF ABBREVIATIONS**

CBK	Central Bank of Kenya
GDP	Gross Domestic Product
NPL	Non-Performing Loans
USA	United States of America
SPSS	Statistical Package for Social Scientists
USD	U.S Dollar
IT	Information Technology
NBFI's	Non Banking Financial Institutions
KRA	Kenya Revenue Authority
Bn	Billion

## **ABSTRACT**

The purpose of the study was to identify the strategic responses undertaken by the commercial banks in Kenya in addressing the challenge of non-performing loans. The second objective of the study was to establish the challenges that the non performing loans pose to the commercial banks in Kenya.

Data was in form of Primary data that was collected through the administering of questionnaires to the various banks operating in Kenya. Data analysis was by use of Microsoft Excel and presented in frequency distribution tables and percentages as well as pie charts and bar graphs

To facilitate the study, a survey of all the 42 commercial banks operating in Kenya was done. A response rate of 36% was achieved with 15 banks out of the 42 banks in Kenya took part in the research study.

Some strategic responses identified in the study included the introduction of new policies and procedures, the subjecting of credit proposals to rigorous risk assessment by the lending officers, the use of informal means to get additional information on borrowers, vetting of credit proposals by senior management for objectivity and avoiding lending to seasonal or non performing sectors.

As a result of the research findings, it was recommended that further research should be undertaken on the unsecured lending that has become popular among the commercial banks in the light of non performing loans

## **List of Tables**

Table 1: Banks Year of Establishment in Kenya

Table 2: Classification By Size of Banks

Table 3: Classification By Ownership

Table 4: Perception of Challenges Faced By Commercial Banks in Kenya

Table 5: Strategic Responses

Table 6: Perception of Adequacy of The Strategic Responses



## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

The Kenyan banking system plays a major role in provision of banking services to the various sectors of the economy. According to Market Intelligence B.S (2003), formal businesses in the country operate bank accounts. Some informal sector businesses do not maintain bank accounts due to the perceived high cost of banking in the country. Total bank deposits stood at Kshs.365bn in 2002 up from 360bn in 2001.

Historically commercial banks have preferred to make short-term loans to businesses as working capital. Principally to support day-to-day operations and purchase of inventory. This practice can be traced to the era of financial repression, which restricted banks to short term maturities (Popiel, 1994). In recent years however, banks have lengthened the maturity of their business loans to include term loans, which generally stretch from 12 months to not more than 7 years in the Kenyan context. Term loans are used to finance purchase of capital assets such as land, buildings, machinery and equipment. From these advances, there arises the problem of Non-Performing Loans (NPL's). Non Performing Loans (NPL's) impact adversely on bank's profitability. A glance at the commercial banks financial reports and more specifically the profit and loss and balance sheet show the magnitude of NPL's and the provisions for the same, which are the junks of losses to the commercial banks. In any banking system, the bad loans problem consists of a stock component, old debt that is not performing and a flow component, new lending that may become non performing. The two components are linked by normal client relationship in banking and in some countries, by the government's encouragement or even directing

state owned enterprises. The NPL is a source of credit risk that is the probability that some of the banks assets, particularly its loans will decline in value and become worthless or generate returns below required level.

According to Market Intelligence (2003), the banking system is vulnerable due to its high level of non-performing loans, which were at 30 percent by February 2003. Financial stability risk is prevalent. Bank failures occur mainly due to weak corporate governance, poor lending practices and difficult economic environment. According to Obiero (2002), up to mid 1990, CBK did not forcefully enforce prudential guidelines on loan grading and provisioning. The proportion of bad loans to gross lending was 28.3% and 30% as at January 2003 and January 2002 respectively (CBK 2003).

Gatonye (1989) identifies three broad roles of banking industry in Kenya's economy as financial intermediation between savers and borrowers that entails mobilization of resources from entities with surplus funds and channeling them to deficit areas; implementation of government policies by way of money supply management using instruments of monetary policies namely cash ratio requirements, open market operations and T-bill auctions and facilitating the flow and interaction of various economic activities. In an efficient and stable financial system, these activities contribute to the economy of a country by providing the saved funds of a depositor, to others with more productive use for them in form of credit, thereby raising the income of both the savers and borrowers. Obiero (2002) observed that between 1984 and 2001, there were 39 bank failures in Kenya. These banks costed the economy about Kshs.19,685 million in terms of loans and grants to restructure the consolidated bank, compensation to depositors and outright losses due to deposit or funds not covered by the deposit protection fund

compensation scheme. There were also high non-monetary costs associated with resultant unemployment and the general instability in the financial system. Of the 39 financial institutions that failed, 14 (37.8%) failed partly because of high levels of non-performing loans.

According to Kenyan Banker (2002), causes of non-performing loans in the Kenyan context include a decline in real Gross Domestic Product (GDP) particularly in the last decade due to poor economic performance, unprofessional risk evaluation and credit management practices among the commercial banks which puts emphasis on loan security and more or less ignores other important considerations, insider lending to major shareholders and directors without adequate security and political influence.

The most recent bank failure was Euro Bank Ltd which was placed into liquidation in February 2003, after becoming insolvent following substantial losses emanating from huge non-performing loans. One month later Daima Bank Ltd was placed under statutory management by Central Bank after a prolonged loss-making period that led to gross under capitalization. The statutory manager is pursuing various options of restructuring the bank. Similarly the Prudential Building Society was placed under statutory management in June 2003 mainly due to its insolvency which eroded its capital base, (Bank supervision report 2003).

### **1.1.1 Environmental Challenges and Organizational Response**

Banks depend on lending for their viability. A non performing economy cannot support credit hence the situation banks in Kenya now find themselves in. traditional risk management has been rendered ineffective in the Kenyan environment. The slow pace and bureaucracy in the judicial system has rendered some processes like litigation largely ineffective, (Market Intelligence BS, 2000). The scenario has led commercial banks to place their excess funds in government paper largeiy T-Bills and more recently T-Bonds at the expense of lending to the private sector. These government papers have provided the banks with low risk, high return assets for the last decade and constitute a major component of banks profit. It is mainly the bigger more established companies and multinationals that have continued to have access to bank loans. Smaller companies and savers find it much more difficult to access bank loans. However, due to the steady decline in the T-Bili yields over the last three years, there has been a major dilemma for commercial banks. On one hand, they are faced with the threat of declining earnings from Government paper, which has for a long time constituted a major component of their revenues. On the other hand, the risk averse attitude generally adopted by banks in Kenya over the last decade is deterring them from taking on high risk, high return assets through lending to the private sector, (Market Intelligence BS, 2000).

