

**CREDIT RISK MANAGEMENT PRACTICES, OWNERSHIP STRUCTURE AND
FINANCIAL PERFORMANCE OF TIER TWO AND THREE
COMMERCIAL BANKS IN KENYA**

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**A Research Thesis Submitted to the Board of Graduate Studies in Partial Fulfilment for
the Requirements for the conferment of the Degree of Master of Business Administration
(Finance Option) of the University of Kabianga**

UNIVERSITY OF KABIANGA

SEPTEMBER, 2025

DECLARATION AND APPROVAL

Declaration

I declare that this thesis is my original work and has not been presented before for the conferment of a degree or award of a diploma in this or any other institution

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DEDICATION

I dedicate this thesis to my beloved husband, Davis Cheruiyot for your unwavering love, support and believe, my son Nathaniel Kipruto Langat and my daughter Ivana Tania Cherop for their moral support.

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I am grateful for the amazing grace of God that has been bestowed upon me. I would like to express my sincere appreciation to the University of Kabianga for allowing me to pursue my master's degree course. Additionally, I would like to acknowledge all the lecturers at the institution and my supervisors, especially Dr. Penina Langat and Dr. Raymond Kemboi for taking time out of their busy schedules to read my thesis. Their inspirational guidance, support, and friendly encouragement motivated me throughout the writing of this thesis.

ABSTRACT

Commercial banks are key drivers of economic development worldwide. The sustainability of these banks, just like any other organization, depends on their financial performance. However, commercial banks' financial performance is inclined to the risk management practices they have adopted since any credit advancement to borrowers is always attached to some credit risk. There was need to assess the relationship between credit risk management practices, ownership structure and financial performance of tier two and three commercial banks in Kenya. Therefore, this study sought to fill the contextual and conceptual gaps in the literature by assessing the credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya. Specifically, the study evaluated the relationship between credit risk assessment, liquidity risk monitoring, credit risk mitigation practices, staff training, and the financial performance of tier-two and three commercial banks in Kenya. In addition, the study assessed the moderating effect of ownership structure on the relationship between credit risk management practices and the financial performance of tier-two and three commercial banks. A Cross-sectional research design was adopted with a target population of 312 employees drawn from the top management level of 30 tier-two and tier three commercial banks in Kenya. A sample of 175 participants was determined using the Yamane Taro formula and selected through a simple random sampling technique. Primary data was obtained using a structured questionnaire. The data collection instruments were subjected to construct, content, and face validity tests where an overall Cronbach's alpha coefficient of 0.852 was obtained and accepted. The study analyzed data quantitatively using descriptive statistics such as mean and standard deviation and inferential statistics involving regression and correlation analysis. The study findings were presented using tables. The findings revealed that credit risk mitigation ($r = 0.490, p < 0.05$), staff training ($r = 0.408, p < 0.05$), liquidity risk monitoring ($r = 0.231, p < 0.05$), and ownership structure ($r = 0.426, p < 0.05$) had a positive and significant relationship with financial performance, while credit risk assessment ($r = 0.057, p > 0.05$) had a positive but insignificant correlation with financial performance. Overall, the study found that credit risk management practices understudy explained 58.3% change in the financial performance of the tier two and three commercial banks. Further, the study established that ownership structure had a significant moderating effect on the relationship tier two and tier three commercial banks as between credit management practices and financial performance of tier two and tier three commercial banks as evidenced by the increase in the coefficient of determination from 58.3% to 61.1%. The study concluded that credit risk assessment, credit risk mitigation and staff training have significant relationship with financial performance. However, liquidity risk monitoring has an insignificant relationship with financial performance of the banks. The study recommends that commercial banks strengthen their credit risk assessment, liquidity risk monitoring, credit risk mitigation, and staff training practices while leveraging ownership structure to enhance financial performance. The study finding will be significant to scholars, regulators, policy makers the management of tier two and three commercial banks

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
NACOSTI	National Commission of Science, Technology and Innovation
NIM	Net Interest Margin
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Product and Service Solutions

OPERATIONAL DEFINITION OF TERMS

Credit risk management practices refer to the strategies, processes, and systems that financial institutions implement to identify, assess, monitor, and mitigate the risk of borrower default, ensuring the stability and profitability of the institution (Varde 2023). In this study, credit risk management practices refer to the specific mechanisms employed by tier II and III commercial banks in Kenya to manage credit risk. These include credit risk assessment, liquidity risk monitoring, credit risk mitigation practices, and staff training

Credit Risk Assessment

is the evaluation process to determine the likelihood of a borrower defaulting on their credit or loan obligation (Ekinici & Poyraz, 2019). In this study, credit risk assessment involves assessing the borrower's financial history, assets, income, credit score, and other parameters to determine the level of risk associated with offering credit

Liquidity

Monitoring

Risk

refers to the assessment and mitigation of the potential risk of failing to meet the banks' financial obligations as they become due (Ndum, 2021). In this study, liquidity risk monitoring refers to commercial banks' ability to convert their assets efficiently and effectively to meet their financial obligation. This was measured by setting appropriate liquidity

targets, assessing the sources of revenue, and complying with the regulatory frameworks.

Credit Risk Mitigation

are strategies adopted by commercial banks to reduce potential financial losses arising from credit defaults by borrowers (Noori, 2021). In this study, credit risk mitigation was measured by collateral reinforcement, restructuring of loans and credit diversification.

Staff Training

is the provision education, training, and development opportunities to commercial bank employees to improve their knowledge of risk management practices and enhance their ability to assess, identify, monitor, and control risks in the bank (Varde,2023). In this study, staff training involves educating bank personnel on loan approval processes and regulatory frameworks.

Ownership Structure

refers to the concentration of individuals holding equitable or legal interests in a business and who have the rights and duties to make decisions on behalf of stakeholders. (Boachie, 2023). In this study, ownership structure refers to the distribution of equity and voting rights in the bank, as measured by ownership concentration.

Financial Performance refers to the profitability or financial health of an organization (Iman, 2019). In this study, financial performance was assessed using Net Interest Margin and Return on Equity

Tier-three Commercial

Banks are smaller banks with a core capital of less than 1 Billion (CBK,2022). In Kenya, there are 21 tier 3 commercial banks that control a market share of 8.4%.

Tier-two Commercial

Banks are medium-sized commercial banks with a weighted index between 1% and 5%. (CBK,2022). These banks have a relatively large market share of 41.7%. There are nine commercial banks under this tier.

CHAPTER ONE

INTRODUCTION

1.1 Overview

This section presents the background of the study, the problem statement, the purpose of the study; discussed under the general and specific objectives, research hypotheses, justification of the study, the significance of the study, the scope of the study and limitations of the study. In addition, this section discusses the study's assumptions and possible factors that limited the researcher in carrying out the study.

1.2 Background of the Study

The banking sector plays a critical role in the economic development of a country by providing a range of financial services and products to individual customers or business entities globally (Boachie, 2023). Banks enhance a country's economic development by providing credit to borrowers for investment. Other services include offering overdrafts, short and long-term loans, issuing credit cards, and savings accounts (Hussain & Rasheed, 2022). The financial performance of commercial banks globally has posted inconsistent results due to macro challenges such as global economic imbalances, inefficient risk management practices and rapid changes in the business environment (Olson & Zoubi, 2017).

Efficient financial systems provide intermediation services by pooling together investors and savers who provide funds to be channeled to investment activities for interest, thus guaranteeing positive returns. Banks help in diversification, pooling of risks, encourage savings, and allocation of resources. Despite the positive contribution that financial

institutions have in the economic development of a country, commercial banks experience a myriad of challenges leading to the collapse of some banks that were very profitable at one point in time. Notably, Banco Espirito Santo commercial bank, one of Portugal's largest banks, collapsed in 2014 due to poor credit management practices; Cooperative Bank of the United Kingdom in 2013 and Punjab National Bank in 2018 both collapsed due to inadequate credit management policies (World Bank, 2019).

In Europe, financial performance of commercial banks is influenced by several factors including economic conditions, regulatory environment, and technological advancements. For instance, in France, BNP Paribas reported a 15% profit increase in the fourth quarter, driven by a 20% rise in corporate and institutional banking revenues (Ekinici & Poyraz 2019), highlighting the positive impact of effective investment banking strategies

In Germany, the financial sector has demonstrated resilience amid challenges such as the pandemic and geopolitical tensions. The International Monetary Fund's Financial System Stability Assessment indicates that German banks have maintained stability, though risks remain elevated due to factors like potential energy shortages and global economic uncertainties. In Italy, banks are exploring expansion strategies to enhance their financial performance. For example, ING Group is considering acquisitions in key European markets, including Italy, to increase its presence and leverage growth opportunities (International Monetary Fund [IMF], 2024).

Overall, European banks have faced challenges in recent years, including low interest rates, regulatory reforms, and increased competition from non-traditional financial institutions. Additionally, geopolitical uncertainties and the impact of global events such as Brexit have added to the complexity of the banking landscape. However, according to Ekinici and Poyraz

(2019), European banks have also shown resilience and adaptability, with many institutions focusing on effective credit risk management practices such as liquidity risk monitoring and credit risk assessment practices and staff retooling to enhance their financial stability.

The banking sector in Asia has experienced robust growth and transformation, driven by rapid economic expansion, demographic shifts, and technological advancements. Asian commercial banks especially in India, Indonesia, China and Bangladesh have capitalized on the region's dynamic markets and emerging middle class, expanding their customer base and diversifying revenue streams. For instance, Indian commercial banks have faced challenges with rising bad debts and weak credit growth. Major private banks have reported increases in loan defaults, particularly in unsecured loans like credit cards and personal loans. The Reserve Bank of India has maintained high interest rates to combat high inflation and slowdowns in consumption and credit growth. The government has revised its GDP growth forecast to 6.4% for the coming year (IMF, 2022).

Indonesia operates a dual banking system, with Islamic banking growing in significance. As of July 2023, Islamic banking assets accounted for 7.3% of total banking assets, with a year-on-year growth rate of 13.6%. The 2023 Law regarding Developing and Strengthening of the Financial Sector established a clear obligation for Islamic banks to comply with Shariah principles (IMF, 2024). Similarly, Chinese commercial banks have maintained an upward trend in profitability, achieving a cumulative net profit of RMB 2.3 trillion in 2022, a 5.4% year-on-year increase (Deloitte, 2023; World Bank, 2024). While the credit business has increased significantly, these banks have realized steady improvement in asset quality, continuously reduced non-performing loan ratios, increased liquidity coverage and capital adequacy ratios, and improved their capabilities in risk control.

However, challenges such as rising debt levels and non-performing assets have continued to affect these institutions leading to adoption of efficient and effective credit risk management practices (Noori 2021; Rehman, Muhammad, Sarwar, & Raz 2019). Notably, the situation in both Asia and Europe reflect isolated cases in developed and developing countries with higher GDP, and therefore the business environment may not be generalized to the developing countries with low GDP such as Kenya hence need for further studies.

Remarkably, over the last decade, commercial banks in Sub-Saharan Africa have posted positive financial performance with a return on assets of over 2%. This is significantly higher than in other parts of the world (Obiora, Zeng, Y, Liu, Adjei, & Csordas, 2022). The high returns and profitability can be attributed to the significant gap between the demand and supply of products and services rendered by commercial banks; this means that many customers are seeking financial services while few banks can offer those services. In addition, commercial banks have also invested in high-risk projects which have high returns.

However, inefficient credit risk management practices in some banks have led to a decline in the financial performance of the banks, where some of these banks have been placed under receivership. This includes UT Bank, Sovereign Bank, Capital Bank, and Beige Bank in Ghana between 2013 and 2019 (Von Tamakloe, Boateng, Mensah, & Maposa, 2023). In Nigeria, Skye Bank collapsed in 2018 (CBN, 2022), and Allied Bank was taken over by the Reserve Bank of Zimbabwe in 2020 due to poor credit risk management (Matika, 2023). In Tanzania, Covenant Bank for Women was put under receivership due to liquidity and capital adequacy issues while Efatha Bank, Meru Community Bank and Njombe Community Bank were put under receivership due to inability to maintain required capital levels (Temba,

Kasoga & Keregero, 2024). In Uganda the collapse of Crane bank which was significant in the banking industry was placed under receivership in 2016 (Kiggundu, 2023).

Finally, in Kenya, Chase Bank, Dubai Bank and Imperial Bank collapsed between 2015 and 2020 due to poor and fraudulent borrowing practices (CBK,2019).

According to Von-Tamakloe, *et al.*, (2023), the essential factors to consider in intermediation lending is the risk attached to the credit, which, if there is a default in loan repayment, can negatively affect the bank's performance. Commercial banks succeed to improve their financial performance when they adopt appropriate credit risk management practices. Isoh and Nchang (2020) argue that banks can only survive lending risks and enhance their financial performance if they develop strict credit risk management systems and drop bureaucratic tendencies where loan applicants are hindered from accessing credit at the right time, which can have a negative impact on their businesses.

The banking sector in Kenya has improved financial inclusion by creating financial products and services that are easily accessible to individuals, small and medium-sized enterprises (SMEs), and other organizations. This has helped boost economic growth and support people's livelihoods (Kenya Bankers Association, 2019). Despite these improvements, many financial institutions lack strong risk management frameworks and have inadequate systems for identifying, measuring, and mitigating risks, leading to poor financial performance. Karanja, Karuti, and Senaji (2022) highlighted that with better enforcement of regulatory frameworks, commercial banks can operate with greater financial stability. By improving the supervision of complex financial instruments and strengthening risk mitigation measures, banks can ensure better adherence to capital adequacy requirements for a more secure financial environment.

There are 38 commercial banks in Kenya, grouped into three tiers, and all are regulated by the Central Bank of Kenya (CBK). The CBK developed the tier system of classification to differentiate different banks based on the number of customer deposits, market share, and the bank's asset base. Tier 1 commercial banks comprise nine banks that control approximately 49.9% of the country's market share. Tier I commercial banks are large banks with a weighted index of 5% and above. A decline in the financial performance of these banks can be considered catastrophic as it can directly affect the country's financial sector; thus, the government always ensures that the banks remain stable and solvent at all times to avert financial crises. These banks include Standard Chartered, I & M Holdings, Equity, Cooperative, Kenya Commercial Bank, National Commercial Bank of Africa, Absa Bank, Standard Chartered Bank, Stanbic Bank and Diamond Trust Bank.

Tier II commercial banks are considered medium-sized lenders with a weighted index between 1% and 5%. These banks have a relatively large market share of 41.7%. There are nine commercial banks under this tier. Lastly, tier III commercial banks control a market share of 8.4%, and most banks in Kenya fall under this category. According to CBK (2015), the Commercial Bank of Africa lost tier I classification to CFC Stanbic due to a sharp drop in its market share. However, in 2019, the bank was moved to tier one after merging with NIC Bank to become the National Commercial Bank of Africa. The changes in the market share are usually caused by a decrease or increase in customer deposits; this often happens as a result of implementing marketing strategies aimed at improving customer deposits.

According to CBK's (2020) report, tier-two commercial banks posted a robust financial performance in terms of customer deposits and asset base growth. However, tier-one commercial banks experienced a decline in performance over the same period, attributed to a

drop in market share and customer deposits. On the other hand, tier-three banks also experienced a decline in performance with a drop in customer deposits and market share. This was attributed to a decline in customer confidence in tier 3 banks, and as a result, many customers closed their accounts. Lack of confidence among customers was fueled by speculations that more tier 3 banks would fall in relation to two banks placed under receivership.

Recently, three commercial banks in Kenya, one tier two and three tier three, were put under receivership after becoming insolvent and could not operate as they had not met the minimum liquidity ratios required by the CBK guidelines. These banks being put under receivership raised concern among stakeholders and customers who were worried about the deposits. Additionally, the fall of these banks also raised issues regarding the role of central banks as a regulatory body and the efficiency of the bank's credit risk management practices. However, the central banks have issued further regulations to control the banking sector in the country (CBK,2020).

1.2.1 Credit Risk Management Practices

Credit risk management practices are strategies adopted by commercial banks to manage credit and credit collection activities (Ali & Dhiman 2019). Effective credit risk management is essential for financial institutions to minimize the risks of bad debts and maintain a stable cash flow (Ekinci & Poyraz, 2019). Credit risk management in banks requires a proactive approach and constant monitoring to minimize the chances of having non-performing assets. Standard practices employed by financial institutions to manage credit differ depending on the management policies, financial framework, size of the institution, and regulatory framework (Noori, 2021). For this study, credit management practices will be measured by

credit risk assessment, liquidity risk monitoring, credit risk mitigation practices, and staff training.

Common credit risk management practices used by banks include setting credit monitoring policies, credit collection policies, credit limits, credit reporting, payment terms, credit appraisal, credit scoring, collateral management, credit diversification, loan restructuring, risk-based pricing, and compliance with regulatory frameworks. Findings from previous studies indicate that credit risk assessment, liquidity risk monitoring, credit risk mitigation practices, and staff training, along with prudent loan underwriting, debt recovery strategies, and stress testing, can be used to predict the financial performance of commercial banks. However, the extent to which each of these practices influences financial performance remains unclear (Ekinici & Poyraz, 2019; Ndum, 2021; Kai, 2021; Noori, 2021; Varde, 2023).

Credit risk assessment is critical in financial institutions such as banks as it helps manage an organization's credit portfolios. This process involves assessing the likelihood of a borrower defaulting on their credit or loan obligation (Nderitu, 2022). According to Ekinici and Poyraz (2019), risk assessment can be done by assessing the borrower's financial history, assets, income, credit score, and other parameters to determine the level of risk associated with offering them credit. It is paramount for any financial institution to carry out a background check on the client's income, expenditure patterns, and other financial obligations with other financial institutions before lending them money.

According to Nyebare, Obalade, and Muzindutsi (2023), commercial banks should conduct credit risk assessments to make informed lending decisions based on the determined potential credit risk factors. Nyebare *et al.* (2019) revealed that efficient credit risk assessment systems in agricultural, commercial banks in Ghana led to higher loan repayment rates, thus improving

the financial performance of the banks; on the contrary, Ekinci and Poyraz (2019) found a negative relationship between credit risk assessment and performance of banks in Turkey. Measures of credit risk assessment differ from one organization to another depending on the type of industry.

Commercial banks evaluate their liquidity ratios constantly to ensure they can always meet their financial obligations when they are due (Ndum, 2021). According to Kai (2021), commercial banks should be able to convert their assets, such as loans, efficiently to meet their financial obligation on time. Commercial banks can avert liquidity risks by setting appropriate liquidity targets, having sufficient funding sources, and enhancing compliance with the regulatory frameworks. Vellanita, Arimbawa, and Damayanti (2019) established that managing the Cash Reserve Ratio and Loan-to-Deposit ratio positively affected commercial banks' return on equity.

On the contrary, Sathyamoorthi, Mapharing, Mphoeng, and Dzimiri (2020) found that Cash management of Reserve Ratio and Loan-to-Deposit Ratios have no relationship with financial performance (ROA and ROE) of commercial banks in Nigeria; however, it was revealed that banks could minimize liquidity risks by ensuring compliance with central banks regulatory requirements, setting appropriate targets and having sufficient sources of finance in case the bank is faced with liquidity challenges.

Banks minimize risks associated with loan defaults by adopting various credit risk mitigation strategies. These strategies are adopted to minimize potential financial losses arising from credit defaults. According to Noori (2021), credit risks in commercial banks increase with a lack of efficient framework for determining the appropriate collateral for various credit products, poor assessment of creditworthy third-party guarantors, and lack of loan covenants.

