THE RELATIONSHIP BETWEEN LOAN POLICY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA.

BY

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DECLARATION

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

…….……. …….

Signature Date

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The research project has been submitted for examination with my approval as university supervisor.

DR.JOSIAH ADUDA…….…… ……

Signature **Date**

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DEDICATION

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ABSTRACT

Nature of loan terms and conditions have a large effect on the bank's competitiveness, the loan policies a bank adopts affect the volume of loan applications that a bank attracts (Said and Mohd, 2011). The nature of the credit policies adopted by the banks influence the volumes of the loans procured by the banks and thus the competitiveness of the bank in lending and thus the performance in the industry (Sangmi, 2010). The study sought to answer the following research questions; what are the loan policies adopted by Commercial Banks' in Kenya? What is the relationship between loan policy and financial performance of commercial banks in Kenya?

This study adopted a descriptive survey research design. The target population of this study was all the 43 commercial banks in Kenya (CBK, 2012). The sample size for the study was 13 commercial banks. Stratified random sampling technique and simple random sampling technique were used to obtain a sample size of 13 commercial banks. The secondary data was collected from the published annual reports spanning five years (2009-2013) for the sampled commercial banks. Regression analysis was used to test the relationship between loan policy and financial performance of commercial banks in Kenya.

From the findings, the provision for bad and doubtful debts was positively related to the financial performance of the Kenyan commercial banks. Declining loan default rate significantly enhanced the financial performance of the Kenyan commercial banks. Collateral significantly enhanced the financial performance of the Kenyan commercial banks. There is a positive relationship between loan policy and financial performance of the Kenyan commercial banks.

The management of the commercial banks should institute strict loan recovery measures in order to reduce the amounts spent on provisions for bad and doubtful debts. This would in turn increase the banks' interest earnings on loans, significantly enhancing the financial performance of the commercial banks. The management of the commercial banks should conduct due diligence of its clients to correctly establish capacity of the customer to repay. This will in turn grow the banks' performing loans thereby further enhancing their financial performance

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BOFIA - Bank and Other Financial Institution Act

CBK - Central Bank of Kenya

DTB - Diamond Trust Bank

KCB - Kenya Commercial Bank

NPA - Non-performing Assets

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Commercial banks may offer lending on short, medium and long-term basis as one of the many services rendered by commercial banks to their customers (Athanasoglou et al., 2005). Commercial banks give loans and advances to various individuals, business organizations as well as government so as to enable them to embark on investment and various development activities as a mean of aiding their growth in particular thus contributing toward the economic development of a country in general (Han, 2008). Commercial bank plays an important role of savings, mobilization and financial resource allocation to various institutions. These roles make them an important contribution towards economic growth and development. By performing this role, commercial banks have the potential, scope and prospects to mobilize financial resources and allocating them to productive investments. No matter the sources of the generation of income or the economic policies of the country, commercial banks would be more willing to give out loans and advances to their various customers bearing in mind, the principles which guide their operations which include, profitability, liquidity and solvency (Brown and Zehnder, 2006).

According to Chantapong (2005) commercial banks decisions on whether to lend out loans are influenced by various factors which includes the prevailing interest rate, volume of deposits, level of domestic and foreign investment, the liquidity ratio, prestige and public recognition. Lending practices around the world could be back traced from the period of industrial revolution which increased the pace of commercial and production activities thereby bringing about the need for large capital to fund projects Many leaders of industry at

this period were not able to meet up with the sudden increase in the financial requirements and therefore they turned to the banks for financing (Athanasoglouetal., 2005).

Adedoyin and Sobodun (1996) argues that lending is the integral part of commercial banks business. Therefore, their administration requires considerable amount of skills and dexterity on the management part. When the bank is irrevocably committed to paying interest on deposits it has mobilized from various sources, their ability to articulate loan able avenues where deposit funds could be placed to generate reasonable income. Maintaining liquidity and ensuring safety requires improved pragmatic policy formulation and applications. A lot has changed in terms of lending activities of various commercial banks. Opinions deliberated on factors that are responsible for banks willingness to lend much credit to various sectors of the economy, while some discussed effect of such extension of credits on productivity and output (Mutesasira, 1997).

1.1.1 Loan Policy

According to Osabuohien (2007) loan underwriting guidelines, and the written documentation setting forth these standards, as determined by a bank's senior loan committee. A bank's loan policy also establishes minimum credit standards in booking new loans, policies and procedures in treatment of past-due and delinquent loans, and more generally, the type of customer a bank wants as a borrower.