The growth of the Kenyan economy since independence has been accompanied by expansion and diversification of the financial systems. This growth has been seen in number as well as range of financial institutions and also in depth of financial intermediations. The changing banking environment has caused major restructuring in the

industry. These changes came about as a response to decline in profits that started being observed in the early 1990's, (Kyalo, 2002).

### **1.1.2 Commercial Banks in Kenya**

Kenya inherited at independence a financial system typical of all British colonies in Africa - a currency board; a commercial banking system wholly dominated by two major British banks; a Post Office Saving Bank and a small number of non-bank financial institutions (NBFIs) providing mortgage finance, insurance and other near bank financial services. The sector has become substantial, sophisticated and complex. Recent years have witnessed a restructuring of the sector through liquidations and mergers brought about by a declining client base and non-performing loans as well as overall poor management of small, indigenous banks. The sector comprises: The Central Bank of Kenya (CBK); 42 domestic and foreign commercial banks with branches, agencies and other outlets throughout the country; NBFIs with an excellent branch network in Kenya's major cities; 4 building societies; 40 insurance companies; 2 mortgage finance companies; the Post Office Savings Bank, with a large network of branches around the country; 48 Forex Bureaus and over 1,500, (less well-organized) savings and credit unions, (Stat-USA Market Research Report).

Banks in Kenya can be placed in four broad categories based on ownership. We have foreign owned banks which are not locally incorporated and these include Citibank N.A, Habib bank A.G.Zurich etc, secondly we have those that are foreign owned but are locally incorporated (partly owned by locals) such as Barclays bank K. Ltd, Stanbic Bank, Standard chartered bank etc, thirdly are those that are locally owned e.g. Commercial bank of Africa ltd, Akiba bank etc and lastly those that have government participation such as Kenya commercial bank, National bank etc.

## 1.2 Statement of the Problem

The banking sector is dominated by ten large commercial banks, which account for 77.3 percent of all deposits held by the banking institutions. Management of the sector has generally improved, but problems of non-performing loans, which account for approximately 29 percent of the total loan portfolio in March 2003, and under capitalization, continue to plague the industry. The large portfolio of non-performing loans in the banking sector has caused many banks to become over cautious in their general lending. Obiero (2002) showed that the Kenyan banking system was troubled. An estimated 41 percent of loans were non-performing, with most of these loans held by state-controlled banks. Two state-controlled banks (Kenya Commercial Bank and National Bank of Kenya) dominated the banking sector along with two international banks (Barclays and Standard Chartered). According to the U.S. Department of State (2000) a significant number of Kenyan banks were struggling.

According to Kamara et al (1997) a classic case of financial crisis precipitated by bad debts is the financial turmoil that befell East Asia in late 1990s affecting mainly Thailand, Indonesia, Malaysia and South Korea. At that time more than 15% of bank loans in the four countries were non-performing compared to only 1% in USA. Causes of high levels of non-performing loans ranged from political meddling on the part of government in directing credit to preferred sectors to heavy lending to the property sector which soured as the property bubble burst as well as imprudent risk assessment, pricing and monitoring practices.

In as much as the non performing loans is a serious problem to the banking industry, not many studies have focused on them. Some of the few studies that have been done have

focused on reasons why people default on loan repayment (Roche, 2003), the restructuring process of bad debt (Lachowski, 1995), Yanfei (2003) looked at how to deal with Non performing loans in China while Obiero (2002) concentrated on bank failures and attributed them to the problem of non performing loans. This is to show that despite the studies that have been carried out on commercial banks and the problem of non-performing loans, no previous study has focused on the strategic responses of the commercial banks in Kenya and therefore a knowledge gap is evident. This study will therefore attempt to discover what strategic responses the Kenyan commercial banks have undertaken to address the threat of non-performing loans in the industry.

### 1.3 Objectives of the Study

This study will address the following objectives.

- a) To establish the challenges of Non Performing Loans for commercial banks in Kenya.
- b) To determine the strategic responses of commercial banks in Kenya to the challenge of non-performing loans

### 1.4 Importance of the Study

The study will benefit the following groups among others:

- a) ***Policy Makers:*** The study will provide pertinent information on the ways commercial banks deal with issues on non-performing loans.
- b) ***Managers of Financial Institutions:*** The study will provide insight into the most successful strategies banks use to handle the non-performing loans.
- c) ***Management Consultants:*** Management consultants will benefit in their endeavor to advise commercial banks on the non-performing loans. Thus they will provide recommendations accordingly.
- d) ***Academic Researchers:*** The study will contribute to the existing body of knowledge in the area of non performance of loans. It will also contribute to the challenges banks face on the non performing loans and their responses.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

This chapter reviews pertinent literature on the concept of strategy, the causes of non-performing loans, the magnitude of the challenge of non-performing loans and the strategic responses being employed by commercial banks to counter this challenge.

#### **2.1 The Concept of Strategy**

Johnson and Scholes (1999) defined strategy as “the directions and scope of an organization over a long term, which achieves advantage for the organization through its configuration of the resources within a changing environment, to meet the needs of the markets and fulfill stake holder’s expectations”. Strategy is described as creating a fit between the external characteristics and internal organization conditions to solve a strategic problem. The problem occurs when there is a mismatch between internal characteristics of the organization and the opportunity existing in the external organization. Ansoff and Mc Donnel (1990) describe Strategic Management as the process through which a firm manages its relationships with the environment in which it operates. It consists of strategic planning, capability planning and management of change. Strategic management therefore is a continuous activity that enables the organization plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organizations weaknesses.

Quinn (1980) describes strategy as a plan and pattern that integrates an organizations major goals, policies or patterns and helps marshal and allocate resources into a unique and viable posture based upon its relative internal competencies and short comings

anticipated changes in the environment and contingent moves by the intelligent opponents.