In addition, Aigbomian and Akinlosot (2017) established that most commercial banks do not have an adequate credit diversification strategy, which could help the banks minimize the concentration risk by spreading the risk of credit across many sectors or borrowers. Rehman, Muhammad, Sarwar, and Raz (2019) found that credit risk mitigation strategies such as loan guarantees, collateralization, credit insurance, diversification, and loan covenants led to efficient credit recovery.

According to Noori (2021), commercial banks can effectively manage their credit risks through personnel training. This ensures that employees responsible for credit provision receive sufficient education, training, and development opportunities to improve their knowledge of the bank's risk management practices and enhance their ability to assess, identify, monitor, and control risks. Rehman *et al.* (2019) consider training a vital component of the risk management framework of commercial banks. It ensures employees have up-to-date product knowledge and the skills to identify and manage risks. Varde (2023) found that training on compliance, operational, market, and credit risks improves employees' efficiency and productivity, directly affecting the bank's financial performance. Pham (2021) found that training employees on risk management techniques such as risk modelling, scenario analysis, and stress testing significantly reduced risk uncertainties and had a significant relationship with the bank's performance. Mogga, Mwambia, and Kithinji (2018) and Karanja, Karuti, and Senaji (2022) also found a positive and significant relationship between staff training and the financial performance of banks in Kenya.

The current study assessed the relationship between credit risk management practices and the financial performance of tier two and three commercial banks in Kenya. Credit risk management was determined by credit risk assessment, liquidity risk monitoring, credit risk

mitigation practices and staff training. The financial performance of tier two and three commercial banks was measured using Net Interest Margin and return on Equity, while ownership structure was used as a moderator.

1.2.2 Ownership Structure

Ownership structure refers to the arrangement of ownership rights and control within an organization, determining how equity is distributed among shareholders and who holds decision-making authority (Boachie, 2023). Ownership structure in commercial banks plays a crucial role in decision-making. Examining the bank's ownership structure reveals the bank's equity distribution and, thus, the identity of its owners and their voting rights (Alkurdi, Hamad, Thneibat & Elmarzouky, 2021). The ownership structures of commercial banks greatly influence corporate strategy, governance, and performance. Research has utilized corporate ownership as a crucial factor in evaluating organizational governance. Governance challenges in commercial banks encompass agency problems, insufficient protection of customer savings, and transparency issues in management (Sakawa & Watanabe, 2020).

Hussain and Rasheed (2022) found that different categories of shareholders influence the financial performance of banks due to the differences in voting rights in making and enforcing corporate decisions. Therefore, with the increase in financial distress among most financial institutions, there is a need to relook at the relationship between ownership structure and financial performance in commercial banks. There is a need to separate ownership from management and task managers when making all major decisions regarding internal bank operations, including credit risk management.

According to Alkurdi et al. (2021), ownership structures in commercial banks can be classified into State ownership, managerial ownership, institutional ownership, and foreign ownership.

As indicated by Alkurdi et al. (2021), Hussain and Rasheed (2022), and Boachie (2023), Different ownership structures have varying effects on the financial performance of banks; for instance, the Management of state-owned banks is often ineffective due to the political interference and weaker monitoring efforts by the regulator resulting to poor financial performance. Managerial ownership, which is determined by the number of shares owned by the bank's executives, is hypothesized to reduce agency problems and thus increase the financial performance of the bank (Abdullah, 2018).

Foreign ownership influences better decision-making, more efficiency in management, and a high technical capacity for monitoring and accountability. Institutional ownership, which is a situation where few large individual shareholders make major decisions due to their voting rights at the expense of minority shareholders, can make a decision that favors few individuals.

Previous studies have established inconsistent results as to whether ownership structure, one of the elements of corporate governance, can moderate the relationship between credit risk management practices and the financial performance of commercial banks in Kenya. For instance, a study to examine the moderating role of ownership structure and the relationship between credit risk management, liquidity management, capital adequacy, and the economic performance of commercial banks Hussain and Rasheed (2022) revealed that ownership structure does not have a moderating role in credit risk management, liquidity management, and capital adequacy in the financial performance of commercial banks.

A study by Boachie (2023) on the moderating effect of ownership structure on the relationship between corporate governance and banks' financial performance established that foreign ownership structure had a moderate effect between the independent and dependent variables. This study was also supported by Chol, Nthambi, and Kamau's (2020) findings that ownership

structure had a moderating effect on the relationship between credit risk management and commercial banks' financial performance in South Sudan, where the findings indicated that ownership structure statistically moderated on commercial banks financial performance.

A study by Kiprop (2018) on the effects of ownership structure on the relationship between credit risk management strategies and financial institutions' performance in Kenya established that ownership structure did not significantly moderate the relationship between monitoring, risk identification, and financial performance of financial institutions in Kenya. Based on the inconsistent findings of various studies due to different research methods adopted. The study assessed the moderating effect of ownership structure on the relationship between credit risk management practices and the financial performance of tier-two and tierthree commercial banks in Kenya. Ownership structure was measured by government, foreign, institutional, and individual ownership

1.2.3 Financial Performance

Financial performance refers to evaluating a commercial bank's overall profitability, solvency, efficiency, and liquidity based on various financial indicators and metrics (Hussain & Rasheed, 2022). A bank's financial performance is of great concern to stakeholders, including managers, owners of the bank, creditors, regulators, shareholders, depositors, debtors, and the government (Karanja, Karuti, &Senaji, 2022). Measuring the bank's financial performance provides information that can serve as a yardstick or a guide for decision-making by stakeholders. It provides investors with information that enables them to decide whether to invest and to what extent they can invest in the bank. The management can use financial performance measures to develop policies to improve financing and financing methods.

According to Iman (2019), a commercial bank's financial performance can be measured by two dimensions ranging from external to internal factors, but this will vary between regions and countries. However, past studies have indicated that Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), efficiency ratios, liquidity rates, and Tobin's Q are the common indicators adopted in measuring a bank's financial performance (Juma, Odunga, Atheru & Nzai, 2018). Tobin's Q, which is the ratio of a firm's market value to the replacement cost of its assets, is increasingly used as a measure of financial performance because it captures both market-based and accounting-based performance indicators, providing a broader perspective on a bank's valuation and efficiency.

A study conducted in the Southeast Asian Nations region by Lew and Lau (2022) examined the relationship between credit risk management and commercial banks' financial performance and adopted Return on Asset and Return on Equity as the measures of financial performance. Ekinici and Poyraz (2019) measured financial performance using ROE and ROA. The study indicated that the ROE and ROA of commercial banks were influenced by credit risk management practices. Sathyamoorthi, Mapharing, Mphoeng, and Dzimiri (2020) used Return on Asset and Return on Equity to measure financial performance in a study focusing on the role of financial risk practices on the financial performance of Botswana commercial banks. Finally, Wanjohi and Baimwera's (2016) risk management practices had a significant relationship with Return on assets. Several studies have shown inconsistent results in the financial performance of commercial banks when measured by Return on Equity and Return on Assets. This study measured financial performance using Net Interest Margin and Return on Equity.

1.3 Statement of the Problem

Commercial banks are key drivers of the economic development of a country. They provide financial services and products that can be used to grow the economy and enhance livelihood. Therefore, the financial performance of commercial banks is essential for the stability and growth of the broader economy. Effective credit risk management should improve the financial performance of banks by reducing non-performing loans, maintaining liquidity, and promoting sound financial decision-making. Given their relatively smaller market share, tier II and III commercial banks in Kenya should adopt strong credit risk management strategies to become more competitive and achieve the best financial results. However, as reported by the Central Bank of Kenya, the financial performance of these banks has been declining over the last decade, with at least three banks being placed under receivership due to financial distress. This decline could be attributed to high levels of nonperforming loans (NPLs), weak governance structures, increased competition from larger banks, and macroeconomic shocks such as inflation and currency depreciation. Furthermore, poor risk assessment frameworks and inefficiencies in credit monitoring may have exacerbated financial instability among these banks. In response, several measures through legislation and amendments to existing laws and policies have been put in place to enhance the financial performance of banks. Despite these measures, inefficiencies in credit risk management practices have persisted, leading to inefficiencies, increased risk exposure and ultimately, a decline in their financial performance. Due to limited studies, it is uncertain if ownership structure can influence the effectiveness of credit risk management in tier two and tier three commercial banks, thereby improving their financial performance. On this basis, the study sought to assess the relationship between credit risk management practices, ownership structure and financial performance of tier one and tier

two commercial banks. The findings will be valuable to banking regulators, policymakers, investors, and financial institutions.

1.4 General Objective of the Study

The main objective of the study was to assess the relationship between credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya.

1.5 Specific Objectives of the Study

The study was guided by the following objectives

- i. To examine the relationship between the credit risk assessment and the financial performance of tier-two and three commercial banks in Kenya
- ii. To assess the relationship between liquidity risk monitoring and the financial performance of tier-two and three commercial banks in Kenya
- iii. To assess the relationship between credit risk mitigation practices and the financial performance of tier-two and three commercial banks in Kenya
- iv. To examine the relationship between staff training and the financial performance of tier-two and three commercial banks in Kenya
- v. To establish the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance of tier-two and three commercial banks in Kenya.

1.6 Hypotheses of the Study

The following hypotheses were tested during the study:

- H₀₁:** There is no statistical significant relationship between the credit risk assessment and financial performance of tier two and three commercial banks in Kenya.

H₀₂:

There is no statistical significant relationship between liquidity risk monitoring and financial performance of tier two and three commercial banks in Kenya.

H₀₃:

There is no statistical significant relationship between credit risk mitigation practices and financial performance of tier two and three commercial banks in Kenya.

H₀₄: There is no statistical significant relationship between Staff training and financial performance of tier two and three commercial banks in Kenya.

H₀₅: Ownership structure does not significantly moderate the relationship between credit risk management practices and financial performance of tier two and three commercial banks in Kenya.

1.7 Justification of the Study

The CBK regulates commercial banks and thus operates under strict guidelines. To protect customers from exploitation and to ensure that these financial institutions operate competitively in a highly flooded market, the central banks monitor the annual performance of the banks and give a report with details on areas of improvement. Despite the calls for compliance with the set guidelines, commercial banks have been found to breach these guidelines and codes of ethics, leading to losses. Over the last five years, the central bank placed three major banks under receivership with customers' deposits at stake. The primary reason for putting the banks under receivership was poor liquidity, which made them unable to meet their financial obligation.

Tier III commercial banks have the largest market share in the banking industry. The government will support them to ensure they remain financially stable and prevent a financial crisis in the county. On the other hand, Tier II commercial banks have developed robust

marketing strategies to attract more customers and increase their market share quickly. However, they are doing dismally financially, their financial growth is very slow. Tier II and III commercial banks face challenges affecting their growth, such as a lack of customer confidence and trust due to the collapsed banks that fall under the same category. As a result, Tier One commercial banks have continued to perform better, with an increased asset base and market share, while their counterparts perform poorly. This has raised concerns among financial experts and scholars about the sustainability of the growth rate experienced by Tier Two and Three commercial banks. Therefore, the study assessed the credit risk management practices, ownership structure, and financial performance of Tier II and III commercial banks in Kenya.

1.8 Significance of the Study

The findings from this study were significant to several stakeholders. The management of commercial banks benefited from the findings as they helped the firms in the industry to structure or restructure their credit risk management policies and guidelines and review their operations to develop better mechanisms of dealing with credit systems. The findings benefited policymakers and regulators, such as the central bank of Kenya, to develop better policies and regulatory frameworks for the sector to make it competitive and minimize risks of losses arising from non-performing assets.

From the theoretical perspective, the study provided a clear and comprehensive framework for assessing the changes in the relationship between credit risk management and financial performance. Researchers and academicians used the study's findings as a basis for furthering research in the areas that the study recommended and that were found to be unique. Scholars used the empirical literature in this study for further studies. In addition, academicians and

financial professionals used the study to enhance the body of knowledge in finance and help bridge the existing gaps in the study of credit risk management practices.

1.9 Scope of the Study

The main focus of the study was to assess the credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya. The study was limited to assessing the relationship between credit risk assessment, liquidity risk monitoring, risk mitigation practices, staff training, and financial performance of the banks. The unit of analysis for the study was 30 tier-two and three commercial banks that were operational during the financial year 2021/2022 in Kenya. During the study, the financial performance of these banks was examined for five years (2017-2022). This period was ideal because it incorporated the pre and post Covid-19 period. The study was carried out between January and October 2024

1.10 Limitations of the Study

One major limitation encountered when carrying out the study was access to the information. Due to the sensitive nature of the required information, the respondents were free to share it with third parties. However, to overcome this limitation, the researcher sought audience with the bank management, presented the clearance letter from the university and other necessary permits to prove that the study was being carried for academic purposes only. In addition, the respondents were asked not to indicate their names in the research instrument so their identities are not revealed.

1.11 Assumptions of the Study

The study was carried out assuming that all the tier two and three commercial banks have in place all four credit management practices under consideration by this study. Furthermore, the research was carried out assuming the respondents can provide pertinent information to help carry out the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section presents the theoretical framework, empirical review, conceptual framework and identification of knowledge gaps.

2.2 Review of Related Literature

The study reviewed past studies, journals, conference papers, and published data on the relationship between credit risk management practices and the financial performance of commercial banks to establish a knowledge gap. In addition, a review of related literature on the moderating effect of ownership structure on the relationship between credit risk management practices and the financial performance of commercial banks was carried out.

2.2.1 Credit Risk Assessment and Financial Performance

Credit risk assessment entails assessing a customer's probability of defaulting payment before advancing credit to them. Financial institutions examine their clients' creditworthiness by examining their income levels, credit scores, payment history of past loans and overdrafts, and assessing the value of the given collateral (Nderitu, 2022). According to Ekinci and Poyraz (2019), credit risk assessment is the estimation of the probability of a loss occurring due to the failure of the customer to repay the loan. Therefore, credit risk assessment can be described as assessing the borrower's ability to repay a debt per the bank's original terms and conditions. Assessing the credit risks, lenders consider the capacity to repay, associated collateral, capital, loan conditions, and credit history.

Ekinci and Poyraz (2019) sought to examine the impact of credit risk assessment on deposit banks' financial performance in Turkey. The study was quantitative and adopted a descriptive approach. The sample size consisted of 26 deposit banks in Turkey between the period 2005 to 2017. Financial statements, annual reports, and statistical reports provided secondary data. Panel data analysis was employed to analyze the data. Financial performance was measured using Return on Equity and Return on Asset. The data obtained revealed that credit score assessment had a negative relationship with Return on Equity and Return on Asset. The study

mainly focused on commercial banks in general, while the current study focused on tier-two and tier-three commercial banks

Muzindutsi, Nyebare, and Obalade, (2023) sought to assess the effectiveness of credit risk management strategies on the financial performance of agricultural financing commercial banks in Ghana. The study adopted a mixed research technique, and a sample size of 19 respondents was used, where 10 respondents represented credit managers and 9 were farmers. The interview schedule and questionnaire were used to collect primary data, while secondary data was collected from websites and published financial statement. Results from Qualitative data analysis and content analysis indicated that collateral valuation had a positive and insignificant effect on financial performance. The study further revealed that commercial banks in Ghana lacked specific policies that guide their daily operations. Notably, the reviewed study focused on the financial performance of agricultural financing commercial banks in Ghana, while this study focused on tier two and tier three commercial banks in Kenya.

Mogga, Mwambia, and Kithinji (2018) assessed the impact of credit management practices on South Sudan's commercial banks' performance. The independent variables included risk analysis and assessment, risk monitoring process, credit approval, and risk identifications. The study was anchored on information theory, arbitrage pricing theory and portfolio theory. A descriptive research design was employed with a sample size of 40 respondents picked through a stratified sampling technique from a target population of 80. A structured questionnaire was used to obtain primary data. Descriptive and inferential statistics were considered for data analysis, where the output affirmed that loan approval and risk monitoring had a significant effect on the financial performance of commercial banks.

Wachira (2017) studied the effect of credit risk assessment on commercial banks' performance in Nyeri County. The study mainly focused on credit scoring evaluation, written credit policies, and customer payback history. A descriptive research design was adopted, and the study used a census with 86 participants involving credit officers, branch managers, and credit managers. A structured questionnaire was used to collect primary data, which was later analyzed using descriptive statistics. The findings showed that written credit policies had a strong effect on commercial banks' performance. The credit scoring evaluation and customer payback history indicated a moderate and significant effect on the performance of commercial banks. The study concluded that commercial banks need to evaluate customer credit scores and payback history accurately. It can be noted that the reviewed study adopted a descriptive research design, while this study relied on a crosssectional research design that made it possible to test research hypotheses.

Nderitu (2022) examined the effects of credit risk assessment on DT Sacco's financial performance in Mombasa County, Kenya. The variables of the study were anchored on operational risk theory, liquidity preference theory and financial intermediation theory. A descriptive research design was used, and a sample size of 49 respondents was obtained from a target population of 55 employees drawn from 5 DT Saccos in Mombasa County. Both primary and secondary data were collected and analyzed using descriptive and inferential statistics. The findings showed that credit score assessment and payment history positively and significantly affected the financial performance of DT Saccos. The study concluded that financial institutions need to assess the client's payment history, assess the credit score, and do collateral valuation before credit approval. This study was in DT Sacco, while the current research focused on tier-two and three commercial banks.

Various methodologies were utilized in the reviewed studies. Ekinci and Poyraz (2019) examined 26 deposit banks and relied on secondary data. Nyebare, Obalade, and Muzindutsi (2023) conducted a small-scale study with a sample size of 19 respondents, which limits generalization. Meanwhile, Nderitu (2022) conducted research in 5 DT Saccos located in Mombasa County. This study aimed to fill the gaps in context and concept by examining 36 tier-two and three commercial banks and using mixed research methods. For this study, credit risk assessment will be indicated by income, credit score assessment, collateral valuation and payment history.

2.2.2 Liquidity Risk Monitoring and Financial Performance

Liquidity risk monitoring refers to assessing and managing the potential risk of failing to meet the banks' financial obligations as they become due. Liquidity risk monitoring refers to commercial banks' ability to convert their assets efficiently and effectively to meet their financial obligation (Sathyamoorthi, Mapharing, Mphoeng, & Dzimir, 2020). This is done through setting appropriate liquidity targets, having sufficient sources of funding, and compliance with the regulatory frameworks. According to Ndum (2021), commercial banks can mitigate and manage liquidity risks by developing contingency plans to avert potential liquidity deficits, frequently assessing the bank's liquidity positions, and examining the potential impact of different stress situations on the bank's liquidity. Kai (2021) asserts that commercial banks minimize liquidity risks by ensuring compliance with central banks' regulatory requirements, setting appropriate targets, and having sufficient sources of finance in case the bank faces liquidity challenges.

Ali and Dhiman (2019) studied the effect of credit risk practices on public and commercial banks' profitability in India. The study used a quantitative approach, and 10 public banks were

selected from 27 commercial banks in India. Secondary data was obtained from websites and financial statements between 2010 and 2017 and analyzed using panel regression models. The result indicated that the ratio of Loan to deposit and ratio of capital adequacy had a positive and significant effect on public commercial banks' profitability. The study focused on public commercial banks and relied on secondary data. In contrast, this research focused on tier-two and three commercial banks and relied on primary data.