Commercial banks were used because of their critical role they play in the economy; commercial banks act as barometer to reflect important changes in the economy of a country. Commercial banks are governed by central bank which operates with favorable policies such as deregulation of interest rates, reduction of imposed regulations and restrictions of commercial banks (Von, 2004).Lending policies of commercial banks change relatively slowly. Standards and practices which have been proved successful in making loans to

finance the production of goods and services or investment of funds in governmental and corporate securities continue to be utilized. Modifications of lending practices are not needed because the financing needs of business and industry takes time to change. There have been successful lending practices adapted to meet the financing needs of the banking industry. In many cases, new techniques of lending have been devised in order to extend credit to finance to emerging businesses. Terms and conditions under which some loans can be made have been altered by state legislation (Samad, 2004).

There exist systems in place and procedures that banks have in place in order to secure payment from their customers when payment becomes due. Systems are set out, the follow up and late payment chasing procedures such as letter and telephone calls. They come in to operations when customer's account becomes overdue. It is only when payment has been obtained from a customer that the sale is complete (Prochnow, 1981). Collection policy is an important part of the overall credit risk management process among commercial banks. An effective collection policy is critical in controlling the investments in debtors and also reducing the risk of financial loss and illiquidity through slow payment (Kabiru, 2002). If the collection policy is very stringent, it may make customers seek alternative suppliers and this may require striking a balance so as to ensure business continuity. It is a reality that there will be late payers in customer base. When payments are regarded as late, range of procedures and tactics may be adopted to obtain payments.

1.1.2 Financial Performance

Financial performance encompasses change in number or value of loan granted and profit level. Lending is risky to most banks because repayment of loans can seldom be fully guaranteed. According to Brown et al., (2006), implicit contracts between lenders and borrowers, thus, banking relationships can motivate high effort and timely repayments.

Foluso (1998), also confirm that long-term relationships are a powerful disciplinary device. Credit markets are dominated by short-term interactions, borrowers may only be motivated to repay if they know that, due to credit reporting, their current behavior is observable by other lenders.

The work of Foluso (1998), indicates that the impact of credit reporting on repayment behavior and credit market performance is highly dependent on the potential for relationship banking. Therefore, when bilateral relationships are not feasible, the credit market essentially collapses in the absence of acceptable borrower behavior. As repayments are not third-party enforceable, many borrowers default and lenders cannot profitably offer credit contracts (Brown et al, 2006). The availability of information on past repayment behavior allows lenders to condition their offers on the borrowers' reputation. As borrowers with a good track record receive better credit offers, all borrowers have a strong incentive to sustain their reputation by repaying their debt (Orebiyi, 2002). Therefore, by repeatedly interacting with the same borrower, lenders establish long-term relationships that enable them to condition their credit terms on the past repayments of their borrower. As only a good reputation leads to attractive credit offers from the incumbent lender, borrowers have strong incentives to repay.

1.1.3 Relationship between Loan Policy and Financial Performance

According to the bank theory, there are six (6) main types of risk which are linked with credit policies of banks and these are; credit risk (risk of repayment), interest risk, portfolio risk, operating risk, credit deficiency risk and trade union risk. However, the most vital of these risks, is the credit risk and therefore, it demands special attention and treatment (Zech, 2003).

In the recent past, new developments and intense competition in lending industry in Kenya's economy has been witnessed since the introduction of economic liberalization which has posed serious challenges to the commercial banks which are restricted in terms of where to

invest their funds of deposits (Financial Act, 2008). Therefore loan policies very much contribute to the sustainability and financial viability of commercial banks given that issuance of loans is their major activity. They operate under the objective of maximizing benefits to members by providing loans and paying a return on their investments. It is the loan performance that guarantees returns on the deposits. Paxton (1996) stated that the essence of loan policy is to maximize the value of a firm.

Mutesasira et al., (1997) stated that when there is evidence or plausible reason to assume that a client is unable to make profitable investments with their loans and repay, they should not receive credit and if they deliberately refused to pay loans in the past they should be excluded from future lending. GoK (2013) state that weaknesses in loan policies encourage delinquency or delay in repayment which can result in loan loss. This is to say that proper policy should be applied in lending for enhanced financial performance.

The main objective of application of loan policy is to maximize earnings over the short term and long range within managed risk limitations and generating sound and profitable long term loan and deposit customers (Paxton, 1996). Commercial banks are therefore expected to generate profits with proper application of loan policies. A study by OECD (1996) on Credit union policies and performance in Latin America established that performance depended on incentives of borrowers to repay and incentives for the Credit union's ability to screen loans. A study by World Bank, (2003) on impact of credit management on financial performance of banks in Nepal recommended that management cautiously set up credit policy that could not negatively affect profitability.