## **2.2 Environmental Challenges**

CBK report (2001) indicates that as a result fall in real Gross Domestic Productivity, Kenyan economy has been performing very poorly in the past decade or so and continues to decline. This has to a large extent been a major contributor to the bad loan scenario. The environment in which an organizations operates is dynamic i.e., the strategic responses which are well developed and appropriately adopted are powerful tools for acquiring and sustaining a competitive advantage. Such weapons have to be constantly adopted or even transformed to achieve the desired advantage, (Kiptugen, 2003). As the organization environment changes, it is necessary that the firm continuously adopts its activities and internal configurations to reflect the new external situations, failures to do this endangers the future success of the organization, Aosa (1998).

Johnson and Scholes (1999) contend that environment encapsulates different influences. It is quite difficult to make sense of this diversity. They view future environment as likely to be different from the past. Having scenarios of possible futures would in turn help managers to consider the different ways in which strategies might need to change depending on how the environment behaves. The external environment influences an organization's strategic development by creating opportunities and threats. Successful strategies rely heavily on the organization having the strategic capability to perform at the level that is required for success. An understanding of the

strategic capabilities is important because aid an organization to determine whether its strategies continue to fit the environment in which it operates and the threats and opportunities that exist. Strategic development is concerned with changing environment. strategic capability is about providing products or services that customers value or management value in future.

As the environment changes, firms must change strategies to survive. With each new strategy, new capabilities are developed. The adoption of dynamic perspective on strategy alignment necessitates a shift in emphasis towards dynamic capabilities. Dynamic capabilities described an approach to strategy that tries to identify the dimensions of firm specific capabilities that can be sources of advantage and to explain how combinations and competencies and resources can be developed, deployed and protected. The operating environment involves factors in immediate situations that may provide many of the challenges a particular firm faces in attempting to acquire needed resources or in striving to profitably market its goods and services. Among the most prominent of these factors are a firms competitive position, customer profile, reputation among suppliers and creditors. The operating environment differs from remote environment in that the businesses can be much more proactive (as opposed to reactive) in strategic planning than is the case with remote factors.

Treece et al (1997) argue that the organizations routines play a major role in creating dynamic capabilities. The routines provide the ability to build internal and external competencies in order to face rapidly changing environments. Capabilities are embedded in the routines of organizations and are not easily documented as procedures and thus are difficult for competitors to replicate.

Pierce and Robinson (2002) argue that even if an organization has no outstanding competencies and capabilities, managers still must tailor strategy to fit the firm's particular resources and capabilities. They identify three levels of strategy namely corporate level, business level and functional level. The corporate level involves the setting of objectives and forming strategies at the corporate level, usually by the board of directors and the Chief Executive Officer. Decisions at this level are characterized by greater risk, cost and profit potential, as well as longer time horizons and greater need for flexibility. It includes decisions such as choice of business, dividend policies and priorities for growth. The business level involves translating general statements of direction and intent developed at the corporate level into concrete, functional objectives and strategies for individual business divisions or strategic business units. This is carried out by the business and corporate managers. The functional level is carried out by managers of products, geographic and functional areas. They are the implementers and executioners of a company's strategic plans. It involves the development of annual objectives and short term strategies in areas such as production, operations, research and development, marketing, finance and accounting.

### **2.3 Responses to Environmental Challenges**

Organizations responses to the environmental are in two categories namely Strategic and Operational depending on how long-term the response will be, at what level the organization is, the breadth of impact on the organization and the amount of resources required to effect the response.

### **2.3.1 Strategic Responses**

Strategic responses to the environment are normally long term ventures. These take over one year and the responsibility lies in the corporate and business level of management.

They are company wide and huge amounts of resources are required to enforce them.

Strategic responses according to Pearce and Robinson (1999) are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organization. Strategic responses are concerned with the long term strategy of an organization involving high investments and embracing the organization as a whole.

According to Gathoga (2001) in his study on competitive strategies, banks have responded to the challenge of declining quality of loan assets by diversifying income streams to include more of government securities and non-funded income from services like funds management, business advisory services, custodial services like funds management, credit and debit cards, forward exchange contracts, funds transfers remittances among others. All banks however, regardless of their proportion of Non performing loans are paying increasing emphasis on their restructuring and eventual collection.

Kiyai (2003) noted some restructuring techniques used by banks such as extended repayment periods, interest waivers, interest holidays, capital holidays concessions, additional facilities and conversions. Njau (2000) established that East Africa Breweries undertook substantial adjustments in various strategic response variables in order to fight

off competition, the adaptations include the manipulation of marketing mix elements, cost efficiency control measures and setting up of foreign marketing distribution centers.

Kadie (2001) studied strategic responses to competition by Telkom Kenya. He found that the organization has made some strategic adaptations in its products, markets, technology as well as marketing strategic alliances in response to the drastic competitive changes in the country's telecommunications industry.

Ansoff & McDonnell (1990) note that strategic responses involve changes in the organizations strategic behavior. Such responses may take many forms depending on the organizations capability and the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for the firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology, culture change etc, Kiptugen (2003).

Senior (1997) notes that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of new IT equipment or systems, business process intensification/ extensions, the re-design of group jobs, staff right sizing and subsequent staff cutbacks as well as redundancies.

### **2.3.2 Operational Responses**

Operational responses are short term (usually less than one year) and are targeted at specific departments in the operational level of management. They do not require a huge amount of resources to implement. Some of the operational units are marketing, finance, human resources and production.

Operational control systems guide, monitor and evaluate progress in meeting annual objectives, while strategic controls attempt to steer the company over an extended period (usually 5 years and above) operational controls provide post action evaluation and control over short periods usually from one month to one year. (Pearce and Robinson,2000)

### **2.4 Causes of Non-Performing Loans**

Kenya's financial sector is well-diversified. At the end of April 2003, the banking system consists of 43 commercial banks, 2 investment banks, 2 operating Non-Bank Financial Institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 foreign exchange bureaus. In 2002, the CBK set requirements for all banking institutions and building societies to publish their quarterly un-audited financial results in the print media. The objective of the disclosures is to enable bank customers to make informed decisions about the general soundness of banks, particularly when placing large deposits. ( STAT-USA Market Research Reports, 2004).