Vellanita, Arimbawa, and Damayanti (2019) examined the relationship between Loan to deposit ratio, Capital Adequacy Ratio, Non-performing Loans, and Return on Equity (ROE) at Pt. Bank in Central Asia. The study adopted a quantitative research design where the sample size was 15 respondents. The bank's financial statements between the years 2014 and 2018 and the bank's documentation and library were used to provide secondary data. Inferential and descriptive statistics were used to analyze the data, with the results indicating a significant relationship between capital adequacy ratio and non-performing loans and Return on Equity (financial performance). Further, the results showed an insignificant relationship between the loan-to-deposit ratio and return on equity. They used only 15 respondents, which is a small number that could not be relied on for generalization; however, the current study increased the sample size to 180, which could help generalize the findings.

Ndum (2021) examined the impact of liquidity risk practices on the financial performance of commercial banks in Nigeria. The study used ex post facto design and focused on cash and deposit ratio as the independent variables while non-performing loans and net operating profit margin as the indicators measuring the dependent variable. The study period was between 2010 to 2019 and was anchored on Modern Portfolio Theory (MPT). Ordinary least square techniques were used to execute model estimation. It was found that cash had a positive impact

on banks' financial performance because it helped maintain optional levels, thus reducing cash balance levels. This also increased the clients' deposit base, where the products were accessible to lower-income class clients. The study adopted an ex-post factor research design, while this study adopted a cross-sectional one.

Sathyamoorthi *et al.* (2020) conducted a study focusing on the role of financial risk practices on the financial performance of Botswana commercial banks. The study used a loan-to-deposit ratio, total debt-to-total assets, and interest rates as dimensions of financial risk management, while ROA and ROE were used to determine financial performance. The study was anchored on Shiftability Theory of Liquidity and finance distress theory. A descriptive research design was employed where secondary data was obtained between 2011 and 2018 through panel data methodology and a financial statistics database. There were 96 observations involved from 10 commercial banks. Correlation, regression analysis, and descriptive statistics were adopted to analyze the data. The results revealed that the loan-to-deposit ratio had a negative and significantly affected return on equity and return on the asset; however, the total debt-to-total asset had a negative and insignificant effect on return on asset. The study used descriptive research design, the current study used correlational research design. In addition, this study was not anchored on any theory, however the current study was anchored on credit risk theory and theory of financial distress.

Kai (2021) sought to determine the influence of liquidity risk monitoring on teachers' deposit-taking Saccos' financial performance in Kenya. A survey and descriptive research design were employed, and the census was adopted due to a small target population. The study used the size of the DT Sacco as a moderator. Secondary data was obtained using data capture forms for independent, moderator, and independent variables. Descriptive statistics and inferential

statistics were used to analyze the collected data. The analyzed data revealed that total deposits, cash core deposits, and cash reserve indicated an insignificant influence on teachers' deposits, taking Sacco's financial performance. This study used the size of the DT Sacco as a moderator, while the current study adopted an ownership structure as a moderator.

Amoo, Rambo and Mbugua (2023) examined the relationship between liquidity risk management and the performance of real estate construction projects in Busia County, Kenya. The study adopted a descriptive research design. The independent variables of the study were the cash adequacy ratio and cash reserve ratio. The variables of the study were anchored on credit risk theory. Data was obtained from 166 real estate entrepreneurs and 1664 tenants using a structured questionnaire and analyzed using correlation and linear regression models. The findings revealed that liquidity risk management practices had a positive significant correlation with the performance of real estate construction projects. It can be noted that the reviewed study adopted a descriptive research design and was conducted in the real estate sector. This study was carried out in the banking sector.

Abuga, Wamugo and Makori (2023) assessed the impact of liquidity capacity on the financial performance of commercial banks in Kenya. Financial performance was measured by return on assets and return on equity, while liquidity capacity was measured by provision for non-performing, liquidity coverage, net stable funding and liquidity gap. The study relied on panel data collected from 42 commercial banks between 2012 and 2018 and was anchored on Anticipated Income Theory and Liquidity Preference Theory. Data was analyzed descriptively using frequencies and means. Panel regression analysis was used to assess the nature of the relationship between the study variables. The findings revealed that liquidity gap, non-performing loans, and the provision of non-performing loans had a negative impact on

financial performance, while liquidity coverage and net stable funding had a significant positive impact on performance. This study, however, focused on all 42 commercial banks in Kenya, while the current research focused on tier III and tier II Commercial Banks in Kenya. From the reviewed studies, it can be established that the inconsistency in the research findings can be explained by the context in which they were carried out. For instance, Ali and Dhiman (2019) and Vellanita, Arimbawa, and Damayanti (2019) studied India and Central Asia using non-performing loans, capital adequacy, liquidity, management, earnings, and asset quality ratios. Indicators that are different from the ones that this study used. In addition, Ndum (2021) used an ex post facto design, while Sathyamoorthi *et al.* (2020) used a descriptive research design. The current study used a correlation research design. Liquidity risk will be indicated by cash reserve ratio, loan-to-deposit ratio and cash adequacy ratio.

2.2.3 Credit Risk Mitigation and Financial Performance

Credit risk mitigation involves lenders minimizing risks of losing debt or loans due to borrowers who may be individuals or companies defaulting on the principal payments and interest (Noori, 2021). According to Rehman *et al.*, (2019), credit risk mitigation encompasses strategies adopted by commercial banks to reduce potential financial losses arising from credit defaults by borrowers. It is notable that credit risks in commercial banks increase with a lack of efficient framework for determining the appropriate collateral for various credit products, poor assessment of creditworthy third-party guarantors, and lack of loan covenants.

Noori (2021) explored the effect of risk mitigation on commercial banks' financial performance in Malaysia. A descriptive and explanatory survey design was adopted, and Krejcie and Morgan's (1970) formula was used to determine the sample size of 140 respondents who were picked from 26 commercial banks. Questionnaires, interviews, and a

website were used to collect data. Data were analyzed descriptively and inferentially, where the findings indicated that collateral reinforcement, credit risk, and guarantees had a positive and significant relationship with financial and commercial banks in Malaysia. The study used collateral reinforcement, credit risk, and guarantee as indicators determining credit risk mitigation, while this research used collateral reinforcement, loan restructuring, and credit diversification as the indicators of credit risk mitigation.

Rehman *et al.*, (2019) examined the effect of risk mitigation strategies on credit risks faced by Balochistan commercial banks in Pakistan. The study used an exploratory research design, and data were obtained from 250 respondents who were further administered with a structured questionnaire. Multiple linear regression analysis was adopted for data analysis. It was revealed that credit diversification positively and significantly affected commercial banks' performance. However, it is noted that the reviewed study relied on an exploratory research design, while the current study used a cross-sectional research design.

Aigbomian and Akinlosot (2017) studied the role of credit risk mitigation practices on the profitability of deposit-taking banks in Edo State, Nigeria. A descriptive approach, and 150 bankers was used as a sample size, selected from 9 banks through a stratified and simple random sampling technique. Secondary data was obtained through bankers' annual financial statements, while primary data was collected through administering closed and open-ended questionnaires. The obtained data were analyzed using both descriptive and inferential statistics. Bivariate Pearson product-moment correlation was employed to test hypotheses. The study findings showed that credit derivatives had a positive and insignificant effect on the profitability of deposit-taking banks. The study was conducted in deposit-taking banks in Edo

State, Nigeria, whereas the current study was conducted in tier t and three commercial banks in Kenya.

Wanjohi and Baimwera (2016) analyzed credit risk mitigation approaches to commercial banks' profitability in Kenya. The predictor variables in this study were credit restructuring and collateral enforcement while financial performance was measured by return on assets. The variables of the study were anchored on liquidity preference theory and portfolio theory of investment. A descriptive research design was used in this study, with a sample size of 86 respondents purposively selected from 43 commercial banks. Secondary data was collected using a closed-ended structured questionnaire, and both descriptive and inferential statistics were used for analysis. Multiple regression analysis was also conducted to determine the relationship between independent and dependent variables. The study results revealed that credit restructuring and collateral enforcement indicated a positive and significant relationship with Return on Assets. The study used return on asset as an indicator of profitability, while the current study used net interest margin and return on equity to measure the financial performance of tier-two and three of commercial banks in Kenya.

Gichuki (2023) examined the relationship between innovative credit management practices and the financial performance of Saccos in Nyeri Central sub-county, Kenya. The innovative credit strategies examined include credit appraisals, delinquency management, credit risk controls and collection policy. The financial performance of the Saccos was measured by return on investment. The study adopted a census technique where all the 15 Saccos in the region were considered for the study. Data was obtained from credit managers, chief executive officers and executive board members using questionnaires. Secondary data was obtained from the financial statements. Linear regression was done to measure the relationship between

the variables. The findings revealed that credit appraisals, delinquency management, credit risk controls and collection policy had a significant and positive relationship with the financial performance of the Saccos as indicated by the coefficient of determination of 81.50%. However, the study targeted Saccos and this research was conducted in tier-two and three commercial banks. For the current study, credit risk mitigation variable was indicated by collateral enforcement, loans restructuring, credit diversification and credit insurance policy

2.2.4 Staff Training and Financial Performance

Staff training provides employees with education and development opportunities to improve their knowledge of risk management practices and enhance their ability to assess, identify, monitor, and control risks in the bank. Rehman, Muhammad, Sarwar, and Raz (2019) argue that employee training is a key component of the risk management framework of commercial banks as it ensures that employees have the up-to-date product knowledge and requisite skills necessary for identifying and managing risks. According to Mogga, Mwambia, and Kithinji, training in areas such as compliance, operational, market, credit, and other specific risk management techniques is meant to improve employees' efficiency and productivity. Varde (2023) found that training employees on risk management techniques such as risk modelling, scenario analysis, and stress testing reduced risk uncertainties significantly.

Pham (2021) sought to determine how employee training characteristics affected credit management and the financial performance of banks in Vietnam. The study adopted a Bayesian approach, using 30 banks listed on the Vietnam stock exchange. Secondary data was collected from the financial statements and analyzed using the Bayesian multi-linear regression method. The study results showed that risk assessment positively affected banks' financial performance, while information and loan communication negatively affected banks'

performance. The study was conducted using the Bayesian approach and focused on listed banks. On the other hand, the current study used a correctional research design and focus on both listed and non-listed tier two and three commercial banks.

Isoh and Nchang (2020) examined the effectiveness of operational risk practices on selected commercial banks' performance in Cameroon. The independent study variables included employee training and reporting, internal operational risk management practices, and risk monitoring and controlling. The study used a quantitative study design, and National Financial Credit Bank was used as a case study. A structured questionnaire was used to collect primary data from 250 employees who were selected using a purposeful sampling technique. Structural equation modelling was used to analyze the data, which revealed that employee training and reporting on regulatory compliance was insignificant to the bank's financial performance. At the same time, other indicators moderately affected the performance. The study recommended that there was a need for banks to encourage employees to equip themselves with knowledge of regulatory compliance through attending seminars and conferences. This eliminated irregularities that may be reported due to failure or lack of following regulatory compliance. This case study focused only on one bank, and the result may not represent the results for other banks. However, the current study used all commercial banks to widen the scope, and the findings may be generalized to represent other banks.

Mogga, *et al.*, (2018) assessed the impact of credit management practices on South Sudan's commercial banks' performance. The independent variables included risk analysis and assessment, risk monitoring process, credit approval, staff training, and risk identifications. A descriptive research design was employed with a sample size of 40 respondents picked through a stratified sampling technique from a target population of 80. A structured

questionnaire was used to obtain primary data. Descriptive and inferential statistics were considered for data analysis, where the study findings revealed that most commercial banks in South Sudan considered credit risk management as part of credit risk management, which positively influenced the commercial bank's financial performance. Risk identification was found to have an insignificant impact on financial performance. Staff training, risk analysis and appraisal had an insignificant relationship with financial performance. Further, risk monitoring had a positive and significant impact on financial performance. It was concluded that commercial bank management should enhance their workforce capability through training on risk analysis and assessment, loan approval and risk monitoring, and risk identification. The study was conducted in South Sudan, which is economically ranked below Kenya, while the current research was conducted in Kenya.

Kiplagat and Kalui (2020) studied prudential regulations on commercial banks' financial performance in Kenya. The Capital Buffer Theory and Liquidity Management Preference Theory were used to support the study variables. The study employed a correlational design and adopted a sample of 43 commercial banks. Secondary data was obtained from annual financial records and yearly regulatory reports. Multiple linear regression models were adopted to determine the linear relationship between the variables. The results revealed that employees' knowledge of prudential regulations through regular training programs had a positive and significant relationship with the financial performance of commercial banks. It was concluded that employees need to train frequently on prudential regulations to continue boosting the bank's financial performance. The study comprised commercial banks, while the current research specifically focused on tier-two commercial banks in Kenya.

Karanja, *et al.*, (2022) sought to determine the effects of training on commercial banks' lending performance in Kenya. Theory of standard lending was used to support the variables. The study used a descriptive research design where 42 banks were used to collect primary data. The study used logistic regression to measure the parameters and found that risk assessment, credit policies, and guidelines had a significant and positive effect on the lending performance of commercial banks. It concluded that well-educated credit officers were the main reason for increased commercial banks' lending performance. Notably, the reviewed study used lending performance as the independent variable. This research used financial performance as the dependent variable. In the current study, staff training variable was measured by loan approval process, regulatory compliance and credit recovery.

2.2.5 Credit Risk Management Practices and Financial Performance

Hussain and Rasheed (2022) sought to determine the effect of credit management, liquidity management, and capital adequacy on the economic performance of commercial banks with a moderating role of ownership structure. The study adopted qualitative and quantitative research designs. Annual financial statements between 2012 and 2021 were retrieved from 15 commercial banks in order to provide secondary data. Descriptive statistics and unit roots tests were used to analyze the data; correlation regression analysis were used to test the study hypotheses. The study indicated that ownership structure did not have any moderating role in credit management, liquidity management, and capital adequacy on the economic performance of commercial banks. In conclusion, the ownership structure is not a vital indicator of a bank's financial performance.

Lew and Lau (2022) assessed the relationship between credit risk management and commercial banks' financial performance in the Southeast Asian Nations region. The study

used 113 banks picked from Vietnam, Thailand, Malaysia, Singapore and the Philippines. Nonperforming loans, Loan-to-deposit ratio, and capital adequacy were used to determine credit risk management practices, while Return on Asset and Return on Equity were used to measure the financial performance of the commercial banks. It was discovered that return on Asset and Return on Equity was significantly influenced by all three metrics.

Kalu, Shieler and Amu (2018) conducted a study on the role of credit risk management on micro-financial institutions' financial performance in Uganda. The specific objectives of the study included determining the relationship that existed between credit risk identification, appraisal, monitoring, and mitigation of financial performance. The study used a descriptive research design where 60 respondents represented a sample size. Due to a small target population, a census survey technique was employed. The questionnaire was used to collect primary data, whereas a linear correlation coefficient was used to analyze the data. This was used to indicate the nature of the relationship between independent variables and dependent variables. It was established that credit risk identification and credit risk appraisal had a strong and positive relationship with micro-financial institutions' financial performance. Credit risk monitoring and mitigations indicated a moderate and significant relationship with micro-financial institutions' financial performance. This study used credit risk assessment, liquidity risk monitoring, credit risk mitigation and staff training as the specific objectives.

Juma, Odunga, Atheru and Nzai (2018) conducted a study on the effect of financial risk assessment and analysis on commercial banks' financial performance in Kenya. The study affirmed that some commercial banks post inconsistent financial statements, and some end up being put under statutory receivership because of failing to meet stakeholders' objectives. ROA was adopted to measure financial performance, and liquidity risk, credit risk, interest

rates, and exchange risks were used as indicators of financial risk assessment. Annual financial reports and statements were used to obtain secondary data, which was analyzed using a panel data model. The study showed that return on assets was negatively and significantly affected by credit risks, positively and significantly affected by liquidity risk, negatively and significantly affected by foreign exchange risks, and lastly, positively and significantly affected by interest rates. However, the current study measured financial performance using both Net Interest Margin and Return on Equity as the indicators, unlike this study, which adopted return on an asset only as a measure of financial performance.

2.2.6 Moderating effect of ownership Structure

Hussain and Rasheed (2022) sought to determine the effect of credit management, liquidity management, and capital adequacy on the economic performance of commercial banks with a moderating role of ownership structure. The study adopted qualitative and quantitative research designs. Annual financial statements between 2012 and 2021 were retrieved from 15 commercial banks in order to provide secondary data. Descriptive statistics and unit roots tests were used to analyze the data; correlation and multicollinearity were used to test the hypotheses. The study indicated that ownership structure did not have any moderating role in credit risk management, liquidity management, and capital adequacy on the economic performance of commercial banks. In conclusion, the ownership structure is not a vital indicator of a bank's financial performance.

Boachie (2023) examined the moderating effect of ownership structure on the relationship between corporate governance and banks' financial performance in Ghana. The study adopted a cross-sectional research design where the sample was made of 23 commercial banks. The sample size of 414 respondents was obtained from commercial banks. This involved top,

middle, and lower management and employees. Multiple linear regression analysis was adopted, and the findings indicated that foreign ownership structure had a moderate effect between the independent and dependent variables. The study used corporate governance as an independent variable, while this study used credit management practices as the independent variable.

Chol, Nthambi, and Kamau (2020) conducted a study on moderating the effect of ownership structure on the relationship between bank stability and commercial banks' financial performance in South Sudan. The study was anchored on camel theory and adopted a descriptive design approach. Twenty-nine senior managers were purposively selected from 29 commercial banks. Qualitative and quantitative data were obtained, and annual financial statements between 2012 and 2017 were used to provide secondary data. A semi-structured questionnaire, on the other hand, was adopted to obtain primary data. Data were analyzed using descriptive statistics and inferential statistics. ANOVA and regression models, t-test, and f-test were employed to conduct a statistical test. The study findings indicated that ownership structure statistically moderated commercial banks' financial performance.

Kiprop (2018) analyzed the effects of ownership structure on the relationship between credit management strategies and financial institutions' performance in Kenya. An explanatory research design was adopted, and 239 respondents were selected to form a sample size through a stratified sampling technique. Primary data was obtained using a structured questionnaire, and data were analyzed by employing descriptive statistics and inferential statistics. The findings indicated that ownership structure had a positive and significant impact on the financial performance of financial institutions. Further, the study found that ownership structure moderated the relationship between evaluation, risk analysis, and financial

institutions' performance. However, ownership structure did not significantly moderate the relationship between monitoring, risk identification, and financial performance of financial institutions in Kenya. The study concluded that policymakers need to use the identity of ownership in order to foster the relationship between credit management strategies and financial institutions' performance.

2.2.7 Financial performance of commercial banks

Mushafiq, Sindhu, and Sohail (2023) studied financial performance under the influence of credit risk in non-financial firms in Pakistan. The study adopted the Altman Z-score as a measure of credit risk and return on equity and return on assets as the measures of financial performance. In addition, the study used firm size, liquidity and leverage as the control variables. Panel data was obtained from 69 non-financial firms in the Pakistan Stock Exchange between 2012 and 2017. This data was analyzed using panel regression analysis. The study found that firm size, Altman z-score and leverage had a significant influence on the return on equity and return on assets of the non-financial firms. The effect of liquidity was found to be insignificant. At the same time, Altman z-score and firm size had a significant positive effect on financial performance, and leverage had a negative relationship with financial performance. It is noted that the reviewed study focused on 69 non-financial firms listed in the Pakistan stock exchange, while the current research focused on the financial performance of Tier Two and Tier Three commercial banks in Kenya.