1.1.4 Commercial Banks in Kenya

In Kenya, commercial banks play an important role in mobilizing financial resources for investment by extending credit to various businesses and investors. Lending represents the

heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. Loans however expose the banks to the greatest level of risk. There are 43 licensed commercial banks in Kenya, one mortgage finance company and one credit reference bureau. Of the 43 financial institutions, 32 are locally owned and 11 are foreign owned. The Credit Reference Bureau Africa was the first of its kind to be registered in Kenya by the Central bank of Kenya aimed at enabling commercial banks to share information about borrowers to facilitate effectiveness in credit scoring (CBK, 2012).

Weaknesses in the Kenya banking system became apparent in the late 1980s and were manifest in the relatively controlled and fragmented financial system. Differences in regulations governing banking and non-bank financial intermediaries, lack of autonomy and weak supervisory capacities to carry out the Central Bank's surveillance role and enforce banking regulations, inappropriate government policies which contributed to an accumulation of nonperforming loans, and non-compliance by financial institutions to regulatory requirements of the 1989 Banking Act among others posed a challenge to the Kenya banking system (Rajan, 1994).

The low quality loans led to high levels of non-performing loans and subsequently eroded profits of banks through loan provisioning some of which appeared out rightly political. Commercial banks adopt different credit risk management policies majorly determined by; ownership of the banks (privately owned, foreign owned, government influenced and locally owned), credit policies of banks, credit scoring systems, banks regulatory environment and the caliber of management of the banks. Banks may however have the best credit management policies but may not necessarily record high profits. In additional although there are industry standards on what is a good credit policy and what is not and further banks have different characteristics. Rajan (1994) notes that expanding lending in the short-term boosts

earnings, thus the banks have an incentive to ease their credit standards in times of rapid credit growth, and likewise to tighten standards when credit growth is slowing (CBK, 2012).

1.2 Research Problem

Nature of loan terms and conditions have a large effect on the bank's competitiveness, the loan policies a bank adopts affect the volume of loan applications that a bank attracts (Said and Mohd, 2011). Commercial banks rely on the borrower's credit history in awarding loan amounts, that account movement is considered to be an important factor in considering and approving loans. Commercial banks consider borrower's personal behavior as an important factor in approving loans sought from the banks. The nature of the credit policies adopted by the banks influence the volumes of the loans procured by the banks and thus the competitiveness of the bank in lending and thus the performance in the industry (Sangmi, 2010).

Some commercial banks in Kenya use stringent loan policy thus losing customers to other commercial banks with lenient credit policy, this has led to decline in performance of such bank (Olweny & Shipho, 2011). A survey by audit firm RSM Ashvir, based on banks 2012 financial reports showed only 4.6 per cent of loans by banks last year ended up as non-performing advances. The banking industry disbursed Sh1,335 billion, out of which only Sh61.4 million was defaulted. The risk has consistently decreased from 7.9 per cent in 2009 to 6.3 per cent in 2010. With the increase in interest rates and inflation rate, non-performing advances were expected to go higher, but it is not the case. This shows the risk in the Kenya market is low. Victorian Commercial, CfC Stanbic, I&M and Bank of India recorded low default levels of zero, 1.8 per cent, 1.4 per cent, 1.6 per cent respectively. Interest rates spiked in December 2011 after the Central bank increased its key lending rate to a high of 18

per cent to curb the inflation rate which had peaked at 19.72 per cent in November that year (Olweny & Shipho, 2011).

Studies done in Uganda shows that the performance of loan repayment in Centenary Bank has declined as evidenced by the annual report of Centenary Bank (2009) which revealed that the recovery rate and arrears rate were low, profitability margins had gone down and there was poor capacity utilization. Further evidence indicates continuous increase in the default rate. This could be due to poor borrower behaviour and lack of relationship lending as evidenced by unfavourable loan policies. Dang (2011) found a positive relationship between loan policy and financial performance in Ghanaian commercial banks. The result is consistent to that of Adekanye (1987), who found a significant positive relationship between non performing loans with profitability of rural and community banks in Ghana. The study by Akinlo and Ogo-Temi (2002) indicated that effective loan policies leads to better bank performance. The result of the study by Adebisi & Oloyede (1994) is supported by the study by Hosna et al (2009) in Sweden and Flamini et al., (2009) in Sub-Saharan Africa commercial banks.