Non-performing loans are those loans that are not being serviced as per the loans contracts and expose the bank's potential losses (CBK, 2002). A mismatch in management of major balance sheet items can cause banks to close down. Changes in the relative structure of assets and liabilities should be a conscious decision of banks' policy makers in most cases the board of directors. Asset quality, which is measured by the asset quality ratio, is an indicator of the level of non-performing loans (Thygerson, 1995).

Sinke (1992) defines bad loans as facilities where there is reasonable doubt about the ultimate collect ability of principal and interest within the time frame established by the financial institution but in any case not significantly longer than the term of the original facility. (Kiyai 2003)

According to Roche (2003), non performing loans in Kenya's commercial banks were caused by various reasons other than the much assumed factor of high interest rate such as diversion of funds, economical decline, loss of job, multiple banking, poor management operation and system errors, illness disasters, politics, competition, lack of knowledge, death, takeovers, treasury bill rate, conflict with the law, dissolution, base lending rate, bankruptcy, breach of contract, Kenya Revenue Authority (KRA) interference, poor monitoring and control, slow and unmoving stock. His findings showed that most causes of loans default was the diversion of funds followed by the poor state of the economy while the least were poor monitoring and control and KRA interference. He recommended that bank staff be trained on the basic principles of credit and should take broad steps in implementing Know Your Customer (KYC) project.



Some causes of non-performing loans according to CBK report (2001) include the Lack of supervision of projects, frequent update of customer information and borrowers circumstances as a result of the banks' employees inability to be closer to their customers Secondly, incomplete credit information leading to failure to determined borrowers financial capacity to evaluate. The majority of debtors especially those owing money to state owned banks and financial institutions are political debtors who borrowed money with no intention of repayment. The implications of these scenarios are serious considering the fact that most of the debt owed to these banks and financial institutions are in the hands of such people. The other critical issue is that most of these money is not (or in many cases inadequately) secured is not invested in productive activities and more often than not is spent on political campaigns making recovery from attachment of property or investment impossible.

Another cause indicated by CBK (2001) is the compromise of credit principles where bank management grants loans carrying undue risks of unsatisfactory terms with full knowledge of violation of sound credit principles particularly in giving credit to politicians, their friends and relatives. Anxiety to use income as collateral to end, where the earnings factor is permitted to outweigh the factor of soundness.

Finally, insider borrowing i.e. major shareholders, directors and members of staff in many instances, contribute to non-performing loans problems because, they are not subjected to normal objective credit assessment before disbursement of loans to them.

## **2.5 Magnitude of the Challenge of Non-Performing Loans.**

According to the Bank Supervision Annual Report (2001) the high level of non-performing loans continues to be an issue of major supervisory concern in Kenya. The level of non-performing loans has been increasing steadily. Even the best of the banks with good lending policies and procedures do become victims of non performing loans in one way or another. The magnitudes of non-performing loans worry bank policy makers. These loans have made some banks fall into liquidation and closure. In Kenya, non-performing loans account for 38.1% of total advances, (CBK Report, 2001).

The level of non performing loans (NPLs) as at end of December 2003 was estimated at Ksh.70.7bn or 26% of total loans compared with Ksh.78.2bn or 30%in December 2002. The declining ratio reflects decrease in the level of non-performing loans both in absolute terms and in relation to total loans in the sector, (Bank Supervision Annual Report, 2003).

Non performing loans were mainly concentrated in ten institutions and particularly public sector banks whose ratio of the non-performing loans to their total loans was above 45%. However, the NPL's in the ten institutions are historical in nature and arose due to weak credit risk management and external influence on the board and management of the institutions affected. Loans classified as non performing namely, substandard, doubtful and loss declined from Kshs.119bn or 39% of total loans as at December 2002 to Kshs.110bn or 35% of total loans as at December 2003, (Bank Supervision Annual Report, 2003).

Kiyai (2003) reported that in the total of 43 banks operating in Kenya then , the ratios of non performing loans to total loans were 31.6% in 1999, 35.4% in 2000, 28% in 2001 and 27.5% in 2002. This means that out of a total of kshs.244,454 million in 1999, 77,185million was non performing yet the total net loans as a ratio of advances was 54.2% in the same year. CBK (2003). Obiero (2002) found that of the 39 banks, which failed during the period 1984 and 2002, 37.8% collapsed mainly due to poor quality of lending. Though most banks pride in clear and sound lending policies, the reality is that they've been quite reckless in their lending activities. Coupled with this is the immense pressure particularly on government controlled banks to lend to politically connected individuals and institutions regardless of their credit standing (Market Intelligence, 2001).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

This study is a survey

#### **3.2 Population of interest**

According to CBK Bank Supervision Annual Report (2003) there are 42 banks in total.

The population comprised of all the 42 commercial banks that were operating in Kenya as at January 2005. However, only 15 commercial banks agreed to participate in the study constituting of 36% of the population.

#### **3.3 Data Collection**

This study was based on primary data which was collected by using a questionnaire that was administered to the relevant personnel. The questionnaire was divided into four sections. Section A sought data on the banks' and respondents' profile. Section B sought data on the challenges faced by the banks, Section C was on the strategic responses undertaken while section D was on the adequacy of the strategic responses commonly employed by the banks' to handle non-performing loans.

The questionnaires were semi structured comprising of open ended and closed questions. The chief respondents of the questionnaires were the head of lending in the banks.

An introduction letter explaining the purpose of conducting the research was attached to the questionnaires.

### **3.4 Data Analysis Techniques**

After data was collected, answers from the questionnaires were coded and edited. Editing was done to check on the consistency of the responses and also check on errors and omissions. Descriptive analysis was used to classify data into percentages, frequencies and averages. The data has in the next chapter been presented in form of frequency tables and graphs. Microsoft Excel was used in the creation of the database.

## CHAPTER FOUR

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction:

This chapter deals with the analysis of data and research findings. Data obtained from the study has been presented in the form of tables, charts and graphs and is summarized into frequencies and percentages. From the targeted 42 commercial banks operating in Kenya, 15 participated in the study representing 36% of the study population. Bureaucracy, confidentiality and security concerns influenced the response rate achieved in the study.