Harb, El Khoury, Mansour, and Daou (2023) examined the relationship between credit risk management and bank performance in the Middle East and North Africa region. Bank performance in this study was measured in terms of accounting ratios using ROA and ROE and market performance using Net Interest Margin. The study relied on panel data obtained

from 51 listed commercial banks from 10 countries in the Middle East and North Africa region between 2010-2018. The study found that credit risk management has a non-linear relationship with market performance, while it does not have any relationship with accounting performance. Further, the study found an insignificant relationship between liquidity risk and both the measures of bank financial performance, but both credit risk management and liquidity, when combined, had a significant influence on bank performance. The reviewed study was carried out in 10 countries where the findings could be influenced by several factors such as economic, political and technological factors; this research was carried out in Kenya.

Temba, Kasoga and Keregero (2024) examined the impact of the quality of credit risk management practices on the financial performance of commercial banks in Tanzania. The specific focus of the study was to assess the impact of credit risk monitoring and supervision, adequacy of the credit recovery process, the quality of credit process and controls and the impact of credit risk assessment on the financial performance of banks. This study targeted fifteen commercial banks, and panel data of 225 observations were made between 2003 and 2019. The findings revealed that credit risk monitoring and supervision, adequacy of the credit recovery process, and the quality of credit process and controls positively impacted the financial performance of the banks through their asset quality, efficient use of equity and capital adequacy. The study further established that the earning ability of the banks and liquidity were negatively affected by risk assessment practices, credit approval rates and risk monitoring and supervision.

Kimani (2023) studied the determinants of financial performance of general insurance companies in Kenya. The predictor variables for this study were liquidity, solvency, firm size, capital adequacy, underwriting risk. Financial performance was measured by return on equity.

The study adopted a descriptive research design and targeted 31 general insurance companies in Kenya. Secondary data was obtained from financial statements using a data extraction form from the year 201 in Kenya. Secondary data was obtained from financial statements using a data extraction form from 2014 to 2020. Data was analyzed using regression, exploratory and descriptive techniques. The study established that capital adequacy and liquidity had a negative and insignificant influence on financial performance, solvency had a positive significant influence on financial performance, and underwriting risk had a negative significant effect on the financial performance of general insurance companies. Notably, the study was conducted in general insurance companies with a different regulatory framework, while this research was carried out in commercial banks.

2.3 Theoretical Framework

The study was anchored on Credit Risk Theory and Theory of financial distress

2.3.1 Credit Risk Theory

This theory was advanced by Robert Merton in 1974. The theory focuses on assessing the credit risks of companies by modelling their equity as the optimal choice for their assets. This theory incorporates two methods for modelling credit risks: the intensity-based method and the structural method. The primary focus of this theory was to highlight the risk of default associated with the counterparty failing to fulfil its contractual obligations as per the binding agreement. The lender bears the risk, which may include the loss of principal and interest, partial or complete disruption, and can arise from various reasons, such as the bank becoming insolvent and unable to return funds to depositors (Liu, Mirzaei, & VANDOROS, 2014).

According to Clifford (2014), the significant risk banks face is borrowers defaulting in fulfilling their obligations to financial institutions which can lead to financial failure for commercial banks. Therefore, credit risk theory addresses this risks by systematically analyzing the causes that directly result in credit defaults. This theory helps to establish a clear causal relationship between macroeconomic factors that affect the financial environment and their microeconomic impacts on personal or bank financial status, potentially leading to credit defaults. As per Hussain and Rasheed (2022) the strength of this theory lies on the measures established to help financial institutions evaluate the creditworthiness of potential borrowers and in assisting banks to determine the extent to which they can extend loan amounts.

However, other scholars, such as Lew and Lau (2022), have criticized the theory for not considering the complexity and dynamic nature of credit risk. They argue that credit risk can be influenced by various factors, including economic conditions, regulatory changes, and market dynamics. Additionally, relying on historical data and statistical models in credit risk analysis may not always accurately predict future credit losses or performance outcomes, particularly during economic instability. Despite these limitations, this theory supported credit risk management practices variable understudy.

2.3.2 The Theory of Financial Distress

The theory was proposed in 1983 by Baldwin and Scott. It offers a non-biased perspective to all credit managers and originates from credit risk and liquidity challenges faced by the bank. The theory proposes a neutral ground that can be adopted for undertaking an incisive customer analysis within commercial banks to avoid credit repayment defaults. Baldwin and Scot (1983) argued that financial distress in organizations is always a result of incapacity and

inability to fulfil financial obligations. The effects of financial distress are experienced when there are previous defaults in credit payments.

According to Bhatt, Ahmed, Iqbal, and Ullah (2023), a financial institution's ability to lend to borrowers is associated with certain risks that can lead to liquidity challenges. Therefore, these institutions must adopt efficient credit management practices to enhance their liquidity. However, according to Irungu (2013), financial distress theory suffers from some limitations, one of them being the assumption of homogeneity among firms facing financial distress, which may not fully capture the diverse range of challenges and strategies employed by commercial banks in managing credit risk. Similarly, Lew and Lau (2022) criticized the theory for focusing solely on the firm-level perspective while neglecting the broader systemic and macroeconomic factors that can affect banks' credit quality and performance within the overall financial system. Despite the weaknesses of this theory, it lays emphasize on the framework that should be adopted to manage credit risk and minimize the possibility of the bank facing liquidity challenges despite having good profit records. Mushafiq *et al.*, (2023) held that when a commercial bank experiences a positive growth rate that significantly surpasses the internal rate of return, it may encounter challenges in maintaining sufficient revenue flow to cover its expenses. This situation could hinder the bank's ability to meet its financial obligations. This theory is grounded on the financial performance of tier two and three commercial banks.

2.4 Conceptual Framework

A conceptual framework is a theoretical model that provides a foundation for comprehending, analyzing, and interpreting a particular concept of interest. According to Kothari (2017), a conceptual framework helps the researcher outline key concepts, variables, and their interrelationship, mostly done using a diagram. This study's independent variable is risk

management practices (credit risk assessment, liquidity risk monitoring, credit risk mitigation, and staff training). The dependent variable was financial performance measured by return on Equity and Net Interest Margin. The study also assessed the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance.

Independent Variables

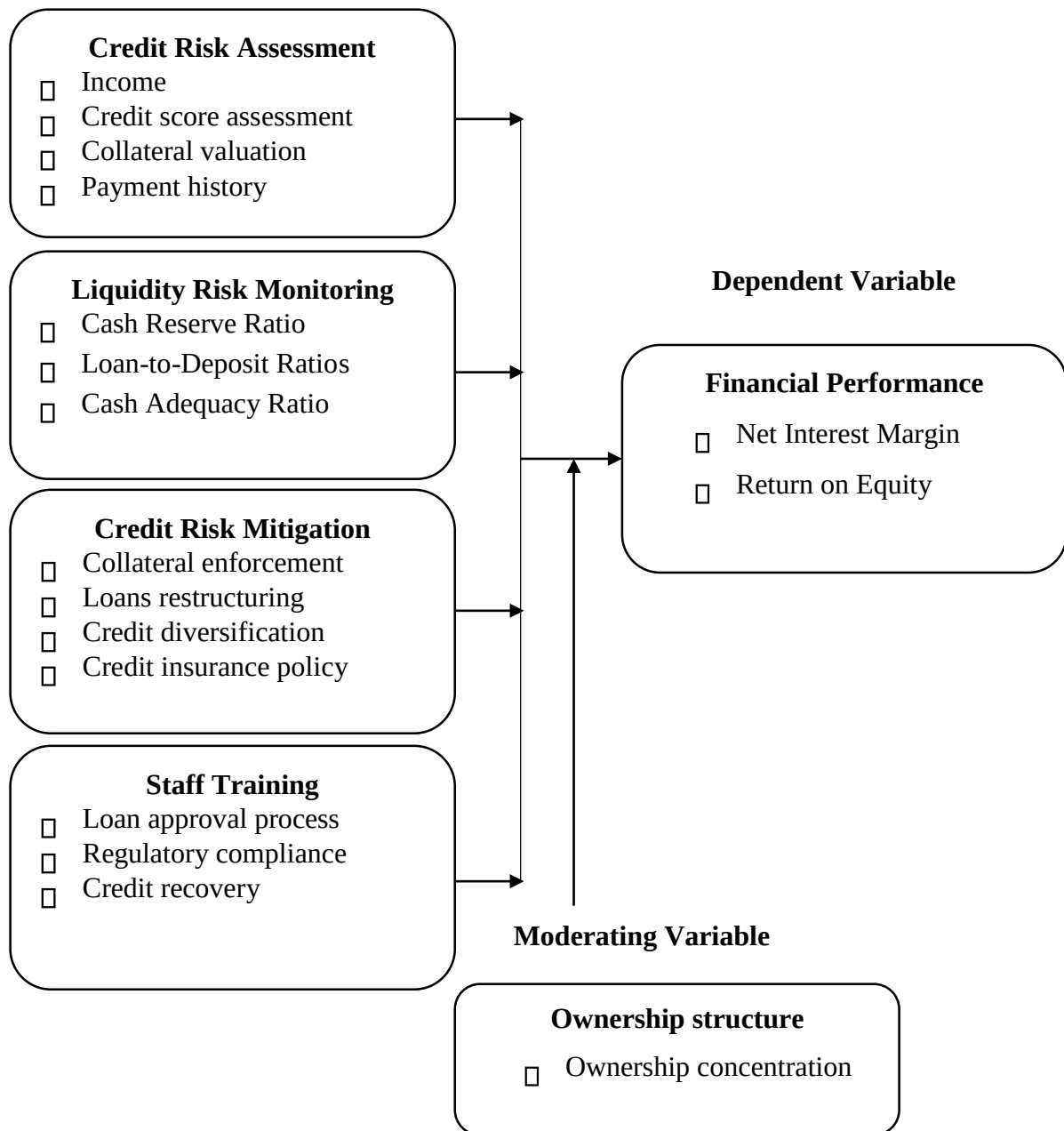


Figure 2.1: Conceptual Framework

2.5Source: Adopted and modified from CAMELS Framework (

Identification of Knowledge Gap 1970)

2.5 Knowledge gap

On the contextual gap, most studies on credit risk assessment and financial performance were conducted in developed countries with higher GDP, advanced institutional frameworks, and better controls. These findings may not be generalizable to tier II and III commercial banks in Kenya, which operate in different economic and regulatory environments. Studies on staff training and financial performance focused on banks in other countries like Cameroon, which have different banking structures and operational models compared to Kenya.

In addressing the contextual gap, most studies on credit risk mitigation and financial performance used different measures of financial performance. Some focused on marketbased indicators, while others used profitability or liquidity-based indicators alone. The current study fills this gap by using a combination of Net Interest Margin (NIM) and Return on Equity (ROE) to measure financial performance. Studies on staff training and financial performance had contradictory findings, with some showing that employee training was insignificant to financial performance. This inconsistency indicates a gap in the conceptual understanding of how staff training influences financial outcomes.

On the methodological gap, several studies differed on the research design which could have led to inconsistencies in the research findings. For instance, Sathyamoorthi et al. (2020), Vellanita, Arimbawa, and Damayanti (2019), and Kai (2021) used survey and descriptive research designs, which may not fully capture cause-and-effect relationships and Ndum (2021) used an ex post facto design to study liquidity risk practices in Nigeria. The current study fills this gap by adopting a cross-sectional research design to provide a more structured analysis of the relationships between variables. The study also identified Case Study Limitations as some previous studies focused on only one bank, making it difficult to

generalize findings. The current study includes multiple tier II and III commercial banks to ensure broader applicability.

Finally, the study identified Theoretical Gap where many reviewed studies did not integrate a strong theoretical foundation linking credit risk management practices, ownership structure, and financial performance in the context of tier II and III banks in Kenya. The current study bridges this gap by anchoring its analysis on relevant financial theories.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section outlines key aspects of the research methodology, including the chosen research design, study location, target population, sample size, and sampling techniques. It also covers the data collection instruments used, along with their validity and reliability testing. Additionally, the section explains the data collection procedure, methods for data analysis and presentation, and the ethical considerations addressed during the study.

3.2 Research Design

A research philosophy is a framework that guides how a research problem should be approached based on ideas about reality and the nature of knowledge (Kothari,2017). The study adopted a positivist research philosophy. In positivism, reality is independent and researchers can observe it objectively. A positivist research approach emphasizes using quantitative tools that allow for measuring and counting. Through this approach the researcher used a clear quantitative approach to investigate a phenomenon. This requires a thorough focus and examination of facts, establishment of causality, and the reduction of the phenomenon to simple and comprehensible elements. It also involves formulating and testing hypotheses to arrive at an informed conclusion (Pandey & Pandey, 2021). The researcher develops hypotheses within the paradigm, tests them using statistical techniques, and creates a conceptual model based on the literature review.

In addition, the study adopted a cross-sectional research design to assess the credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya. This research design was suitable for this study because it enabled the researcher to collect data from different commercial banks and at a specific point in time investigate the credit risk management practices, ownership structure and financial

performance of tier II and III commercial banks in Kenya. Asenahabi (2019) advocated the use of a cross-sectional research design because of its ability to collect useful information regarding the prevalence and distribution of a specific phenomenon and the relationship between variables under study.

3.3 Location of Study

The study was conducted in Nairobi County which is the capital city of Kenya. The county is located at the coordinates of 1.2833°S 36.8167°E. According to KNBS (2019), Nairobi has a population of 4,397 million people covering an area of 696.1 km². Nairobi County was selected as the area of study due to its status as the financial hub of the country. Most of the banks' headquarters and major operations are based in Nairobi and therefore, this provides convenient access to relevant data. Additionally, Nairobi County hosts a diverse range of commercial banks, offering a representative sample for studying variations in credit risk management and financial performance within these banking tiers.

3.4 Target Population

Kothari (2017) describes a target population as a group of items, objects, or individuals with unique characteristics that are of concern to the researcher. In this study, the target population was 312 employees from the top management of all the 30 tier-two and three commercial banks registered and regulated by the Central Bank of Kenya as of June 2023 (CBK, 2024). Bank managers, credit managers, credit officers, and credit analysts from each commercial bank formed the unit of observation for the study. These participants were selected purposively because they are well conversant with the credit risk management policies of the banks and also due to their day-to-day involvement in matters concerning credit disbursement and repayment. Therefore, this enabled the researcher to easily access relevant information

for this study. Tier II and tier III commercial banks were selected for the study because they are prone to poor credit risk management practices, as indicated by three banks that have gone under receivership over the last decade. These banks also have a small capital base and have experienced a decline in performance with a drop in customer deposits and market share (CBK, 2023).

Table 3.1 Target population

Target population	Number
Bank managers	30
Credit managers	90
Credit officers	95
Credit analysts	97
Total	312

Source: Tier II and III Commercial Banks’ Human Resource Department (2024)

3.5 Sample and Sampling Procedure

A sample is a subset of the population to be studied. Conversely, a sampling procedure involves selecting a sample from the larger population for assessment and making inferences (Asenahabi, 2019). The study adopted stratified sampling technique, considering various categories of employees of all tier-II and tier III commercial banks as stratus. Furthermore, a simple random sampling technique was used to identify and select the study's participants.

Yamane (1967) formula was used to determine the sample size of the study. The formula is illustrated below.

$$n = \frac{N}{1 + Ne^2}$$

where: e = margin
of error

N = population size
n = sample size

The level of precision or margin of error (e) desired for the estimate:

$$e = 0.05$$

Therefore;

$$= \frac{312}{1 + 312(0.05)^2} = \frac{312}{1 + 312(0.0025)} = 175.28089$$

Therefore, $n \approx 175$

Therefore, the sample size of the study was made up of 175 respondents. Purposive sampling technique was used to select one bank manager, one credit manager, three credit officers, and three credit analysts from each commercial bank to be used as the unit of observation.

Table 3.2 Sample Size

Category	Target population	Sample Size
Bank managers	30	17

Credit managers	90	51
Credit officers	95	53
Credit analysts	97	54
Total	312	175

Source: Author (2024)

As indicate in Table 3.2, the sample size was 175 participants. Stratified simple random sampling technique was used to select 17 bank managers, 51 credit managers, 53 credit officers and 54 credit analysts to take part in the study.

3.6 Data Collection Instruments

Primary data was obtained using a structured questionnaire. The questionnaire was divided into two sections; where the first section collected specific information regarding the bank, such as the number of products offered, date of establishment, ownership structure, capital structure, and the number of branches. Section two of the questionnaire collected information on the specific objectives of the study. This section contained statements with a five-point Likert scale where the respondent was required to select the number that they best relate to (Appendix II). A questionnaire is the most preferred tool for data collection because it can enable the researcher to collect data from a large area efficiently within a short time (Rahman, 2017).

3.6.1 Validity of the Instrument

Assessment of the instrument's validity is carried out to assess the extent to which the instrument measures what it is designed to measure (Kothari, 2017). The data collection instruments were subjected to construct, content, and face validity tests. Construct validity

was achieved by conducting extensive literature and theoretical review to get a detailed insight into the relevant study's concepts. Therefore, the study's instruments were constructed based on existing studies. To achieve content and face validity, the researcher shared the questionnaires with the subject experts to obtain opinions and suggestions on improving the questionnaire which were incorporated.

3.6.2 Reliability of the Instrument

The instrument's reliability relates to the consistency of the research instrument in generating consistent results each time the instrument is put into use (Kothari, 2017). George and Mallery (2018) define reliability as the extent to which a research instrument yields similar results over multiple trials. The instrument's reliability was assessed using Cronbach's alpha coefficient to assess its internal consistency. The Cronbach's coefficient ranges from 0-1, where a minimum of 0.7 is recommended (Asenahabi, 2019). Data for assessing the internal consistency of the instrument was obtained by carrying out a pilot study using 10% of the study's sample size in one tier-II and tier-III commercial banks in Kericho County that were not included in the final study as it was carried at the banks' headquarters.

Table 3.3 Reliability Test Results

Constructs	Cronbach's Alpha Coefficients	Items
Credit risk assessment	0.866	6
Liquidity risk monitoring	0.899	6
Credit risk mitigation	0.895	6
Staff training	0.822	6

Ownership structure	0.801	6
Financial performance	0.819	6
Overall reliability	0.852	36

3.7 Data Collection Procedures

Data collection commenced after the pilot exercise had been conducted and the instrument's reliability and validity had been determined. Subsequently, the researcher obtained a clearance letter from the board of graduate studies of the University of Kabianga which was used to obtain a research permit from the National Commission of Science, Technology and Innovation (NACOSTI). Once the necessary permits and permissions had been obtained the researcher together with two research assistants visited the tier II and III commercial banks head offices to collect primary data. During the same period, the researcher made a formal request to be furnished with additional information regarding the banks' financial performance which had not been found in the published financial records of the banks. To expedite the data collection exercise, the researcher adopted a drop and pick technique when issuing questionnaires. This ensured that the researcher achieves a high response rate.

3.8 Data Analysis and Presentation

The study analyzed data quantitatively using descriptive and inferential statistics, where statistical outputs were generated with the aid of Statistical Product and Service Solutions (SPSS) Version 26. Descriptive statistics, including frequencies, percentages and measures of central tendencies such as standard deviation and mean, were generated to assess the extent of use of the credit risk management practices. Inferential statistics involving the use of Analysis of Variance, multiple regression and correlation analysis were carried out to

determine the strength and direction of the relationship between the variables. The findings from data analysis were presented using tables and narrations.