Various studies (Hosna, et al., 2009) have been conducted in the past in relation to loan policy and performance in commercial banks in Africa and in developed countries, the result is still mixed, and none has been conducted in Kenya, and therefore the need to carry out the study. The study sought to answer the following research question; what are the loan policies adopted by Commercial Banks' in Kenya? What is the relationship between loan policy and financial performance of commercial banks in Kenya?

1.3 Objective of the Study

The objective of the study was to establish the relationship between loan policy and financial performance of commercial banks in Kenya.

1.4 Value of the Study

The study findings may be of great significance to the government and banking sector regulators and policy makers. The study brings into perspective various challenges and weaknesses of loan policy and financial performance of commercial banks and may enable stakeholders put measures in place to mitigate the particular challenges in commercial banks.

The study findings may be of great significant to the management of various commercial banks in Kenya. The findings of the survey may enable commercial bank managers formulate strategies that may enhance improved performance among commercial banks.

The study may make great contribution to the body of knowledge in the area of loan policy and financial performance of commercial banks in Kenya. It may reconcile theory to reality while its finding may be used for further studies in the field in future. This may be of great importance to scholars and researched in the field of credit and finance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews literature under the following themes; theoretical underpinning of the study, the empirical studies, determinants of financial performance of commercial banks in Kenya and the summary of the chapter.

2.2 Theoretical Review

The theoretical framework of a research project relates to the philosophical basis on which the research takes place, and forms the link between the theoretical aspects and the practical components of the investigation undertaken. The study will be guided by the default risk models, transactions cost theory and asymmetric information theory.

2.2.1 Default Risk Models

According to the study of Moody (2003) evidence from many countries in recent years suggests that collateral values and recovery rates on corporate defaults can be volatile and, moreover, that they tend to go down just when the number of defaults goes up in economic downturns. This link between recovery rates and default rates has traditionally been neglected by credit risk models, as most of them focused on default risk and adopted static loss assumptions, treating the recovery rate either as a constant parameter or as a stochastic variable independent from the probability of default.

This traditional focus on default analysis has been partly reversed by the recent significant increase in the number of studies dedicated to the subject of recovery rate estimation and the relationship between default and recovery rates. This paper presents a detailed review of the

way credit risk models, Developed during the last thirty years, treat the recovery rate and, more specifically, it's Relationship with the probability of default of an obligor. Three main variables affect the credit risk of a financial asset: the probability of default (PD), the loss given default (LGD) which is equal to one minus the Recovery rate in the event of default (RR), and the exposure at default (EAD). While significant attention has been devoted by the credit risk literature on the estimation of the first component (PD), much less attention has been dedicated to the estimation of RR and to the relationship between PD and RR.

This is mainly the consequence of two related factors. First, credit pricing models and risk management applications tend to focus on the systematic risk components of credit risk, as these are the only ones that attract risk-premium. Second, credit risk models traditionally assumed RR to be dependent on individual features (e.g. collateral or security) that do not respond to systematic factors, and to be independent of PD. This traditional focus on default analysis has been partly reversed by the recent increase in the number of studies dedicated to the subject of RR estimation and the relationship between the PD and RR (Fridson, Garman and Okashima 2000). This is partly the consequence of the parallel increase in default rates and decrease of recovery rates registered during the 1999-2002 period. More generally, evidence from many countries in recent years suggests that collateral values and recovery rates can be volatile and, moreover, they tend to go down just when the number of defaults goes up in economic downturns (Altman, 2001).

2.2.2 Transactions Cost Theory

First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with

financial institutions. Three sources of cost advantages were cataloged by Rajan and Petersen (1997) advantage in information acquisition, in controlling the buyer and in salvaging value from existing assets.

The first source can be justified by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in a normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers a notion of the client's situation; the buyer's use of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than lenders. Smith (1987) in his model concludes that in a two-part credit with high interest rate, those buyers that do not choose to take advantage of the discount can be interpreted as high risks, because they may be having financial difficulties. Depending on penalties for later payers, simple net terms can produce a similar sign.