#### 4.2 Classification of Commercial Banks Operating in Kenya

Classification of the banks operating in Kenya was done according to the year of establishment.

Table 1: Bank Year of Establishment in Kenya

Period	Frequency	Percentage
Before 1960	2	13
1961-1970	3	20
1971-1980	3	20
1981-1990	5	34
1991-2000	2	13
total	15	100

Source: Research questionnaire

From Table 1 above, it can be observed that 13% of the Commercial Banks captured in the study were established before 1960 and 13% were established after 1990. Most banks captured were established between 1981 and 1990, these are 5 banks representing 34%.

Table 2: Classification by Size of Bank.

Branch Network	Frequency	Percentage
More than 20	5	33
Between 10 and 20	1	7
Less than 10	9	60
	15	100

*Source: Research questionnaire*

When classified by size in terms of branch network, 33% of the banks that participated have more than 20 branches while 60% of the banks have less than 10 branches operating in Kenya. Only 7% had between 10 and 20 branches. (Table 2).

Table 3: Classification by Ownership

Ownership	Frequency	Percentage
Foreign owned	4	27
Public owned	5	33
Private owned	6	40
	15	100

*Source: Research questionnaire*

Of the captured banks, 27% had foreign ownership while 33% were public owned banks. The highest were the privately owned banks which constituted of 40% of the captured commercial banks.

### 4.3 Challenges of Non-Performing Loans Faced By Commercial Banks in Kenya

The study sought to find out the major challenges that commercial banks faced due to the Non Performing loans. The figure below shows a summary of the challenges. The averages were based on five point scales where 1 was no effect at all while 5 was to a very great extent.

Table 4: Perception of Challenges Faced By Commercial Banks in Kenya

Assessment Parameters	Average	Perception
1. NPL's project a negative picture on the bank's financial performance whenever financial statements are prepared.	3.2	moderate
2. NPL's lead to a decline in income meant for credit thereby reducing its adequacy.	3.7	great
3. NPL's pose a threat of failure on the bank	4.1	great
4. NPL's leading to the bank being over cautious in its lending practice	4.2	Great
5. NPL's leading to high costs from debt restructuring	3.3	moderate
6. NPL's posing a financial stability risk	4.1	Great

Source: Research questionnaire

The banks captured felt that the non performing loans projected a negative picture on the banks financial performance whenever the statements were prepared only to a moderate extent. They also envisioned the non performing loans highly causing a threat of reducing income meant for credit. Threat of bank failure got an average of 4.1 showing that all the banks greatly faced this as a challenge. The banks captured also saw the non performing loans leading the bank to be over cautious in their lending practices as a challenge to



them to a great extent. This was represented by an average of 4.2 while NPL's leading to high cost in restructuring as viewed as a challenge only moderately (3.3). The NPL's posing a financial stability risk was viewed challenge to a great extent. (Table 4).

#### 4.4 Strategic Responses

Table 5 below shows a summary of the extent to which commercial banks in Kenya have made changes due to non performing loans.

Table 5: Strategic Responses

Assessment Parameters	Average	Extent
1. Change in style of leadership	2.5	Little
2. Introduction of new policies and procedures	4	Great
3. Change in bank structure (restructuring)	2.9	Moderate
4. Change in culture	2.7	Little
5. Subjecting credit proposals to rigorous risk assessment	4.5	Great
6. Establishment of fully pledged credit dept.	2.9	Moderate
7. Setting minimum lending amounts so as to disqualify low quality credits	3.8	Moderate
8. Use of Credit Reference Bureaus to guard against lending to already existing bad debtors	2	Little
9. Change in Technology to include more advanced financial analysis tools	3	Moderate
10. Credit checking from other lenders if borrower is multi banked	3.8	Moderate
11. Strict monitoring of account operations to identify weaknesses early for corrective measures	4.5	Very Great
12. Review of financial information submitted by borrowers critically	4.6	Very Great
13. Use of informal means to get additional information on borrowers	3.9	Great
14. Restriction on the type and location of collateral placed for those that are easy to liquidate	3.5	Moderate
15. Vetting of credit proposals by senior management for objectivity	4.4	Great
16. Avoiding lending to seasonal or non performing sectors	4	Great

*Source: Research questionnaire*

The study sought to find out the various strategic responses undertaken by the various banks to reduce the challenges caused by the non performing loans. All the banks had adopted the various strategies in varied extents. Some strategic responses such as change in Leadership (2.5), change in culture (2.7) and the use of credit bureaus to obtain information (2) were adopted but to a small extent. Other strategic responses such as restructuring (2.9), establishment of a credit department (2.9), the setting minimum lending amounts so as to disqualify low quality credits (3.8) the change of technology to include financial analysis tools (3), credit checking from other lenders if borrower is multi banked (3.8 ) and the restriction on the type and location of collateral (3.5) were adopted by the banks to a moderate extent.