The main objective of any statistical research is to assess the relationship between the variables under study. The study adopted the regression model to assess the credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya.

The model was given as:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \text{-----} (3.1)$$

$$Y = \beta_0 + \beta_2 X_2 + \varepsilon \text{-----} (3.2)$$

$$Y = \beta_0 + \beta_3 X_3 + \varepsilon \text{-----} (3.3)$$

$$Y = \beta_0 + \beta_4 X_4 + \varepsilon \text{-----} (3.4) \quad Y =$$

$$\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \text{-----} (3.5)$$

Where:

Y = Financial Performance of Tier II and III Banks

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients X_1

= Credit Risk Assessment

X_2 = Liquidity Risk Monitoring

X_3 = Risk Mitigation Practices

X_4 = Staff Training ε = Error

term

To test the moderating effect, the study utilized the hierarchical moderating effect model, which is also referred to as the three-way interaction model. This model enables the researcher to analyze how the dependent, moderator, and independent variables interact with each other. Specifically, the moderating effect of the third variable at various levels of the moderator variable within the model was measured.

$$Y = \beta_0 + \beta_1 X_1 + \beta_1 M + \beta_1 M * X_1 + \varepsilon \text{-----} (3.6)$$

$$Y = \beta_0 + \beta_2 X_2 + \beta_2 M + \beta_2 M * X_2 + \varepsilon \text{-----} (3.7)$$

$$Y = \beta_0 + \beta_3 X_3 + \beta_3 M + \beta_3 M * X_3 + \varepsilon \text{-----} (3.8) \quad Y =$$

$$\beta_0 + \beta_4 X_4 + \beta_4 M + \beta_4 M * X_4 + \varepsilon \text{-----} (3.9)$$

Where:

Y = Financial Performance of Tier Two and tier Three Banks

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients

X_1 = Credit Risk Assessment

X_2 = Liquidity Risk Monitoring

X_3 = Risk Mitigation Practices

X_4 = Staff Training

M= Moderating variable (Ownership structure)

$M \cdot X_i$ = The Interaction term between the moderator and the independent variable ϵ

= Error term

The moderating effect was established by examining the significance and direction of the coefficients. If β_1 , β_2 , β_3 and β_4 is significant then ownership structure has a moderating effect on the relationship between credit risk management practices and financial performance.

3.9 Ethical Considerations

The researcher upheld all the ethical issues when conducting the study. Before the data collection exercise commenced, the researcher obtained all the necessary permits and approvals from relevant authorities, such as clearance from the Board of Graduate Studies of the University of Kabianga, NACOSTI, and the management of tier I and II commercial banks where necessary. The researcher also got informed consent from the participants before enrolling them to participate in the study. This was achieved by informing the participants of the purpose of the study, potential risks, the procedures to be used, and the right to withdraw from the exercise. Furthermore, the researcher ensured that the obtained data is only used for academic research and thus put in measures to protect the information from unauthorized use. Finally, the researcher ensured that the study is scientifically valid and that the results were interpreted and reported accurately.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This section presents findings of the study in alignment with the research objectives. The chapter covers several subsections, including the response rate, demographic details of the respondents, descriptive statistics on credit risk management practices, and inferential statistics explaining the relationships between credit risk management practices and financial performance off tier-two and tier-three commercial banks.

4.2 Response rate

The researcher administered questionnaires to a total of 175 respondents as shown in Table

4.1.

Table 4.1 Response rate

Response Rate	Sample size	Percentage
Returned Questionnaires	173	98.8
Not returned/incomplete	02	1.14
Total	175	100

The findings showed that the response rate was 98.8% as 173 questionnaires were returned. Only 2 questionnaires were incomplete, accounting for 1.14% of the total. A response rate of 98.8% is considered excellent for data analysis and provides a strong basis for generalizability. According to Kothari, (2017), a response rate above 70% is typically deemed sufficient in survey research to ensure representativeness and minimize nonresponse bias. Therefore, a response rate of 98.8% far exceeds this threshold, making the data highly reliable and suitable for robust statistical analysis.

4.3 Demographic information

The study collected data on the number of branches, years worked in the bank, department worked in the bank.

4.3.1 Number of branches

The study sought to find out the number of branches that the banks had throughout the country. The findings are presented in Table 4.2.

Table 4.2 Number of branches

	Frequency	Percent
Less than 5 branches	28	16.2

Between 6-10 branches	90	52.0
More than 11 branches	55	31.8
Total	173	100.0

The results in Table 4.2 showed that 55(31.8%) banks had more than 11 branches, 90(52%) banks had between 6-10 branches and 28(16.2%) banks had less than 5 branches. These findings imply that majority of the banks had opened other branches other than the head office.

4.3.2 Years worked in the bank

The study sought to find out the number of years that the respondents had worked in the particular bank. The findings are presented in Table 4.3.

Table 4.3 Experience

Experience	Frequency	Percent
Less than 5 years	41	23.7
Between 6 and 10 years	67	38.7
More than 11 years	65	37.6
Total	173	100.0

The findings indicated that a large group, of 67(38.7%) respondents have worked in the bank for between 6 and 10 years, followed by 65(37.6%) respondents who have worked for more than 11 years and 41(23.7%) respondents who have worked for less than 5 years. This means that respondents were in a position to understand the bank operations and the information they provided can be relied upon

4.3.3 Department worked in the bank

The study sought to find out the department that the respondent worked in. This information is summarized in Table 4.4.

Table 4.4 Department worked in the bank

	Frequency	Percent	Valid Percent	Cumulative Percent
Bank manager	31	17.9	17.9	17.9
Credit managers	48	27.7	27.7	45.7
Credit officers	66	38.2	38.2	83.8
Credit analysts	28	16.2	16.2	100.0
Total	173	100.0	100.0	

Table 4.4 indicates the respondents' responses when asked to indicate the departments they worked in. Most of the respondents, 66(38.2%) indicated that they were credit officers, bank managers were 31(17%), credit managers were 48(27.7% and credit analysts were 28(16.2%). These findings imply that all the targeted respondents were well represented in the study.

4.4 Descriptive statistics

The study examined the relationship between credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya. The specific objectives of the study were to examine the relationship between the credit risk assessment and the financial performance of tier-two and three commercial banks in Kenya, to assess the relationship between liquidity risk monitoring and the financial performance of tier II and III

commercial banks in Kenya, to assess the relationship between credit risk mitigation practices and the financial performance of tier-two and three commercial banks in Kenya, to examine the relationship between staff training and the financial performance of tier II and III commercial banks in Kenya and to establish the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance of tier II and III commercial banks in Kenya.

4.4.1 Credit Risk Assessment

This section contains statements on the credit risk management practices adopted by tier two and tier three commercial banks. Indicate the extent to which you agree to these statements by putting a cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

Table 4.5 Credit Risk Assessment

Statement on Credit Risk Assessment	SA	A	ND	D	SD	M	SD
The bank use borrower's income in determining the risk level of lending	54(31.2)	69(39.9)	44(25.4)	6(3.5)	0(0)	3.99	0.84
The bank conducts credit score assessment of the borrowers frequently before dispatching the loan	8(4.6)	87(50.3)	67(38.7)	10(5.8)	1(6)	3.53	0.70
There is effective collateral valuation of the customers that reduces the risk of the bank	64(37)	79(45.7)	18(10.4)	5(2.9)	7(4)	4.09	0.98
The bank's credit department assesses customer's payment history in order to determine the level of risks	85(49.1)	68(39.3)	17(9.8)	3(1.7)	0(0)	4.36	0.73

The bank's credit risk assessment has led to	15(8.6)	91(52.6)	64(37)	3(1.7)	0(0)	3.68	0.65
increase in financial performance							
Use of credit reference bureau services has	51(29.5)	71(41)	46(26.6)	5(2.9)	0(0)	3.97	0.82
enhanced loan recovery rate							

The researcher sought to know if the bank uses the borrower's income in determining the risk level of lending. The majority, 69 (39.9%) of the respondents agreed, 54 (31.2%) strongly agreed, 44 (25.4%) were not decided and only 6 (3.5%) of the respondents disagreed with this statement. When questioned whether the bank conducts credit score assessment of the borrowers frequently before dispatching the loan, most, 87 (50.3%) of the respondents agreed, 8 (4.6%) of the respondents strongly agreed with the statement. However, 67 (38.7%) of the respondents were neutral, while 10 (5.8%) disagreed and 1 (6%) of the respondents strongly disagreed with the statement.

The respondents were asked if there is effective collateral valuation of the customers that reduces the risk of the bank and the majority, 79 (45.7%) agreed and 64 (37%) of the respondents strongly agreed. On the other hand, 18 (10.4%) of the respondents were neutral, 5 (2.9%) of them disagreed and 7 (4%) of the respondents disagreed with the statement. Nearly half, 85 (49.1%) of the respondents strongly agreed and 68 (39.3%) of the respondents agreed that the bank's credit department assesses customer's payment history to determine the level of risks, while 17 (9.8%) of them were neutral and only 3 (1.7%) of the respondents disagreed with this statement.

When questioned if the bank's credit risk assessment has led to an increase in financial performance, the majority, 91 (52.6%) of the respondents agreed and 15 (8.6%) of the

respondents strongly agreed to this while 64 (37%) of the respondents were neutral and a few, 3 (1.7%) of the respondents disagreed on the statement. The researcher sought to find out if the use of credit reference bureau services has enhanced the loan recovery rate majority, 71 (41%) of the respondents agreed with this. Further, 51 (29.5%) of the respondents strongly agreed, 46 (26.6%) were neutral and 5 (2.9%) of the respondents disagreed that the use of credit reference bureau services has enhanced the loan recovery rate.

4.4.2 Liquidity Risk Monitoring

This section presents the frequencies, means, and standard deviations of responses regarding the liquidity risk monitoring practices employed by tier two and tier three commercial banks. The responses were measured by a five-point Likert scale where number five presented strongly agree, four presented agree, three presented not decided while two presented disagree, and finally, one presented strongly disagree. The findings are summarized in Table 4.6.

Table 4.6 Liquidity Risk Monitoring

Statement on Liquidity Risk Monitoring	SA	A	ND	D	SD	M	SD
The bank maintains cash reserve ratio	70(40.5)	74(42.8)	13(7.5)	7(4)	9(5.2)	4.09	1.05
There is effective loan-to-deposit ratio which banks comply with	75(43.4)	72(41.6)	13(7.5)	6(3.5)	7(4)	4.17	0.99
The bank has effective capital adequacy ratio which the bank maintains	14(8.1)	9(5.2)	23(13.3)	64(37)	63(36.4)	2.11	1.19
Liquidity risk monitoring is conducted in the bank	47(27.2)	84(48.6)	21(12.1)	17(9.8)	4(2.3)	3.88	0.99
The bank's has an efficient management of liquidity coverage ratio.	26(15)	61(35.3)	35(20.2)	39(22.5)	12(6.9)	3.29	1.17

Effective asset-liability management has enhanced the bank's liquidity position.	65(37.6)	72(41.6)	21(12.1)	5(2.9)	10(5.8)	4.02	1.07
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The findings in Table 4.6 indicate that a majority, 42.8% of the respondents agreed and 40.5% of the respondents strongly agreed that The bank maintains cash reserve ratio which showing a mean of 4.09 and a standard deviation of 1.05. However, 7.5% of the respondents were neutral, 4% disagreed and 5.2% of the respondents strongly disagreed with the statement. When asked whether there the bank had an effective loan-to-deposit ratio which it complied with, most, 41.6% of the respondents agreed, 43.4% of the respondents strongly agreed and 7.5% of the respondents were not decided. Further, 3.5% of the respondents disagreed and 4% of them strongly disagreed with the statement. This statement indicated a mean of 41.7 and a standard deviation of 0.99.

The respondents were asked if the bank had an effective capital adequacy ratio which it maintained. Majority, 37% of the respondents disagreed and 36.4% strongly disagreed with this, indicating a mean of 2.11 and a standard deviation of 1.19. The respondents who were neutral were 13.3%, those who agreed were 5.2% and those who strongly agreed were 8.1% of the total. When questioned whether liquidity risk monitoring is conducted by the bank, majority, 48.6% of the respondents agreed, 27.2% strongly agreed, 12.1% were neutral, 9.8% disagreed and 2.3% of the respondents strongly disagreed with the statement. This led to a mean of 3.88 and a standard deviation of 0.99.

The researcher further asked the respondents whether the bank had an efficient management of liquidity coverage ratio: majority, 41.6% of the respondents agreed and 37.6% strongly agreed. On the other hand, 12.1% of the respondents were neutral, 2.9% disagreed and 5.8%

of the respondents strongly disagreed with the statement resulting in a mean of 3.29 and a standard deviation of 1.17. On being asked if effective asset-liability management has enhanced the bank's liquidity position, majority, 41.6% of the respondents agreed and 37.6% strongly disagreed showing a mean of 4.02 with a standard deviation of 1.07. Further, 12.1% of the respondents were neutral, 2.9% disagreed and 5.8% of the respondents strongly agreed that effective asset-liability management has enhanced the bank's liquidity position.

4.4.3 Credit Risk Mitigation

This section presents the frequencies, means, and standard deviations of responses regarding the credit risk mitigation practices employed by tier two and tier three commercial banks. The responses were measured by a five-point Likert scale where number five presented strongly agree, four presented agree, three presented not decided while two presented disagree, and finally, one presented strongly disagree. The findings are summarized in Table

4.7.

Table 4.7 Credit Risk Mitigation

Statements on Credit Risk Mitigation	SA	A	ND	D	SD	M	SD
The bank's use of collateralized lending has minimized default risks	13(7.5)	36(20.8)	51(29.5)	62(35.8)	11(6.4)	2.87	1.05
The bank frequently allow loan restructuring which has led to enhanced mitigation of risk	7(4)	42(24.3)	37(21.4)	67(38.7)	20(11.6)	2.70	1.08
The bank's credit diversification has led to an increase in financial performance	19(11)	82(47.4)	36(20.8)	23(13.3)	13(7.5)	3.41	1.09
Loan covenant between the borrower and the lender has contributed to an increase in financial performance	42(24.3)	81(46.8)	20(11.6)	15(8.7)	15(8.7)	3.69	1.18

The bank has a credit insurance policy that it operates under.	44(25.4)	85(49.1)	25(14.5)	12(6.9)	7(4)	3.85	1.01
Credit monitoring practices within the bank have played a key role in enhancing financial performance	28(16.2)	75(43.4)	29(16.8)	31(17.9)	10(5.8)	3.46	1.13

The findings in Table 4.7 showed that a majority of the respondents disagreed, 6.4% strongly disagreed and 29.5% of the respondents were neutral when questioned whether the bank's use of collateralized lending has minimized default risks. Furthermore, 20.8% of the respondents agreed and 7.5% of the respondents strongly agreed with the statement giving a mean of 2.87 with a standard deviation of 1.05. When questioned if the bank frequently allows loan restructuring which has led to enhanced mitigation of risk, most, 38.7% of the respondents disagreed and 11.6% of the respondents strongly disagreed while 21.4% of the respondents were neutral. On the other hand, 24.3% of the respondents agreed and 4% strongly disagreed with the statement revealing a mean of 2.70 and a standard deviation of 1.08. Most, 47.4% of the respondents agreed and 11% of the respondents strongly agreed while 20.8% of the respondents were neutral when questioned if the bank's credit diversification has led to an increase in financial performance. However, 13.3% of the respondents disagreed and 7.5% strongly disagreed with the statement revealing a mean of 3.41 and a standard deviation of 1.09. The respondents were asked if loan covenant between the borrower and the lender has contributed to an increase in financial performance and majority, 46.8% of the respondents agreed and 24.3% of the respondents strongly agreed. The respondents who were neutral were 11.6% while those who disagreed and strongly disagreed were 8.7% each.

A majority, 49.1% of the respondents agreed and 25.4% respondents strongly agreed that the bank has a credit insurance policy that it operated under. 14.5% respondents were however neutral, 6.9% of the respondents disagreed and 4% of them strongly disagreed with the

statement. These findings indicated a mean of 3.85 with a standard deviation of 1.01. When asked whether credit monitoring practices within the bank had played a key role in enhancing financial performance, 43.4% of the respondents agreed, 16.2% strongly agreed, 17.9% disagreed and 5.8% of the respondents strongly disagreed. The mean was 3.46 and standard deviation was 1.13.

4.4.4 Staff Training

This section presents the frequencies, means, and standard deviations of responses regarding the staff training practices employed by tier two and tier three commercial banks. The responses were measured by a five-point Likert scale where number five presented strongly agree, four presented agree, three presented not decided while two presented disagree, and finally, one presented strongly disagree. The findings are summarized in Table 4.8

Table 4.8 Staff Training

Statement on staff training	SA	A	ND	D	SD	M	SD
Bank employees are periodically trained on the loan approval process	25(14.5)	61(35.3)	28(16.2)	42(24.3)	17(9.8)	3.20	1.24
Knowledge on regulatory compliance through seminars has contributed to increase in financial performance	11(6.4)	55(31.8)	28(16.2)	53(30.6)	26(15)	2.84	1.21
Employees are trained on how to carry out credit recovery	32(18.5)	86(49.7)	33(19.1)	16(9.2)	6(3.5)	3.51	1.14
Employees receive regular training on risk assessment techniques, which has improved the accuracy of loan evaluations	19(11)	97(56.1)	33(19.1)	16(9.2)	6(3.5)	3.70	0.99

	19(11)	97(56.1)	33(19.1)	24(13.9)	0(0)	3.64	0.85
Continuous professional development on customer relationship management has enhanced employee skills, resulting in improved client retention							
Staff members are trained on fraud detection and prevention strategies.	46(26.6)	65(37.6)	28(16.2)	27(15.6)	7(4)	3.67	1.15

The findings in Table 4.8 revealed that 35.3% of the respondents agreed, 14.5% strongly agreed, 16.2% were neutral, 24.3% disagreed and 9.8% of the respondents strongly disagreed that bank employees are periodically trained on the loan approval process. This showed a mean of 3.20 and standard deviation of 1.24. When the respondents were asked if knowledge on regulatory compliance through seminars has contributed to increase in financial performance, 31.8% agreed, 6.4% strongly agreed, 16.2% were neutral, 30.6% disagreed and 15% strongly disagreed indicating a mean of 2.84 with a standard deviation of 1.21.

The results revealed that most, 43.4% of the respondents agreed and 18.5% strongly agreed that employees are trained on how to carry out credit recovery effectively revealing a mean of 3.51 and a standard deviation of 1.14. Furthermore, 14.5% respondents were neutral, 18.5% disagreed and 5.2% strongly disagreed that employees are trained on how to carry out credit recovery effectively leading to improvement of financial performance. The respondents were questioned whether employees receive regular training on risk assessment techniques, which has improved the accuracy of loan evaluations and majority, 49.7% of the respondents agreed, 18.5% strongly agreed, 19.1% were neutral, 9.2% disagreed and 3.5% strongly disagreed. These findings led to a mean of 3.70 and a standard deviation of 0.99.

When questioned if continuous professional development on customer relationship management has enhanced employee skills, resulting in improved client retention, 56.1% of the respondents agreed and 11% strongly agreed. However, 19.1% of the respondents were neutral and 13.9% disagreed with this as shown by the mean of 3.64 and standard deviation of 0.85. Majority, 37.6% of the respondents agreed that the staff members are trained on fraud detection and prevention strategies. 26% of the respondents strongly agreed, 16.2% were neutral, 15.6% disagreed and 4% strongly disagreed with this statement projecting a mean of 3.67 and a standard deviation of 1.15.