The seller's ability to salvage values from existing assets is the third source of cost advantages. In the case of buyer default, the seller can seize the goods that are supplied, of course, financial institutions can reclaim the firm's assets as well. The difference between them is that as companies trading are very often from the same industry, the supplier already has a network to sell the goods and consequently repossessing and resale costs would be lower. Two interesting approaches related to this cost advantage were made by Petersen and Rajan (1997). The former posit that the more durable the goods, the better collateral they provide and the greater the credit offered by the suppliers. The latter point out that the extent to which the customers transform the product is also very important. The less they are transformed, the easier it will be for the provider to repossess and sell the asset using the same channel. Another study related to transaction cost theory was made by Emery (1987), and hypothesizes that there is a positive relation between demand variability and credit offered.

2.2.3 Asymmetric Information Theory

Sellers, usually, do not know the real credit-worthiness of their buyers and also buyers do not have knowledge about goods quality. To solve the first problem, Smith (1997) suggests a model where sellers offer two-part credit terms because they can recognize potential defaults faster than financial intermediaries. Smith also proposed that with asymmetric information about product quality, sellers offer trade credit to permit buyers to verify product quality before payment. The reason that leads suppliers to extend this credit is that they have an immense interest in a customer's success, since they expect the client to buy more goods and service from them in the future. Although success of the buyer is important, the quality of the product sold is also crucial, and could determine new purchases (Deloof and Jegers, 1996).

As a consequence, companies very often offer money-back guarantees as warranties as well. Trade credit has some advantages when compared with money-back guarantees and warranties. First, in a case of money-back or warranties, if the seller is not in business any more, the buyer can be damaged. Second, when payment is made at the time of sale, a client, seeking the advantages of the money-back system, may try to convince the seller that the quality of the product is not as promised (Wei and Zee, 1997).

According to Lee and Stowe (1993) small firms tend to offer more trade credit than large firms, since small firms still have to establish their reputation about product quality. Firms with longer production cycles prolong their collection period, since they produce high-quality goods. Firms selling products whose quality is difficult to measure extend long credit periods because customers must have enough time to assess quality. Sellers of low quality goods may try to pass them off as high-quality goods. In this case, as the cost of extending trade credit increases, these companies will have less incentive to cheat on the information on quality.

2.3 Determinants of Financial Performance of Commercial Banks

This section presents determinants of financial performance of commercial banks.

2.3.1 Liquidity ratios

Financial performance is a management initiative to upgrade the accuracy and timeliness of the financial institution to meet the required standard while supporting day to day operation (Bessis, 1998). Financial performance key measures are driven by three critical issues as follows profitability, size of the business, and growth of the business overtime. Consequently, financial performance measures that assess profitability, size, and growth rates are essential to monitor overall financial performance and progress (Ronald, 2011).

According to James and John (2005) liquidity ratios are defined as a measure of a firm's ability to pay back short-term obligations. Much insight can be obtained into the present cash solvency of the firm and the firm's ability to remain solvent in the event of adversity. Liquidity ratios can be measure by current ratio and quick ratio. Steve et al. (2006) defined current ratio as a measure of an entity's liquidity. Current ratio equal current assets divide by current liabilities. The higher the current ratio, the greater ability of the firm pays its bills. Liquidity measures the ability of managers in firms to fulfill their immediate commitments to policyholders and other creditors without having to increase profits on underwriting and investment activities and liquidate financial assets (Adams and Buckle, 2003).

2.3.2 Asset turnover

Jose (2010) defined total asset turnover (asset utilization ratio) as the ratio measure the efficiency of a firm to get incomes or revenues by using its assets. This ratio also indicates pricing strategy. Businesses with low profit margins tend to have a high asset turnover, and those with high profit margins tend to have a low asset turnover.

2.3.3 Leverage ratios

Leverage ratios are intended to address the firm's long-term ability to meet its obligations. When a firm has debt, it has the obligation to repay the interest. Holding debt will increase the firm's riskiness. The level of financial leverage shows the ability of listed firm to manage their economic exposure to unexpected losses (Adams and Buckle, 2003). According to Johnson & Scholes (2007) many managers find a process for developing a useful set of performance indicators for the organization. One reason for this is that many indicators give a useful but only partial view of overall picture also some indicators are qualitative in nature ,whilst the hard quantitative end of assessing been dominated by financial analysis. The evaluation of earnings performance depend upon key profitability measures such as (return on equity and return on assets) to industry bench mark and peer group norms (Federal Reserve Bank, 2002). Profitability as a measure of performance is widely accepted by Banks, financial institutions management, company owners and other creditors as they are interested in knowing whether or not the firm earns sustainability more than it pays by way of interest (Sadakkadulla &Subbaiah, 2002).