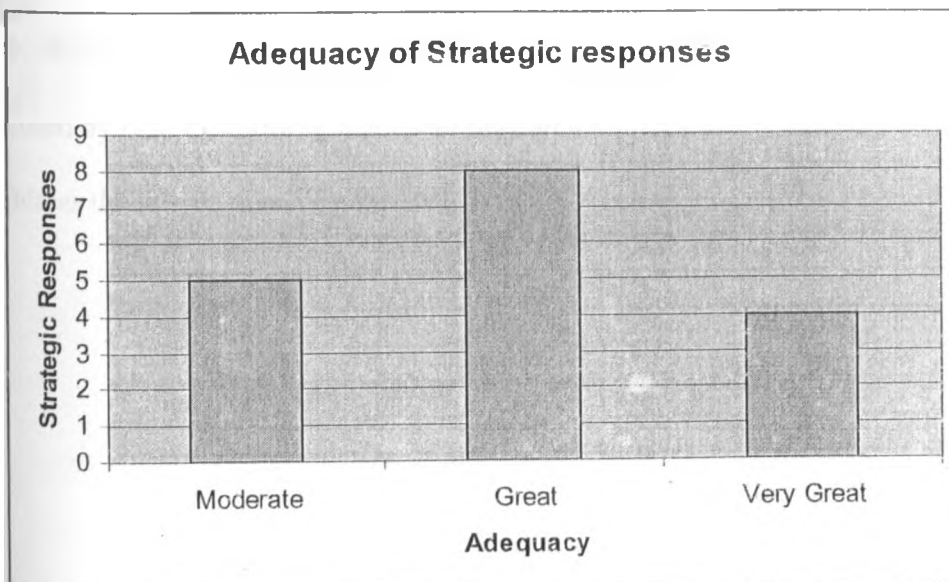
The strategic responses that were adopted by the commercial banks to a great extent included Introduction of new policies and procedures (4), subjecting credit proposals to rigorous risk assessment (4.5), the use of informal means to get additional information on borrowers (3.9), vetting of credit proposals by senior management for objectivity (4.4) and avoiding lending to seasonal or non performing sectors (4). Strict monitoring of account operations to identify weaknesses early for corrective measures (4.5) and the critical review of financial information submitted by borrowers (4.6) were used to a very great extent. Other strategic responses that were indicated by banks included the removal of discretionary limits therefore all the excesses had to be approved by the risk departments as well as alertness and surprise audits done.

## 4.5 Adequacy of the Strategic Responses

Table 6: Perception of the Adequacy of the Strategic Responses.

Assessment Parameters	Average	Perception
1. Change in style of leadership	3.7	Moderate
2. Introduction of new policies and procedures	4.3	Great
3. Change in bank structure (restructuring)	3	Moderate
4. Change in culture	3.2	Moderate
5. Subjecting credit proposals to rigorous risk assessment	5	Very Great
6. Establishment of fully pledged credit dept.	4.8	Very Great
7. Setting minimum lending amounts so as to disqualify low quality credits	4	Great
8. Use of Credit Reference Bureaus to guard against lending to already existing bad debtors	3.7	Moderate
9. Change in Technology to include more advanced financial analysis tools	4	Great
10. Credit checking from other lenders if borrower is multi banked	4.5	Great
11. Strict monitoring of account operations to identify weaknesses early for corrective measures	4.8	Very Great
12. Review of financial information submitted by borrowers critically	4.8	Very Great
13. Use of informal means to get additional information on borrowers	4.5	Great
14. Restriction on the type and location of collateral placed for those that are easy to liquidate	3.6	Moderate
15. Vetting of credit proposals by senior management for objectivity	4.6	Great
16. Avoiding lending to seasonal or non performing sectors	4.7	Great

Source: Research questionnaire



The study also aimed to establish how adequate the strategic responses adopted were in addressing the threats caused by the non-performing loans. Strategies such as the change in style of leadership, change in bank structure, culture change, use of credit reference bureaus and the restriction of the type of collateral placed were only seen as moderately adequate in addressing the issue of non-performing loans, others such as the introduction of new policies and procedures, setting of minimum lending amounts so as to disqualify low quality credits, the change in technology to include more advanced financial analysis tools, credit checking from other lenders if borrower is multi-banked, use of informal means to get additional information on borrowers, the vetting of credit proposals by senior management for objectivity and the avoidance of lending to seasonal or non-performing sectors were seen as greatly adequate in addressing the threat of non-performing loans. The strategies seen as very greatly adequate were the subjecting of credit proposals to rigorous risk assessment, the establishment of fully pledged credit department, the strict monitoring of account operations to identify weaknesses early for corrective measures and the review of financial information submitted by borrowers critically before lending.

The study therefore established that all the participating banks faced serious challenges caused by Non-Performing loans and they all adopted various strategic responses to address the threats posed by the NPL's.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Research Findings

Non-performing loans were seen to pose serious challenges to the banking sector in Kenya. All the banks that responded seemed to face various challenges such as the projection of a negative picture on the banks financial performance. This is detrimental to the future performance of the bank as vied by the share holders especially in cases public listed banks. More serious challenges faced by the sector included the non performing loans posing a financial stability risk on the bank and also posing a threat of failure on the bank. Some banks felt that many borrowers were multi banked and thus had access to credit from various banks therefore leaving them overwhelmed. Such challenges were difficult to address as once the loan was disbursed control as to how much more someone could borrow from other lenders such as the Saccos was not possible. Most banks felt that these challenges were serious and needed to be addressed strategically

All the banks that were surveyed had undertaken strategic responses to address the challenges that non performing loans posed in the industry. Of the strategic responses used, the most commonly used were the introduction of new policies and procedures, the subjecting of credit proposals to rigorous risk assessment by the lending officers , the use of informal means to get additional information on borrowers, vetting of credit proposals by senior management for objectivity and avoiding lending to seasonal or non performing sectors. Strict monitoring of account operations to identify weaknesses early for corrective measures and the critical review of financial information submitted by borrowers were used to a very great extent.

Of the strategies used, subjecting of credit proposals to rigorous risk assessment as well as the establishment of fully pledged credit department to handle all issues regarding lending and risk and the strict monitoring of account operations to identify weaknesses early for corrective measures and the review of financial information submitted by borrowers critically before lending were seen by majority of the banks as very adequate in addressing the challenges posed by non performing loans.

## **5.2 Conclusions**

The banking sector is charged with the provision of financial services to individuals as well as corporate bodies. By doing so, they grow the assets of the bank and thus increasing the profits of the bank. It is necessary that the loan portfolio is poses as little risk as possible. This can only be done by the bank ensuring that the loans disbursed are of good quality and will not end up being faulty or non performing. This study has established that the successful strategic responses are those that relate to the actions done before the loan is disbursed for example the critical analysis of the credit proposal as well as strict monitoring of the accounts after the loans are disbursed. This way, the weaknesses are quickly identified and corrective measures undertaken to prevent the occurrence of the Non- Performing loans.

## **5.3 Limitations of the Study**

The main limitations of the study were on the participation of the respondents. Out of the 42 commercial banks that were provided with the questionnaires, only 15 participated despite the aggressive follow-up and use of personal contacts. Some of the non respondents said that the information sought was confidential while others said it was not within their organization policy to give information.