4.4.5 Ownership Structure

This section presents the frequencies, means, and standard deviations of responses regarding ownership structure of tier two and tier three commercial banks. The responses were measured by a five-point Likert scale where number five presented strongly agree, four presented agree, three presented not decided while two presented disagree, and finally, one presented strongly disagree. The findings are summarized in Table 4.9

Table 4.9 Ownership Structure

Statement on Ownership Structure		SA	A	ND	D	SD	M	SD
There is	involvement of government	46(26.6)	87(50.3)	23(13.3)	12(6.9)	2(2.9)	3.91	0.97
	ownership in the bank							
		46(26.6)	82(47.4)	25(14.5)	12(6.9)	8(4.6)	3.84	1.04
There is involvement of foreign ownership in	the bank							
		19(11)	74(42.8)	31(17.9)	38(22)	11(6.4)	3.30	1.12
There is involvement of institutional	ownership in the bank							

There is involvement of individual ownership in the bank	47(27.2)	79(45.7)	31(17.9)	16(9.2)	0(0)	3.91	0.90
Ownership structure of the bank includes managerial ownership	47(27.2)	93(53.8)	25(14.5)	5(2.9)	3(1.7)	4.02	0.83
Ownership structure of the bank is dominated by family ownership	48(27.7)	76(43.9)	30(17.3)	16(9.2)	3(1.7)	3.87	0.98

The results in Table 4.9 show that most, 50.3% of the respondents agreed, 26.6% strongly agreed and 13.3% were neutral when questioned if there was involvement of government ownership in the bank. On the other hand, 6.9% of the respondents disagreed and 2.9% strongly disagreed with this statement revealing a mean of 3.91 and standard deviation of 0.97. When asked whether there is involvement of foreign ownership in the bank, a majority, 47.4% of the respondents agreed, 26.6% strongly agreed, 14.5% were neutral, 6.9% disagreed and 4.6% strongly disagreed. These findings projected a mean of 3.84 with a standard deviation of 1.04.

The respondents were questioned if there is involvement of institutional ownership in the bank and this revealed a mean of 3.30 and a standard deviation of 1.12. This is because a majority, 42.8% of the respondents agreed while 11% strongly agreed, 17.9% were neutral, 22% disagreed and 6.4% of the respondents strongly disagreed with the statement. The statement that there was an involvement of individual ownership in the bank had a mean of 3.91 and a standard deviation of 0.90. This is because 45.7% of the respondents agreed, 27.2% strongly agreed, 17.9% were neutral and 9.2% disagreed that the individual ownership in the bank has led to improvement of financial performance.

The researcher asked whether the ownership structure of the bank included managerial ownership, most, 53.8% agreed, 27.2% strongly disagreed, 14.5% were undecided while 2.9% disagreed and 1.7% of the respondents strongly disagreed. This led to a mean of 4.02 and standard deviation of 0.83. When asked if ownership structure of the bank was dominated by family ownership, majority, 43.9% of the respondents agreed, 27.7% strongly agreed and 17.3% were neutral, 9.2% disagreed and 1.7% of the respondents strongly disagreed. These results showed a mean of 3.87 and standard deviation of 0.98.

4.4.6 Financial Performance

This section presents the frequencies, means, and standard deviations of responses regarding financial performance of tier two and tier three commercial banks. The responses were measured by a five-point Likert scale where number five presented strongly agree, four presented agree, three presented not decided while two presented disagree, and finally, one presented strongly disagree. The findings are summarized in Table 4.10

Table 4.10 Financial Performance

Statement on financial performance	SA	A	ND	D	SD	M	SD
There has been an improvement of banks net interest margin	67(38.7)	97(56.1)	6(3.5)	3(1.7)	0(0)	4.32	0.63
There has been an increase in the bank's return on equity	41(23.7)	84(48.6)	30(17.3)	12(6.9)	6(3.5)	3.82	0.99
There has been a reduction in nonperforming loans, leading to an increase in the bank's profitability.	63(36.4)	90(52)	17(9.8)	3(1.7)	0(0)	4.23	0.69
There has been an improvement on the bank's return on assets.	10(5.8)	73(42.2)	55(31.8)	31(17.9)	4(2.3)	3.31	0.91

			23(13.3)	46(26.6)	35(2.2)	49(28.3)	20(11.6)	3.02	1.24
There has been a reduction in default rates, leading to a higher return on investment for the bank									
Loan portfolio quality has been	27(15.6)	68(39.3)	35(20.2)	20(11.6)	23(13.3)	3.32	1.25		
strengthened resulting in better overall financial performance									

Table 4.10 indicates the respondents' responses when questioned if there has been an improvement of banks net interest margin. Majority of the respondents, 56.1% agreed, 38.7% strongly agreed, 3.5% were undecided and only 1.7% disagreed with the statement showing a mean of 4.32 and standard deviation of 0.63. The findings also show that most of the respondents, 48.6% agreed, 23.7% strongly agreed, 17.3% were undecided, 6.9% disagreed and 3.5% of the respondents strongly disagreed that there has been an increase in the bank's return on equity. This projected a mean of 3.82 and a standard deviation of 0.99.

When asked whether there has been a reduction in non-performing loans, leading to an increase in the bank's profitability, a majority, 52% agreed, 36.4% strongly agreed, 9.8% were undecided and 1.7% disagreed indicating a mean of 4.23 and a standard deviation of 0.69. The statement that there has been an improvement on the bank's return on assets indicated a mean of 3.31 with a standard deviation of 0.91. This is because a majority, 42.2% of the respondents agreed, 5.8% strongly agreed, 31.8% were undecided, 17.9% disagreed and 2.3% of the respondents strongly disagreed that there has been an improvement on the bank's return on assets.

Majority, 28.3% of the respondents disagreed that there has been a reduction in default rates, leading to a higher return on investment for the bank revealing a mean of 3.02 and a standard

deviation of 1.24. Further, 11.6% strongly disagreed, 20.2% were undecided, 26.6% agreed and 13.3% strongly agreed with the statement. The respondents were questioned if the loan portfolio quality has been strengthened resulting in better overall financial performance and most of them, 39.3% agreed, 15.6% strongly agreed, 20.2% were undecided, 11.6% disagreed and 13.3% strongly disagreed. This resulted in a mean of 3.32 with a standard deviation of 1.25.

4.5 Inferential Statistics

To assess the nature of the relationship between the variables, correlation and regression analysis were carried out.

4.5.1 Correlation analysis

This test was carried out to assess the direction and strength of the relationship between the independent and dependent variables of the study.

Table 4.11 Correlation analysis

		Credit Risk Assessment	Liquidity Risk Monitoring	Credit Risk Mitigation	Staff Training	Ownership	Financial Performance
Credit Risk Assessment	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	173					
Liquidity Risk Monitoring	Pearson Correlation	.512**	1				
	Sig. (2-tailed)	.000					
	N	173	173				
Credit Risk Mitigation	Pearson Correlation	.318**	.410**	1			

	Sig. (2-tailed)	.000	.000				
	N	173	173	173			
Staff Training	Pearson Correlation	.357**	.521**	.339**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	173	173	173	173		
Ownership Structure	Pearson Correlation	.420**	.671**	.458**	.595**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	173	173	173	173	173	
Financial Performance	Pearson Correlation	.057	.231**	.490**	.408**	.426**	1
	Sig. (2-tailed)	.457	.002	.000	.000	.000	
	N	<u>173</u>	173	173	173	173	173

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4.11 shows how credit assessment, liquidity monitoring, credit risk mitigation, staff training and ownership structure relate to financial performance. The results indicate a positive but insignificant correlation between credit risk assessment and financial performance ($r = 0.057$, $p > 0.05$). This finding aligns with Nyebar, Obalade, and Muzindutsi (2023), who found a positive but insignificant effect of collateral valuation on financial performance in Ghana. Similarly, Ekinci and Poyraz (2019) reported a negative relationship between credit score assessment and financial performance in Turkey, specifically Return on Equity (ROE) and Return on Asset (ROA). However, Wachira (2017) found that credit scoring evaluation and customer repayment history had a positive and significant effect on the performance of commercial banks in Nyeri County, Kenya

Liquidity risk monitoring exhibited a significant positive correlation with financial performance ($r = 0.231$, $p < 0.05$). This is consistent with Ali and Dhiman (2019), who found that the loan-to-deposit ratio and capital adequacy ratio positively and significantly affected public commercial banks' profitability in India. Similarly, Amoo, Rambo, and Mbugua (2023) reported a positive significant correlation between liquidity risk management and the performance of real estate construction projects in Busia County, Kenya. However, Sathyamoorthi et al. (2020) revealed that the loan-to-deposit ratio had a negative and significant effect on financial performance in Botswana's commercial banks

The correlation between credit risk mitigation and financial performance is positive and significant ($r = 0.490$, $p < 0.05$). These results are in line with Noori (2021), who established that collateral reinforcement and guarantees had a positive and significant relationship with financial performance in Malaysian commercial banks. Similarly, Rehman et al. (2019) found that credit diversification positively affected the performance of Balochistan commercial banks in Pakistan. In contrast, Aigbomian and Akinlosot (2017) reported that credit derivatives had a positive but insignificant effect on the profitability of deposit-taking banks in Nigeria.

Staff training demonstrated a positive and significant correlation with financial performance ($r = 0.408$, $p < 0.05$). These findings concur with Pham (2021), who reported that risk assessment training positively affected the financial performance of banks in Vietnam. Likewise, Kiplagat and Kalui (2020) found that employees' knowledge of prudential regulations through regular training programs positively influenced the financial performance of commercial banks in Kenya. However, Isoh and Nchang (2020) found that employee

training on regulatory compliance was insignificant to the financial performance of commercial banks in Cameroon.

4.5.2 Testing of the Research Hypotheses

Regression analysis was carried out to test the study hypotheses at a confidence level of 95%. The study examined the direct relationship between the independent variables (credit risk assessment, liquidity risk monitoring, credit risk mitigation and staff training) and the dependent variable (financial performance). subsequently, multiple regression analysis was carried out to ascertain the joint relationship between the study variables.

4.5.2.1 Credit Risk Assessment and Financial Performance

The first hypothesis stated that:

H₀₁: There is no statistical significant relationship between the credit risk assessment and financial performance of tier two and three commercial banks in Kenya.

The study carried out simple regression analysis to assess the direct relationship between credit risk assessment and financial performance. The results are presented in Table 4.12 –

Table 4.14

Table 4.12 Model Summary for the relationship between credit risk assessment and financial performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.400 ^a	0.160	0.153	0.450

a. Predictors: (Constant), Credit Risk Assessment

The results in Table 4.12 show that R square is 0.160, This means that 16% variance in financial performance can be explained by credit risk assessment and 84% variance in financial performance can be explained by other factors.

Table 4.13 ANOVA results for Credit risk assessment and Financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.500	1	12.500	45.455	0.000 ^b
	Residual	47.067	171	.275		
Total		59.567	172			

a. Dependent Variable: Financial Performance

Table 4.13 explains that the model was statistically significant. The F-statistic of the regression (F (1,171) = 45.455) was statistically significant (p=0.000<0.05). This means that the model applied significantly predicted the change of the dependent variable (financial performance) as a result of the predictor variable (credit risk assessment). The model therefore fits the data.

Table 4.14 Coefficients for Credit Risk Assessment and Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	3.372	.402		8.380	.000
	Credit Risk	.076	.102	.057	.745	.457
	Assessment					

a. Dependent Variable: Credit Risk Assessment

Table 4.14 shows that there exists a statistically insignificant positive relationship between liquidity risk monitoring and financial performance with a coefficient of 0.076 ($\beta=0.076$; $p = 0.457 > 0.05$). This explains that when credit risk management increases by an additional unit, financial performance increases by 0.076. The following regression equation was obtained. $Y=3.372+0.072X_1$. Where; Y= Financial performance, X_1 = Credit Risk Assessment

Therefore, the null hypothesis, that there is no statistical significant relationship between the credit risk assignment and financial performance of tier II and III commercial banks in Kenya, was accepted and the hypothesis that there exists a statistical significant relationship between the credit risk assessment and financial performance of tier II and III commercial banks in Kenya was rejected. This implies that credit risk management does not affect financial performance of tier II and III commercial banks in Kenya.

These findings can be corroborated with those of Nyebar, Obalade, and Muzindutsi (2023) who in assessing the effectiveness of credit risk management strategies on the financial performance of agricultural financing commercial banks in Ghana established that credit risk assessment had a positive and insignificant effect on financial performance. Similarly, Ekinci and Poyraz (2019) found that credit risk assessment had a negative relationship with

Return on Equity and Return on Asset of commercial banks in Turkey.

4.5.2.2 Liquidity Risk Monitoring and Financial Performance

The second hypothesis was that:

H₀₂: There is no statistical significant relationship between liquidity risk monitoring and financial performance of tier two and three commercial banks in Kenya.

To test the hypothesis, simple regression analysis to assess the relationship between liquidity risk monitoring and financial performance was carried out and the findings presented in Table 4.16-Table 4.17.

Table 4.15 Model summary for liquidity risk monitoring and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.231 ^a	0.054	0.048	0.51124

a. Predictors: (Constant), Liquidity Risk Monitoring

Table 4.15 shows that R square is 0.054 indicating that a 5.4% change in financial performance can be explained by liquidity risk monitoring. Therefore, a 94.5% change in financial performance can be explained by factors other than liquidity risk monitoring.

Table 4.16 ANOVA results for liquidity risk monitoring and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.527	1	2.527	9.668	.002 ^b
	Residual	44.693	171	.261		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Liquidity Risk Monitoring

Table 4.16 explains that the model was statistically significant. The F-statistic of the regression ($F(1,171) = 9.668$) was statistically significant ($p=0.002<0.05$). This means that the model applied significantly predicted the change of the dependent variable (financial performance) as a result of the predictor variable (liquidity risk monitoring). The model therefore fits the data.

Table 4.17 Coefficient for liquidity risk monitoring and financial performance

Model	Unstandardized Coefficients	Standardized	t	Sig.
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		Coefficients				
		β	Std. Error	Beta		
1	(Constant)	3.012	.215		13.990	0.000
	Liquidity Risk Monitoring	.183	.059	.231	3.109	0.002

a. Dependent Variable: Financial Performance

Table 4.17 shows that there exists a statistically significant positive relationship between liquidity risk monitoring and financial performance with a coefficient of 0.183 ($\beta = 0.183$; $p = 0.002 < 0.05$). This explains that when liquidity risk monitoring increases by an additional unit, financial performance increases by 0.183. The following regression equation was obtained: $Y = 3.012 + 0.183X_2$. Where; Y = Financial performance and X_2 = Liquidity risk monitoring.

The null hypothesis, there is no statistical significant relationship between the liquidity risk monitoring and financial performance of tier two and three commercial banks in Kenya, was therefore rejected and the hypothesis that there exists a statistical significant relationship between the liquidity risk monitoring and financial performance of tier two and three commercial banks in Kenya was accepted. This implies that liquidity risk monitoring affects financial performance of tier two and three commercial banks in Kenya. Similarly, these agree with those of Pham (2021), Kiplagat and Kalui (2020) and Karanja, *et al.*, (2022) which revealed that liquidity risk monitoring had a significant relationship with financial performance.

4.5.2.3 Credit Risk Mitigation Practices and Financial Performance

The third hypothesis stated that:

H03: There is no statistical significant relationship between credit risk mitigation practices and financial performance of tier two and three commercial banks in Kenya.

To test the hypothesis, simple regression analysis to assess the relationship between credit risk mitigation practices and financial performance was carried out and the findings presented in Table 4.18-Table 4.20.

Table 4.18 Model summary for credit risk mitigation practices and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.490 ^a	0.240	0.236	0.45809

a. Predictors: (Constant), Credit Risk Mitigation

Table 4.18 shows that R square is 0.240 indicating that a 24% change in financial performance can be explained by credit risk mitigation practices. Therefore, a 76% change in financial performance can be explained by factors other than credit risk mitigation.

Table 4.19 ANOVA results for credit risk mitigation and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.336	1	11.336	54.024	.000 ^b
	Residual	35.883	171	.210		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Mitigation

Table 4.19 explains that the model applied was statistically significant. The F-statistic of the regression ($F(1,171) = 54.024$) was statistically significant ($p=0.00 < 0.05$). This means that the model applied significantly predicted the change of the dependent variable (financial

performance) as a result of the predictor variable (credit risk mitigation). This implies that the model fits the data.

Table 4.20 Coefficient for credit risk mitigation and financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	2.584	.152		17.021	.000
	Credit Risk Mitigation	.326	.044	.490	7.350	.000

a. Dependent Variable: Financial Performance

Table 4.20 indicates that there exists a statistically significant positive relationship between credit risk mitigation and financial performance with a coefficient of 0.326 ($\beta = 0.326$; $p = 0.000 < 0.05$). This means that when credit risk mitigation increases by one unit, financial performance increases by 0.326. From these finding, the following regression equation was obtained. $Y = 2.584 + 0.326X_3$ Where; Y= Financial performance and X_3 = Credit risk mitigation

The null hypothesis, that there is no statistical significant relationship between the credit risk mitigation and financial performance of tier two and three commercial banks in Kenya, was therefore rejected and the alternate hypothesis that there exists a statistical significant relationship between the credit risk mitigation and financial performance of tier two and three commercial banks in Kenya was accepted. This implies that credit risk mitigation affects financial performance of tier two and three commercial banks in Kenya. These findings corroborate with those of Noori (2021) which established that credit risk mitigation had a significant relationship with financial of commercial banks in a study explored the effect of

risk mitigation on commercial banks' financial performance in Malaysia. Additionally, Aigbomian and Akinlosot (2017) found a significant relationship between credit risk mitigation practices on the profitability of deposit-taking banks in Edo State, Nigeria.

4.5.2.4 Staff Training and Financial Performance

The fourth hypothesis stated that:

H04: There is no statistical significant relationship between staff training and financial performance of tier two and three commercial banks in Kenya.

To test the hypothesis, simple regression analysis to assess the relationship between staff training and financial performance was carried out and the findings presented in Table 4.21- Table 4.23.

Table 4.21 Model summary for staff training and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.408 ^a	0.166	0.162	0.47976

a. Predictors: (Constant), Staff Training

The results in Table 4.21 indicate that R square is 0.166 indicating that a 16.6% change in financial performance can be explained by staff training. This means that 83.4% change in financial performance can be explained by factors other than staff training.

Table 4.22 ANOVA results for staff training and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.861	1	7.861	34.155	.000 ^b
	Residual	39.358	171	.230		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Staff Training

Table 4.22 indicates that the model was statistically significant. The model had F-statistics of the regression ($F(1, 171) = 34.155$) which was statistically significant ($p=0.000<0.05$). This implies that the model applied significantly predicted the change of the dependent variable (financial performance) as result of the predictor variable (staff training) included in the model, suggesting that the model significantly fits the data.

Table 4.23 Coefficients for staff training and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	2.614	.184		14.180	.000
	Staff Training	.308	.053	.408	5.844	.000

a. Dependent Variable: Financial Performance

As per the findings in Table 4.23, there exists a statistically significant positive relationship between staff training and financial performance as shown by a coefficient of 0.308 ($\beta=0.308$; $p = 0.000<0.05$). This means that when staff training increases by one unit, financial performance increases by 0.308. The following equation summarizes these finding.

$Y=2.614+0.308X_4$ Where; Y= Financial performance and X_4 = Staff training

Therefore, the null hypothesis, that there is no statistical significant relationship between the staff training and financial performance of tier two and three commercial banks in Kenya, was rejected and the alternate hypothesis that there exists a statistical significant relationship between staff training and financial performance of tier two and three commercial banks in Kenya was accepted. This implies that staff training affects financial performance of tier two

and three commercial banks in Kenya. These findings concur with those from studies carried by Pham (2021), Kiplagat and Kalui (2020) and Karanja, *et al.*, (2022) which revealed that staff training has a significant relationship with performance of commercial banks.

4.5.2.5 Multiple Regression

The study carried out multiple regression analysis to assess the overall relationship credit risk management practices and financial performance.

Table 4.24 Model summary for the overall relationship

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583 ^a	.340	.325	.43057

a. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training

Table 4.24 indicated that r square is 0.340. which implies that a 34% change in financial performance can be explained by organizational factors (Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training). Therefore, a 66% change in financial performance can be explained by any other factors other than these organizational factors.

Table 4.25 ANOVA results for the overall relationship

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.074	4	4.019	21.676	.000 ^b
	Residual	31.146	168	.185		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training

Table 4.25 indicates the results of the joint relationship between organizational factors and financial performance. The model had F-statistics of the regression ($F(4, 168) = 21.676$) which was statistically significant ($p=0.000<0.05$). This implies that the model applied significantly predicted the change of the dependent variable (financial performance) as result of the predictor variables (Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training). These findings suggested that the model significantly fit the data.

Table 4.26 Coefficients for the overall relationship

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.887	0.335		8.619	0.000
	Credit Risk Assessment	-0.254	0.099	-0.191	-2.577	0.011
	Liquidity Risk Monitoring	-0.026	0.065	-0.033	-0.395	0.693
	Credit Risk Mitigation	0.298	0.047	0.448	6.394	0.000
	Staff Training	0.257	0.056	0.341	4.558	0.000

a. Dependent Variable: Financial Performance

The study findings in Table 4.26 indicate that credit risk assessment had a beta coefficient of -0.254 and a p-value of $0.011<0.05$, liquidity risk monitoring had a beta coefficient of -0.026 and a p-value of $0.693>0.05$. Further, credit risk mitigation had a beta coefficient of 0.298 and a p-value of $0.000<0.005$ and staff training had a p-value of $0.000<0.05$.

The multiple regression equations were translated as follows:

MR model: Financial performance = 2.887 + -0.254 credit risk assessment + -0.026 liquidity risk monitoring + 0.298 credit risk mitigation + 0.257 staff training

The findings from the multiple regression analysis are validated by those of Lew and Lau (2022) which revealed credit management practices had a significant relationship return on Asset and Return on Equity in a study assessing the relationship between credit risk management and commercial banks' financial performance in the Southeast Asian Nations region. Likewise, in assessing the effect of financial risk assessment and analysis on commercial banks' financial performance in Kenya. Juma, et al., (2018) found that Return on Assets of the commercial banks was negatively and significantly affected by credit risks, positively and insignificantly affected by liquidity risk, and significantly affected by foreign exchange risks, and lastly, positively and significantly affected by interest rates.

4.5.3 Moderated Regression Analysis

The study examined the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance of tier two and three commercial banks. The moderating effect of the ownership structure on the independent variables was first examined separately and subsequently the moderating effect of ownership structure on the overall relationship was examined.

4.5.3.1 Credit Risk Assessment, Ownership Structure and Financial Performance

The study examined the moderating effect of ownership structure on the relationship between credit risk assessment and financial performance. The findings are presented in Table 4.27 to Table 4.29

Table 4.27 Model summary for the moderating effect of ownership structure on the relationship between credit risk assessment and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.161 ^a	.026	.020	.51865
2	.427 ^b	.183	.173	.47647

a. Predictors: (Constant), Credit Risk Assessment

b. Predictors: (Constant), Credit Risk Assessment, Ownership Structure

Table 4.27 shows the moderating effect of ownership structure on the relationship between credit risk assessment and financial performance. R square in the moderated model changed from 0.026 to 0.183. This suggests that ownership structure has a significant moderating effect on the relationship between credit risk assessment and financial performance.

Table 4.28 ANOVA results for the moderating effect of ownership structure on the relationship between credit risk assessment and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.221	1	1.221	4.539	.035 ^b
	Residual	45.999	171	.269		
	Total	47.220	172			
2	Regression	8.626	2	4.313	18.997	.000 ^c
	Residual	38.594	170	.227		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Assessment

c. Predictors: (Constant), Credit Risk Assessment, Ownership Structure

Table 4.25 shows that the two models were statistically significant since model 1 had (F (1,171) = 4.539) which was statistically significant ($p=0.035<0.05$) and model 2 had F (2,170) = 18.997) which statistically significant ($p=0.00<0.05$). The mean square of the residuals reduced from 0.026 in model 1 to 0.227 in model 2. Therefore, the ANOVA results in the moderated model indicate that the model was significant, suggesting that it

significantly fits the data.

Table 4.29 Coefficients for the moderating effect of ownership structure on the relationship between credit risk assessment and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.008	.313		9.602	0.000
	Credit Risk Assessment	.182	.086	.161	2.131	0.035
2	(Constant)	2.569	.298		8.624	0.000
	Credit Risk Assessment	0.366	0.124	0.322	2.947	0.004
	Credit Risk Assessment*	.653	.114	.625	5.711	0.000
	Ownership Structure					

a. Dependent Variable: Financial Performance

Table 4.29 indicates that credit risk assessment had a coefficient of 0.366 which is statistically significant since $p < 0.05$. This means that without considering the moderating effect of ownership structure, an increase in credit risk assessment reduces financial performance. After moderation the beta coefficient for credit risk assessment was 0.653 with $p\text{-value} < 0.05$, indicating that ownership structure has a significant moderating effect on credit risk assessment and financial performance.

4.5.3.2 Liquidity Risk Monitoring, Ownership Structure and Financial Performance

The study examined the moderating effect of ownership structure on the relationship between liquidity risk monitoring and financial performance. The findings are presented in Table 4.30 to Table 4.32

Table 4.30 Model summary for the moderating effect of ownership structure on the relationship between liquidity risk monitoring and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.231 ^a	.054	.048	.51124
2	.433 ^b	.187	.178	.47515

a. Predictors: (Constant), Liquidity Risk Monitoring

b. Predictors: (Constant), Liquidity Risk Monitoring, Ownership Structure

Table 4.30 indicates that the moderating effect of ownership structure on the relationship between liquidity risk monitoring and financial performance. R square in the moderated model changed from 0.054 to 0.187. This suggests that ownership structure has a significant moderating effect on the relationship between liquidity risk monitoring and financial performance.

Table 4.31 ANOVA results for the moderating effect of ownership structure on the relationship between liquidity risk monitoring and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.527	1	2.527	9.668	.002 ^b
	Residual	44.693	171			
	Total	47.220		.261		
			172			
2	Regression	8.838	2	4.419	19.574	.000 ^c
	Residual	38.381	170			
	Total	47.220		.226		
			172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Liquidity Risk Monitoring

c. Predictors: (Constant), Liquidity Risk Monitoring, Ownership Structure

Table 4.31 shows that the two models were statistically significant since model 1 had (F (1,171) = 9.668) which was statistically significant ($p=0.002<0.05$) and model 2 had F (2,170) = 19.574) which statistically significant ($p=0.00<0.05$). The mean square of the residuals

reduced from 0.261 in model 1 to 0.226 in model 2. Therefore, the ANOVA results in the moderated model indicate that the model was significant, suggesting that it significantly fits the data.

Table 4.32 Coefficients for the moderating effect of ownership structure on the relationship between liquidity risk monitoring and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.012	.215		13.990	.000
	Liquidity Risk Monitoring	.183	.059	.231	3.109	.002
2	(Constant)	2.565	.217		11.810	0.000
	Liquidity Risk Monitoring	-.444	.131	-.561	-3.398	0.001
	Liquidity Risk Monitoring*Ownership Structure	.730	.138	.872	5.287	0.000

a. Dependent Variable: Mean Financial Performance

Table 4.32 indicates that liquidity risk monitoring had a coefficient of -0.444 which is statistically significant since $p < 0.05$. This means that without considering the moderating effect of ownership structure, an increase in liquidity risk monitoring reduces financial performance. After moderation the beta coefficient for liquidity risk monitoring was 0.730 with $p\text{-value} < 0.05$, indicating that ownership structure has a significant moderating effect on liquidity risk monitoring and financial performance.

4.5.3.3 Credit Risk Mitigation, Ownership Structure and Financial Performance

The study examined the moderating effect of ownership structure on the relationship between credit risk mitigation and financial performance. The findings are presented in Table 4.33 to Table 4.35.

Table 4.33 Model summary for the moderating effect of ownership structure on the relationship between credit risk mitigation and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.490 ^a	.240	.236	.45809
2	.540 ^b	.292	.283	.44356

a. Predictors: (Constant), Credit Risk Mitigation

b. Predictors: (Constant), Credit Risk Mitigation, Ownership Structure

Table 4.33 indicates that the moderating effect of ownership structure on the relationship between credit risk mitigation and financial performance. R square in the moderated model changed from 0.240 to 0.283. This suggests that ownership structure has a significant moderating effect on the relationship between credit risk mitigation and financial performance.

Table 4.34 ANOVA results for the moderating effect of ownership structure on the relationship between credit risk mitigation and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.336	1	11.336	54.024	.000 ^b
	Residual	35.883	171	.210		
	Total	47.220	172			
2	Regression	13.772	2	6.886	34.999	.000 ^c
	Residual	33.447	170	.197		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Mitigation

c. Predictors: (Constant), Credit Risk Mitigation, Ownership Structure

Table 4.34 shows that the two models were statistically significant since model 1 had (F

(1,171) = 54.024) which was statistically significant ($p=0.000<0.05$) and model 2 had $F(2,170) = 34.999$ which statistically significant ($p=0.000<0.05$). The mean square of the residuals reduced from 0.210 in model 1 to 0.197 in model 2. Therefore, the ANOVA results in the moderated model indicate that the model was significant, suggesting that it significantly fits the data.

Table 4.35 Coefficients for the moderating effect of ownership structure on the relationship between credit risk mitigation and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.584	.152		17.021	.000
	Credit Risk Mitigation	.326	.044	.490	7.350	.000
2	(Constant)	2.124	.197		10.795	.000
	Credit Risk Mitigation	.059	.087	.089	.679	.498
	Credit Risk Mitigation*Ownership Structure	.378	.107	.461	3.518	.001

a. Dependent Variable: Financial Performance

Table 4.35 indicates that credit risk mitigation had a coefficient of 0.059 which is statistically significant since $p<0.05$. This means that without considering the moderating effect of ownership structure, an increase in credit risk mitigation slightly increases financial performance. After moderation the beta coefficient for credit risk mitigation was 0.378 with $p\text{-value}<0.05$, indicating that ownership structure has a significant moderating effect on credit risk mitigation and financial performance.

4.5.3.4 Staff Training, Ownership Structure and Financial Performance

The study examined the moderating effect of ownership structure on the relationship between staff training and financial performance. The findings are presented in Table 4.33 to Table 4.35

Table 4.36 Model summary for the moderating effect of ownership structure on the relationship between staff training and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.408 ^a	.166	.162	.47976
2	.467 ^b	.219	.209	.46589

a. Predictors: (Constant), Staff Training

b. Predictors: (Constant), Staff Training, Ownership Structure

Table 4.36 shows the moderating effect of ownership structure on the relationship between staff training and financial performance. R square in the moderated model changed from 0.166 to 0.219. This suggests that ownership structure has a significant moderating effect on the relationship between staff training and financial performance

Table 4.37 ANOVA results for the moderating effect of ownership structure on the relationship between staff training and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.861	1	7.861	34.155	.000 ^b
	Residual	39.358	171	.230		
	Total	47.220	172			
2	Regression	10.320	2	5.160	23.773	.000 ^c
	Residual	36.900	170	.217		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Staff Training

c. Predictors: (Constant), Staff Training, Ownership Structure

Table 4.37 shows that the two models were statistically significant since model 1 had ($F(1,171) = 34.155$) which is statistically significant ($p < 0.05$) and model 2 had $F(2,170) = 23.773$ which is statistically significant ($p < 0.05$). The mean square of the residuals reduced from 0.230 in model 1 to 0.197 in model 2. Therefore, the ANOVA results in the moderated model indicate that the model was significant, suggesting that it significantly fits the data.

Table 4.38 Coefficients for the moderating effect of ownership structure on the relationship between staff training and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.614	.184		14.180	.000
	Staff Training	.308	.053	.408	5.844	.000
2	(Constant)	2.252	.209		10.782	.000
	Staff Training	.030	.113	.039	.264	.792
	Staff	.420	.125	.502	3.366	.001
	Training*Ownership Structure					

a. Dependent Variable: Financial Performance

Table 4.38 shows that staff training had a coefficient of 0.030 which is statistically significant since $p > 0.05$. This means that without considering the moderating effect of ownership structure, staff training alone has no significant effect on financial performance. After moderation the beta coefficient for staff training was 0.420 with $p\text{-value} < 0.05$, indicating that ownership structure has a significant moderating effect on staff training and financial performance.

4.5.3.5 Moderated Multiple Regression Analysis

The study examined the moderating effect of ownership structure on the overall relationship between credit risk management practices and financial performance of tier two and three commercial banks.

Table 4.39 Model summary for the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583 ^a	.340	.325	.43057
2	.611 ^b	.373	.354	.42103

a. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training

b. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, Staff Training and Ownership Structure

The findings presented in table 4.39 show that R Square in the moderated model changed from 0.340 to 0.373 indicating an increase in variation as a result of the interaction effect of moderating variable. This means that in Model 1, 34% change in financial performance can be explained by the independent variables (credit risk assessment, liquidity risk monitoring, credit risk mitigation and staff training). In model 2, 37.3% change in financial performance can be explained by both the independent variables and ownership structure.

Table 4.40 ANOVA results for the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance

Model	Sum of Squares	df	Mean Square	F	Sig.
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1	Regression	16.074	4	4.019	21.676	.000 ^b
	Residual	31.146	168	.185		
	Total	47.220	172			
2	Regression	17.616	5	3.523	19.875	.000 ^c
	Residual	29.603	167	.177		
	Total	47.220	172			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, and Staff Training

c. Predictors: (Constant), Credit Risk Assessment, Liquidity Risk Monitoring, Credit Risk Mitigation, Staff Training and Ownership Structure

The results on table 4.40 indicate that the two models were statistically significant. Model 1 had ($F(4, 168) = 21.676, p < 0.05$) while model 2 had ($F(5, 167) = 19.875, p < 0.05$). Further, the mean square of the residuals reduced from 0.185 in model 1 to 0.177 in model 2. The ANOVA results in the moderated model indicate that the model was significant, suggesting that it significantly fits the data.

Table 4.41 Coefficients for the moderating effect of ownership structure on the relationship between credit risk management practices and financial performance

Model	Unstandardized	Standardized	t	Sig.
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		Coefficients		Coefficients	
		B	Std. Error	Beta	
1	(Constant)	2.887	.335		8.619 0.000
	Credit Risk Assessment	-.254	.099	-.191	-2.577 0.011
	Liquidity Risk Monitoring	-.026	.065	-.033	-.395 0.693
	Credit Risk Mitigation	.298	.047	.448	6.394 0.000
	Staff Training	.257	.056	.341	4.558 .000
2	(Constant)	2.824	.328		8.601 0.000
	Credit Risk Assessment	-.270	.097	-.202	-2.791 0.006
	Liquidity Risk Monitoring	-.117	.071	-.148	-1.647 0.101
	Credit Risk Mitigation	.268	.047	.403	5.726 0.000
	Staff Training	.195	.059	.258	3.301 0.001
	Ownership Structure	.201	.068	.272	2.950 0.004

a. Dependent Variable: Financial Performance

The results in table 4.41 indicates that after moderation, the beta coefficient for credit risk assessment was -0.270 with p-value<0.05 while the beta coefficient for liquidity risk monitoring was -0.117 with a p-value>0.05. Further, the beta coefficient for credit risk mitigation was 0.268 with a p-value<0.05, while the beta coefficient for staff training was 0.195 with a p-value<0.05. The results also indicate that the beta coefficient of the moderating variable (ownership structure) was 0.201 with a p-value<0.05, implying that ownership structure has significant moderating effect on the relationship between credit risk management strategies and financial performance of tier two and three commercial banks in Kenya.

The multiple regression equations were translated as follows:

MMR model: Financial performance = 2.824 + -0.270 credit risk assessment + -0.117 liquidity risk monitoring + 0.268 credit risk mitigation + 0.195 staff training + 0.201 Ownership structure.

These findings can be corroborated by those of Hussain and Rasheed (2022) that established that ownership structure did not have any moderating effect on the relationship between credit management, liquidity management, and capital adequacy on the economic performance of commercial banks with a moderating role of ownership structure. The study indicated that ownership structure did not have any moderating role in the relationship between credit management and economic performance of commercial banks. In other studies, Boachie (2023) found that ownership structure had a moderating effect on the relationship between corporate governance and banks' financial performance in Ghana, Chol, et al., (2020) found that ownership structure significantly moderated the relationship between bank stability and commercial banks' financial performance in South Sudan. And finally Kiprop (2018) also established that ownership structure had a significant moderating effect on the relationship between credit management strategies and financial performance of financial institutions in Kenya

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section summarizes the study findings, conclusions, recommendations and suggestions for further research.

5.2 Summary of findings

The researcher summarized the findings according to the objectives of the study.

5.2.1 Credit risk assessment and financial performance

The study found that most of the respondents were neutral about whether the bank uses the borrower's income to assess credit risk. The majority of the respondents were also neutral about whether the bank conducted credit score assessments of borrowers frequently before disbursing loans. However, most respondents agreed that the banks had an effective collateral valuation process that reduced risk and that the bank's credit department assessed customers' payment history to determine their level of risk. Despite this, respondents remained neutral on whether the bank's credit risk assessment had any effect on financial performance. They were also unsure whether the use of credit reference bureau services improved the loan recovery rate. The regression results revealed that credit risk assessment had a positive but statistically insignificant relationship with financial performance.

5.2.2 Liquidity risk monitoring and financial performance

The findings revealed that most tier-two and tier-three commercial banks in Kenya maintained the required cash reserve ratio. The banks also had an effective loan-to-deposit ratio, which complied with CBK regulations. However, most banks did not adequately meet the capital adequacy ratio requirements. Liquidity risk monitoring was conducted in some banks, but most respondents remained neutral on this aspect. Similarly, respondents were also neutral

about whether the banks had efficient liquidity coverage ratio management. However, the banks had effective asset-liability management, which enhanced their liquidity position. Furthermore, the regression results revealed that liquidity risk monitoring had a statistically significant relationship with the financial performance of these banks.

5.2.3 Credit risk mitigation and financial performance

The findings established that most banks did not effectively enforce collateral lending to minimize risks associated with loan defaults. To mitigate these risks, banks restructured their loan products, though not frequently. The study also found that credit diversification, loan covenants between borrowers and banks, and the implementation of credit insurance policies contributed to improved financial performance. Furthermore, the findings revealed that credit monitoring practices within banks played a key role in enhancing financial performance. Similarly, regression analysis confirmed that credit risk mitigation had a statistically significant relationship with the financial performance of these banks.