Time was also a major constraint

## **5.4 Recommendations for Further Research**

The timing of this study was just right as the Kenyan banking industry is seeing more banks get into the lending to individuals as posed to corporate bodies only. The introduction of non secured loans is becoming more popular and in this respect, further research is recommended on this caliber of loans in the light of performance.

#### 4.0 REREFENCES

Ansoff I. (1988) *Corporate Strategy*, Revised Edition. Penguin Books Great Britain.

Aosa E. (1998) *The Nature of Strategic Management*. Unpublished Doctorial paper

Central Bank of Kenya *Monthly Economic Review*-various issues

Central Bank of Kenya (2001) *Bank Supervision Annual Report*

Central Bank Of Kenya (2003) *Bank Supervision Annua' Report*.

Central Bank of Kenya Sept (2002) *Prudential Regulations*.

Cole, Rebel A., 1998. "The importance of relationships to the availability of credit."  
Journal of Banking & Finance, Elsevier, vol. 22(6), pages 959-977, 8

Gathoga W. (2001) *Competitive Strategies Applied by Commercial Banks in Kenya*  
Unpublished MBA project UON

Gatonye R.P.(1989): *Security Consideration Of Computer Based Financial Information Systems In Kenya: The Case Of Banks And Financial Institutions*, Unpublished  
University Of Nairobi, Kenya MBA Project

Johnson G. and Scholes K. (1999) "Exploring Corporate Strategy", Fifth Edition,  
Prentice Hall Inc.

Kamara, S and Trub. T. (1997). "The Asian Currency Crisis: Emerging Conceptual and Practical Considerations", IMF Working Paper

Kandie P. (2001) *A Study Of The Strategic Responses By Telkom Kenya Ltd In A Competitive Environment*. Unpublished University Of Nairobi, Kenya MBA Project



The Financial Gazette, (2003). Kenya Banks Increase Loans To Private Business.

Kiptugen E.J. (2003). Strategic Responses To A Changing Competitive Environment: The Case Study Of Kenya Commercial Bank , Unpublished University Of Nairobi, Kenya  
MBA Project

Kiyai T.K. (2003). Bad Debts Restructuring Techniques and Non-Performing Loans Of Commercial Banks In Kenya Unpublished University of Nairobi, Kenya MBA Project

Kyalo J.M. (2002). Capital Efficiency of banking Institutions in Kenya, Unpublished University Of Nairobi, Kenya MBA Project.

Lachowski S. (1995). Restructuring of a Bad Debt Portfolio in a Commercial Bank in the Midst of an Economic Transition Period. Case Study: Powszechny Bank. CASE Research Foundation, Warsaw

Marketing Intelligence (2003). The Business and Finance Journal, March Edition

Market Intelligence Banking Survey (2001). A Comprehensive Analysis and Ranking of 46 Kenyan Banks

Njau G.M. (2000). Strategic responses by firms facing changed competitive conditions. The case of EABL. Unpublished MBA Project University of Nairobi

Obiero, D. (2002). The Banking Sector Regulatory Framework: Its Adequacy in Reducing Bank Failures, Unpublished MBA Project, University of Nairobi

Pearce J, Robinson R, (1999). Strategic Management: Formulation Implementation and Control. 3<sup>rd</sup> Edition, A.I.T.B.S., India.

Pearce J, Robinson R, (2000). Strategic Management: Formulation Implementation and Control. 7<sup>th</sup> Edition Mc Graw-Hill companies Singapore

Popiel P.A (1994). *Financial Systems in Sub-Saharan Africa: A Comparative Study*, World Bank Discussion Papers Africa Technical Department Series.

Roche C.J (2003). *Reasons Why Bank Customers Fail To Service Their Loans In Kenya: A Data Survey Of Standard Chartered Bank K. Ltd*

Quinn J.B (1980). *Strategies for change Logical Incrementation* Homewood, IL: Irwin

Senior B. (1997). *Organizational change*. Financial Times Prentice Hill Harlow

STAT-USA ( 2004). *Market Research Report*. www. statusa.com

Thyngerson, K. J. (1995). *Management of Financial Institutions*, Harper Collins College Publishers

Treece, David J., Pisano G. and Shuen A. (1997): “Dynamic Capabilities and Strategic Management”, *Strategic Management Journal*, Vol.18:7,509-533

Yanfei Y.E. (2003) *The ways of dealing with non performing loans and its effects on macro statistics in China*. National Bureau Of Statistics, China

## **APPENDIX 1:**

### **BANKS OPERATING IN KENYA AS AT DECEMBER 2003**

- 1 African Banking Corporation Ltd.
- 2 Akiba Bank Ltd.
- 3 Bank of Baroda Ltd.
- 4 Bank of India Ltd.
- 5 Barclays Bank of Kenya Ltd.
- 6 CFC Bank Ltd.
- 7 Charterhouse Bank Ltd.
- 8 Chase Bank Ltd.
- 9 Citibank, N.A
- 10 City Finance Bank Ltd.
- 11 Commercial Bank of Africa Ltd.
- 12 Consolidated Bank of Kenya Ltd.
- 13 Co-operative Bank of Kenya Ltd.
- 14 Credit Agricole Indosuez
- 15 Credit Bank Ltd.
- 16 Daima Bank Ltd.
- 17 Delphis Bank Ltd.
- 18 Development Bank of Kenya Ltd.
- 19 Diamond Trust Bank Kenya Ltd.
- 20 Dubai Bank Ltd.
- 21 Equatorial Commercial Bank Ltd
- 22 Fidelity Commercial Bank Ltd.
- 23 Fina Bank Ltd.
- 24 First American Bank Ltd.
- 25 Giro Commercial Bank Ltd.
- 26 Guardian Bank Ltd
- 27 Habib AG Zurich
- 28 Habib Bank Ltd.
- 29 Imperial Bank Ltd.
- 30 Industrial Development Bank Ltd
- 31 Investment & Mortgages Bank Ltd
- 32 Kenya Commercial Bank Ltd
- 33 K-Rep Bank Ltd.
- 34 Middle East Bank of Kenya Ltd.
- 35 National Bank of Kenya Ltd.
- 36 National Industrial Credit Bank Ltd.
- 37 Paramount-Universal Bank Ltd.
- 38 Prime Bank Ltd.
- 39 Southern Credit Banking Corp. Ltd.
- 40 Stanbic Bank Kenya Ltd.
- 41 Standard Chartered Bank Ltd.
- 42 Transnational Bank Ltd.
- 43 Victoria Commercial Bank Ltd.