5.2.4 Staff training and financial performance

The study found that the bank employees were periodically trained on loan approval processes as indicated by majority of the respondents. Additionally, most respondents disagreed that banks conducted seminars regularly to sensitize employees on regulatory compliance. However, it was established that employees were trained on loan recovery process, received regular training on risk assessment techniques, fraud detection and prevention strategies and that the banks had in place programs for continuous professional development which led to enhanced financial performance. The regression results found that staff training had a positive statistically significant relationship with financial performance of the commercial banks.

5.2.5 The overall relationship between credit risk management practices and financial performance

The study found that credit risk assessment has a statistically negative significant relationship with financial performance, liquidity risk monitoring has a negative statistically insignificant relationship with financial performance. Further, both credit risk mitigation and staff training have a statistically positive significant relationship with financial performance.

5.2.6 The moderating effect of ownership structure on the relationship between risk management practices and financial performance

The findings indicated that credit risk assessment has a statistically significant positive effect on financial performance both before and after the interaction of ownership structure as the moderating variable. This suggests that effective credit risk assessment practices enhance financial performance and that ownership structure further strengthens this relationship. Banks with well-structured ownership frameworks may be better positioned to implement rigorous credit risk assessment processes, ultimately improving their financial stability and profitability.

Liquidity risk monitoring, on its own, has a statistically significant effect on financial performance. Even after introducing ownership structure as a moderating factor, liquidity risk monitoring maintains a positive and statistically significant relationship with financial performance. This implies that banks that actively monitor and manage their liquidity risks tend to perform better financially, and the presence of a well-defined ownership structure may further reinforce sound liquidity management practices, ensuring sustainable financial health.

The study found that credit risk mitigation, when considered independently, does not have a statistically significant impact on financial performance. However, after introducing ownership structure as a moderating factor, credit risk mitigation becomes positively significant in influencing financial performance. This highlights the importance of ownership structure in reinforcing risk mitigation strategies. Banks with strong governance and ownership structures may be more effective in implementing credit risk mitigation measures, thereby enhancing their financial outcomes.

Staff training, on its own, has a statistically insignificant effect on financial performance. However, when combined with ownership structure, staff training becomes positively significant in influencing financial performance. This suggests that structured ownership in banks may facilitate better training programs, leading to improved employee competencies, enhanced risk management, and ultimately, stronger financial performance. Continuous professional development, supported by ownership structures, can play a crucial role in ensuring that bank staff are well-equipped to handle evolving financial risks.

5.2.7 The moderating effect of ownership structure on credit risk management practices and financial performance

The findings showed that due to the moderating effect of ownership structure, credit risk assessment continued to have a statistically negative and significant effect on financial performance and liquidity risk monitoring remained negative and not significant to financial performance. Further, credit risk mitigation remained positive and significant to financial performance and staff training also has a positive significant effect on financial performance. The study also found that ownership structure has a positive significant effect on financial performance.

5.3 Conclusions

The study made the following conclusions based on the above findings.

5.3.1 Credit risk assessment and financial performance

From the findings the study concluded that credit risk assessment a positive insignificant correlation with financial performance. Similarly, credit risk management practice had a statistically insignificant relationship with financial performance. Therefore, the study concluded that credit risk management has no significant relationship with financial performance of tier two and three commercial banks.

5.3.2 Liquidity risk monitoring and financial performance

From the findings, the study concluded that liquidity risk monitoring has a positive correlation and a statistically significant relationship with financial performance of tier two and three commercial banks. Therefore, the study concluded that liquidity risk monitoring has a positive relationship with financial performance of tier two and three commercial banks. This means that by maintaining the required cash reserve ratio, and having effective loan-to-deposit ratio could enhance the financial performance of the banks. In addition, maintain adequate capital adequacy ratio and efficient management of management of liquidity coverage ratio enhances financial performance of the banks.

5.3.3 Credit risk mitigation and financial performance

From the descriptive statistics, the study concluded that credit risk mitigation had a positive relationship with financial performance of commercial banks. Similarly, the study concluded that credit risk mitigation had a positive and statistically significant relationship with financial performance of tier two and three commercial banks. This implies that effective use of

collateral lending, loan restructuring, credit diversification, establishing a loan covenant between the borrower and lender could improve financial performance of the banks.

5.3.4 Staff training and financial performance

The fourth objective of the study concluded that there exists a significant relationship between staff training and financial performance. This is because majority of the respondents indicated that staff training enhanced the financial performance of the banks. From the inferential statistics, the study concluded that there exist a positive correlation and a statistically significant relationship between staff training and financial performance. This implies that effectively conducted staff training on regulatory compliance, credit recovery, risk assessment techniques, fraud detection and prevention strategies could lead to enhanced financial performance of the banks

5.3.5 The overall relationship between credit risk management practices and financial performance

From the findings, the study concluded that credit risk assessment has a significant relationship with financial performance, liquidity risk monitoring has a statistically insignificant relationship with financial performance of the commercial banks. The study also concluded that credit risk mitigation and staff training has statistically positive significant relationship with financial performance.

5.3.6 The moderating effect of ownership structure on credit risk assessment and financial performance

The study came to a conclusion that credit risk assessment in isolation negative but statistically significant relationship with financial performance while when ownership structure is

introduced, the interaction between credit risk assessment and ownership structure is positive and statistically significant. This implies that ownership structure improves financial performance of the banks.

5.3.7 The moderating effect of ownership structure on liquidity risk monitoring and financial performance

As per the findings, the study concluded that liquidity risk monitoring on its own has a negative but statistically significant relationship with financial performance. However, after the introduction of the moderating effect of ownership structure on liquidity risk monitoring the relationship became statistically positive and significant, implying that firms with different ownership structures could experience improved financial performance.

5.3.8 The moderating effect of ownership structure on credit risk mitigation and financial performance

The study concluded that credit risk mitigation has a statistically significant relationship with financial performance of the commercial banks both before and after the introduction of the ownership structure as the moderating variable.

5.3.9 The moderating effect of ownership structure on staff training and financial performance

The study concluded that staff training has a statistically significant relationship with financial performance of the commercial banks both before and after the introduction of the ownership structure as the moderating variable.

5.3.10 The moderating effect of ownership structure on credit risk management practices and financial performance

The study came to a conclusion that credit risk assessment has a statistically significant relationship financial performance and liquidity risk monitoring has a statistically insignificant relationship with financial performance. Further, both credit risk mitigation and staff training have statistically positive significant relationship with financial performance of the commercial banks.

5.4 Recommendations

Based on the above conclusions, the study made the following recommendations

5.4.1 Credit Risk Assessment and Financial Performance

To improve credit risk assessment and its effect on financial performance, banks should integrate borrower income assessments as a key factor in evaluating credit risk. This would ensure a more comprehensive lending process and reduce the chances of loan default. Additionally, tier two and tier three commercial banks should conduct regular credit score evaluations before issuing loans, allowing them to make better-informed lending decisions. Banks should also enhance their reliance on credit reference bureau services to improve loan recovery rates and minimize defaults. Furthermore, awareness programs and training should be implemented to help bank employees understand the direct impact of credit risk assessment on financial performance, ensuring that risk evaluation is taken seriously at all levels.

5.4.2 Liquidity Risk Monitoring and Financial Performance

To strengthen liquidity risk monitoring, tier-two and tier-three banks should enhance their adherence to CBK capital adequacy regulations. Compliance with these regulations will

ensure financial stability and mitigate potential liquidity crises. Additionally, banks should establish clear frameworks for efficient liquidity coverage ratio management, allowing them to maintain sufficient cash reserves to meet short-term obligations. Expanding liquidity risk monitoring mechanisms, such as real-time tracking of cash flows and automated liquidity management systems, will further improve the ability of financial institutions to respond proactively to liquidity challenges.

5.4.3 Credit Risk Mitigation and Financial Performance

Banks should strictly implement collateral lending policies to minimize risks associated with loan defaults. Effective enforcement of collateral requirements will provide a safety net for financial institutions, reducing their exposure to non-performing loans. Additionally, banks should restructure loans more frequently to support borrowers facing financial difficulties, thereby improving repayment rates and reducing credit losses. Credit product diversification should also be enhanced, allowing banks to spread risk across different financial instruments and customer segments. Furthermore, continuous credit monitoring should be strengthened through improved loan tracking mechanisms and periodic borrower assessments to ensure early detection of potential default risks.

5.4.4 Staff Training and Financial Performance

To enhance financial performance, banks should increase the frequency of training programs to ensure employees remain well-versed in loan approval processes, regulatory compliance, and risk management. Regular seminars and workshops should be conducted to sensitize employees on the latest financial regulations and best practices. Additionally, banks should introduce specialized training on fraud detection and risk prevention strategies, equipping employees with the skills to identify and mitigate fraudulent activities. Continuous

professional development programs should also be reinforced to ensure staff members are constantly updated on evolving financial risk management strategies, which will ultimately contribute to improved decision-making and institutional stability.

5.5 Suggestions for further studies

Future studies could explore credit risk management practices, ownership structure, and financial performance in other financial institutions such as SACCOs, microfinance institutions, and fintech firms, as well as extend the research beyond Kenya for crosscountry comparisons. A comparative study between tier-one, tier-two, and tier-three banks could provide deeper insights into variations in risk management strategies. Methodologically, a longitudinal research design could assess the long-term relationship between credit risk management and financial performance, while adopting a mixedmethods approach which incorporates qualitative data could offer a more comprehensive analysis. Additionally, future research could examine the moderating and mediating effects of factors such as regulatory policies, economic conditions, and technological advancements.

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APPENDICES

Appendix I: Introduction Letter

Cheboss Venus Jeptoo

P.O Box: 2030 - 20200

Kericho

Dear Sir / Madam

RE: Request for Data Collection

I am a student at the University of Kabianga, currently pursuing Masters' in Business administration (MBA) and majoring in finance option. As part of the program, I am supposed to conduct academic research in the field of my specialization. You have been identified as one of my respondents who will give relevant information per the attached questionnaire. My research topic is "To assess the Credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya." All the information shared will not be used for any other purpose besides academic use only, and the information will be treated as private and confidential.

Thank you for your assistance in advance.

Cheboss Venus Jeptoo

Appendix II: Questionnaire

This questionnaire aims to collect data on the relationship between credit risk management practices, ownership structure and financial performance of tier II and III commercial banks in Kenya. The questionnaire is divided into two sections; the first will obtain personal data, while the second will seek to obtain data related to the study's specific objectives. Kindly provide honest answers by following the instructions issued in each section

SECTION ONE: DEMOGRAPHIC DATA

Put a tick (✓) against your appropriate choice

1. Number of branches
 - a. Less than 5 branches
 - b. Between 6 and 10 branches
 - c. More than 11 branches
2. How long have you worked in the bank?
 - a. Less than 5 years
 - b. Between 6 and 10 years
 - c. More than 11 years
3. Which department are working in currently
 - a. Bank managers
 - b. Credit managers
 - c. Credit officers
 - d. Credit analysts
4. Who are the majority shareholders in the bank?
 - a. Government ownership
 - b. Foreign ownership
 - c. Institutional ownership
 - d. Individual ownership
 - e. Managerial ownership
 - f. Family ownership

SECTION TWO: SPECIFIC OBJECTIVES

Part 1: Credit Risk Assessment

This section contains a statement on the credit risk management practices at the bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD
1.	The bank use borrower's income in determining the risk level of lending					
2.	The bank conducts credit score assessment of the borrowers frequently before dispatching the loan					
3.	There is effective collateral valuation of the customers that reduces the risk of the bank					
4.	The bank's credit department assesses customer's payment history in order to determine the level of risks					
5.	The bank's credit risk assessment has led to increase in financial performance					
6.	Use of credit reference bureau services has enhanced loan recovery rate					

Part 2: Liquidity Risk Monitoring

This section contains a statement on the liquidity risk monitoring practices at the bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD
1.	The bank maintains cash reserve ratio					

2.	There is effective loan-to-deposit ratio which banks comply with					
3.	The bank has effective capital adequacy ratio which the bank maintains					
4.	Liquidity risk monitoring is conducted in the bank					
5.	The bank's has an efficient management of liquidity coverage ratio.					
6.	Effective asset-liability management has enhanced the bank's liquidity position.					

Part 3: Credit Risk Mitigation

This section contains a statement on the credit risk mitigation practices at the bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD
1.	The bank's use of collateralized lending has minimized default risks					
2.	The bank frequently allow loan restructuring which has led to enhanced mitigation of risk					

3.	The bank's credit diversification has led to an increase in financial performance					
4.	Loan covenant between the borrower and the lender has contributed to an increase in financial performance					
5.	The bank has a credit insurance policy that it operates under.					
6.	Credit monitoring practices within the bank have played a key role in enhancing financial performance					

Part 4: Staff Training

This section contains a statement on the personnel training practices at the bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD
1.	Bank employees are periodically trained on the loan approval process					

2.	Knowledge on regulatory compliance through seminars has contributed to increase in financial performance					
3.	Employees are trained on how to carry out credit recovery					
4.	Employees receive regular training on risk assessment techniques, which has improved the accuracy of loan evaluations					
5.	Continuous professional development on customer relationship management has enhanced employee skills, resulting in improved client retention					
6.	Staff members are trained on fraud detection and prevention strategies.					

Part 5: Ownership Structure

This section contains a statement on the capital structure at the bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD

1.	There is involvement of government ownership in the bank					
2.	There is involvement of foreign ownership in the bank					
3.	There is involvement of institutional ownership in the bank					
4.	There is involvement of individual ownership in the bank					
5.	Ownership structure of the bank includes managerial ownership					
6.	Ownership structure of the bank is dominated by family ownership					

Part 6: Financial Performance

This section contains a statement on the financial performance of the commercial bank. Indicate the extent you agree to these statements by putting a Cross mark (X) on the Likert scale provided below. On the scale, number five stands for strongly agree, four stands for agree, three stands for not decided while two stands for disagree, and finally, one stands for strongly disagree.

	Statement	5	4	3	2	1
		SA	A	ND	D	SD

1.	There has been an improvement of banks net interest margin					
2.	There has been an increase in the bank's return on equity					
3.	There has been a reduction in non-performing loans, leading to an increase in the bank's profitability.					
4.	There has been an improvement on the bank's return on assets.					
5.	There has been a reduction in default rates, leading to a higher return on investment for the bank					
6.	Loan portfolio quality has been strengthened resulting in better overall financial performance					

The end

Appendix III: List of Tier Two and Three Commercial Banks in Kenya

Tier Two Commercial Banks

1. Bank of Africa Ltd
2. Bank of Baroda
3. Bank of India
4. Citibank
5. Eco bank
6. Family Bank

7. National Bank of Kenya
8. Prime Bank
9. SBM Bank

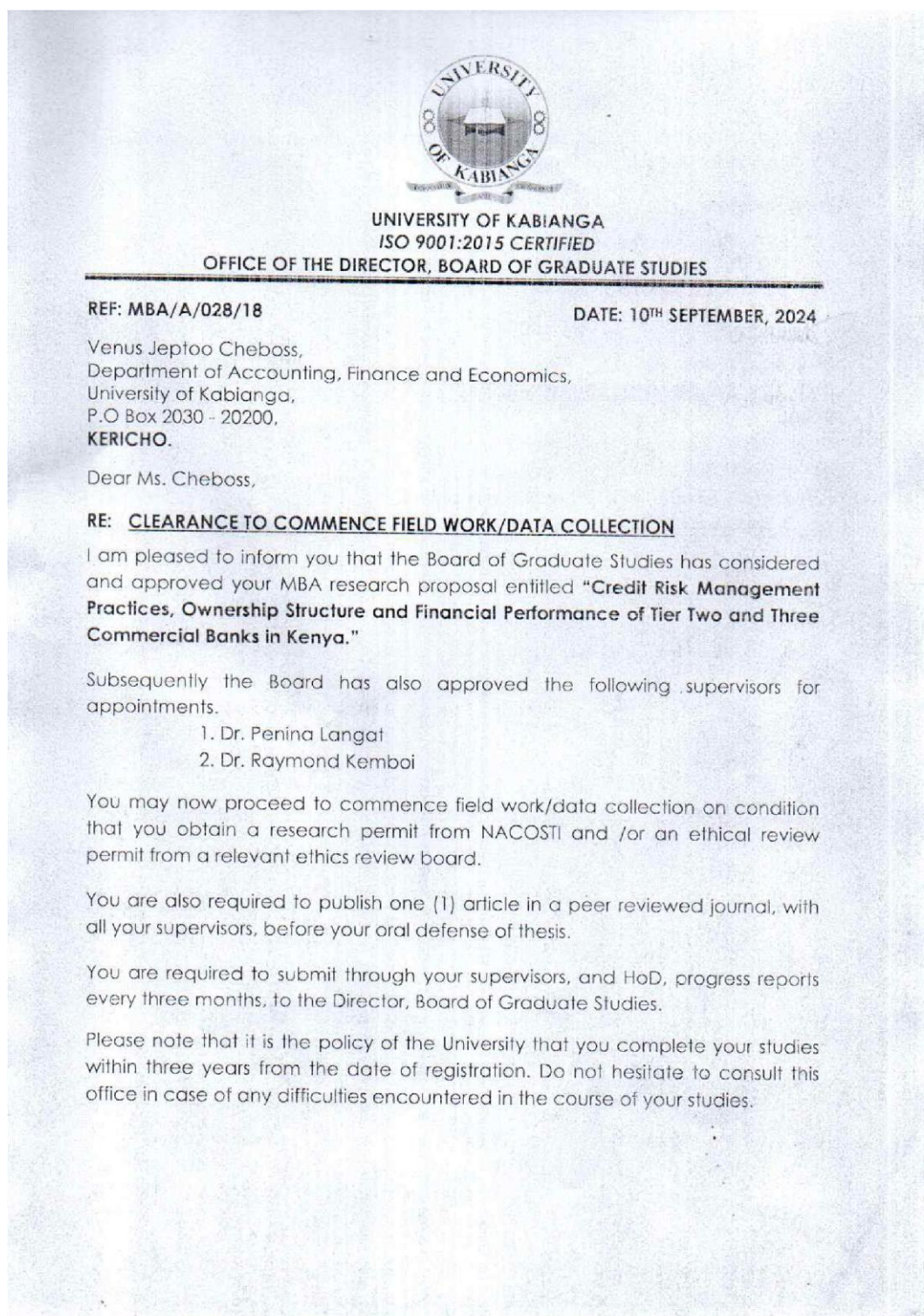
Tier Three Commercial Banks

1. Access Bank Kenya
2. African Banking Corporation (ABC) Limited
3. Consolidated Bank of Kenya
4. Credit Bank
5. Development Bank of Kenya
6. DIB Bank Kenya Ltd
7. First Community Bank
8. Guaranty Trust Bank
9. Guardian Bank
10. Gulf African Bank
11. Habib Bank A.G Zurich
12. HFC Limited
13. Kingdom Bank Limited
14. Mayfair CIB Bank Limited
15. Middle East Bank (K) Ltd
16. M-Oriental Commercial Bank
17. Paramount Universal Bank
18. Sidian Bank
19. Spire bank
20. UBA Kenya Bank

21. Victoria Commercial Bank

Source: CBK (2023)

Appendix IV: Research Authorization from the Board of Graduate Studies



Appendix V: Research Authorization from the National Commission for Science, Technology and Innovation

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 727210	Date of Issue: 24/September/2024
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The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
 - i. Endanger national security
 - ii. Adversely affect the lives of Kenyans
 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
 - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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