*Source: Bank Supervision Annual Report 2003*

## APPENDIX 2: QUESTIONNAIRE

University of Nairobi  
Faculty of Commerce  
P.O.Box 30197,  
Nairobi.

8<sup>th</sup> September 2005

Dear Sir/ Madam,

Ref: A Survey on the Strategic Responses of Commercial Banks in Kenya to the Challenge of Non Performing Loans

I am a student at the University of Nairobi pursuing a Master of Business Administration (MBA) Degree.

This research is part of the course requirement. Kindly spare some time to fill in the attached questionnaire accurately. The information being sought is strictly for academic purposes and all responses are strictly confidential.

A copy of the research report will be availed to you upon request.

Thank you for your co-operation

Yours Faithfully

**Regina Kanyiri**  
MBA Student  
University of Nairobi

---

## QUESTIONNAIRE:

---

### SECTION A: DEMOGRAPHIC PROFILE

#### 1) Respondents Profile:

1) Position held \_\_\_\_\_

2) Number of years in current position \_\_\_\_\_

3) Number of years in Banking profession \_\_\_\_\_

#### 2) Bank Profile:

1) Name of Bank \_\_\_\_\_

2) Ownership Private owned ( ) Public Owned ( )

Other ( ) please specify \_\_\_\_\_

3) Number of Branches \_\_\_\_\_

4) Year of Establishment in Kenya \_\_\_\_\_

### SECTION B: CHALLENGES

**To what extent do you face each of the following challenges due to Non Performing Loans ( NPL's)?**

*Use a 5-point scale where:*

1= Not at All 2= Little Extent 3=Moderate Extent 4= Great Extent 5= Very Great Extent

Challenges	1	2	3	4	5
1. NPL's project a negative picture on the bank's financial performance whenever financial statements are prepared.	0	0	0	0	0
2. NPL's lead to a decline in income meant for credit thereby reducing its adequacy.	0	0	0	0	0
3. NPL's pose a threat of failure on the bank	0	0	0	0	0
4. NPL's leading to the bank being over cautious in its lending practice	0	0	0	0	0
5. NPL's leading to high costs from debt restructuring	0	0	0	0	0
6. NPL's posing a financial stability risk	0	0	0	0	0

Other Challenges:

---

---

---

---

## SECTION C: STRATEGIC RESPONSES.

To what extent have you made changes involving each of the following to respond to the challenge of Non Performing Loans in your bank?

Use a 5 point scale where:

1= Not at All 2= Little Extent 3=Moderate Extent 4= Great Extent 5= Very Great Extent

<b>1. Changes (Strategic Responses)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1. Change in style of leadership	0	0	0	0	0
2. Introduction of new policies and procedures	0	0	0	0	0
3. Change in bank structure (restructuring)	0	0	0	0	0
4. Change in culture	0	0	0	0	0
5. Subjecting credit proposals to rigorous risk assessment	0	0	0	0	0
6. Establishment of fully pledged credit dept.	0	0	0	0	0
7. Setting minimum lending amounts so as to disqualify low quality credits	0	0	0	0	0
8. Use of Credit Reference Bureaus to guard against lending to already existing bad debtors.	0	0	0	0	0
9. Change in Technology to include more advanced financial analysis tools.	0	0	0	0	0
10. Credit checking from other lenders if borrower is multi banked	0	0	0	0	0
11. Strict monitoring of account operations to identify weaknesses early for corrective measures.	0	0	0	0	0
12. Review of financial information submitted by borrowers critically	0	0	0	0	0
13. Use of informal means to get additional information on borrowers	0	0	0	0	0
14. Restriction on the type and location of collateral placed for those that are easy to liquidate.	0	0	0	0	0
15. Vetting of credit proposals by senior management for objectivity	0	0	0	0	0
16. Avoiding lending to seasonal or non performing sectors	0	0	0	0	0

Other Changes (name the change and describe briefly in the space provided)

1. Change: \_\_\_\_\_  
Description: \_\_\_\_\_
2. Change: \_\_\_\_\_  
Description: \_\_\_\_\_
3. Change: \_\_\_\_\_  
Description: \_\_\_\_\_
4. Change: \_\_\_\_\_  
Description: \_\_\_\_\_

**SECTION D: ADEQUACY OF RESPONSES.**

**To what extent do you consider each of the following responses adequate in addressing the challenge and problems of Non Performing Loans in your bank?**

*Use a 5-point scale where:*

1= Not at All 2= to a small extent 3=Average extent 4= Great extent 5= Very Great Extent.

	1	2	3	4	5
1. Change in style of leadership	0	0	0	0	0
2. Introduction of new policies and procedures	0	0	0	0	0
3. Change in structure	0	0	0	0	0
4. Change in culture	0	0	0	0	0
5. Subjecting credit proposals to rigorous risk assessment	0	0	0	0	0
6. Establishment of fully pledged credit dept.	0	0	0	0	0
7. Setting minimum lending amounts so as to disqualify low quality credits	0	0	0	0	0
8. Use of Credit Reference Bureaus to guard against lending to already existing bad debtors.	0	0	0	0	0
9. Change in Technology to include more advanced financial analysis tools.	0	0	0	0	0
10. Credit checking from other lenders if borrower is multi banked	0	0	0	0	0

11 Strict monitoring of account operations to identify weaknesses early for corrective measures.	0 0 0 0 0
12. Review of financial information submitted by borrowers critically	0 0 0 0 0
13. Use of informal means to get additional information on borrowers	0 0 0 0 0
14. Restriction on the type and location of collateral placed for those that are easy to liquidate.	0 0 0 0 0
15 Vetting of credit proposals by senior management for objectivity	0 0 0 0 0
16. Avoiding lending to seasonal or non performing sectors	0 0 0 0 0

Thank you for your co-operation

---