2.3.4 Return on assets ratio

Analyst use metrics like cash conversion cycle, the return on assets ratio and fixed asset turnover ratio to compare and assess a company annual asset performance, an improvement in asset performance means that accompany can either earn a higher return using the same amount of assets or is efficient enough to create same amount of return using less assets (Adams and Buckle, 2003).

2.3.5 Firm specific (internal) and macroeconomic (external) factors

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks.

The internal factors are bank specific variables which influence the profitability of specific bank. These factors are within the scope of the bank to manipulate them and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labour productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011).

2.3.6 CAMEL

CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al., 2005).

According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. CAR is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

2.4 Empirical Evidence

Oretha (2012) established that commercial banks during the pre-liberalization period were not effective in managing their credit risk in contrast to the post-liberalization period. Variations in the credit policies by seven of the nine commercial banks reflect monetary and fiscal policy actions, where expansionary fiscal policy partly increased inflationary pressure and the monetary authority. During the post-liberalization period, most banks used the services of consultants to formulate their credit risk management policies which reduced the risk posed by defaulting on loans. Commercial banks in Liberia should focus more attention on capacity building and special training of bank managers whose function relate to credit and loans to serve as a conduit of giving them sufficient knowledge on how to deal with credit issues and mitigate credit risk faced by these banks.

Koopahi and Bakhshi (2002) used a discriminate analysis to identify defaulters from non-defaulters of agricultural bank recipients in Iran. Results showed that use of machinery, length of repayment period, bank supervision on the use of loan had significant and positive effect on the agricultural credit repayment performance. On the other hand, waiting time for loan reception had a significant effect on its repayment. Paxton (1996) on a study on determinants of successful loan repayment, in order to avoid delays in repayment, applied the 100% rule i.e. no new credit was granted until the former had been repaid in full. This rule was later relaxed and loans granted as long as the payment rate reached 90% of outstanding loan. Every borrower had to have savings amounting to 20% of the loan in order to access credit. Every member had to subscribe to a number of shares in order to access credit. Guarantor-ship was also required for credit beyond specified amounts (Paxton, 1996).

A study by Pollio and Obuobie (2008) in Ghana on Microfinance Default Rates concluded that the probability of default decreased with the frequency of monitoring, the availability of non-business income, years in business, the number of guarantors and whether the client was a first time borrower. Yaron, Benjamin, and Piprek (1997) reported that one of the challenges SACCO's in India face is that during election years and even at other times, there is considerable propaganda from political platforms for the postponement of loan repayment or pressure on the credit institutions to grant extensions to avoid or delay loan repayment. A second challenge reported by was that there is a risk of a cooperative society turning into a pyramid scheme if the regulatory framework fails, giving rise to questionable management, which does not observe conventional financial management practices. This is a malpractice which has since occurred in the country, leaving many investors devastated by loss of their money.

Wakuloba (2010) studied the causes of loan default in Uasin Gishu District Trade Development Joint Loan Board (UGTDJLB) scheme. According to the findings, the scheme had high and rising default rates over the period. The main causes of default were poor business performance, diversion of funds and domestic problems. The recommendations were that the board be strengthened through capacity building in computer applications to speed up loan processing and ensure timely disbursements.

Keitany (2013) revealed that there is strong negative relationship between the loan default and the profitability of SACCOs in Nairobi County Kenya. The tests showed that the overall regression model is a good fit for the data as the independent variables statistically and significantly predict the dependent variable. The regression model is a good fit of the data. Personality types are predisposed to loan default why credit markets may fail. The study recommends that SACCO should; continuously review credit policies, establish irrecoverable loan provision policies, and character of loan applicants.

Makanda (1986) also commented on the potential role of cooperative in agro-business of cooperative movement and reasons for poor performance in Kenya. However the above studies have taken key interest on cooperative have focused mainly on agricultural cooperatives though agricultural cooperative are many ,the role of Sacco in the movement should be recognized especially in the financial sector, this paper focuses hence fills the gap in literature.

Njiru (2006) carried a study on a list of nonperforming loans including all relevant details should be assessed on a case by case basis to determine if the situation is reversible. Exactly what can be done to improve repayment capacity and whether or not worked out or collection plans have been used. Provision level should be considered to determine the SACCOs capability to withstand loan defaults.

Mwaura, (2005) lack of credit analysis, credit follow-ups as well as hostile lending are the key factors that contribute to poor performance in loan lending by SACCO societies in Kenya. Mwangi (2010) study found out that there exist a relationship between finance performance (in terms of profitability) and credit risk management in terms of (nonperforming loans and Capital adequacy ratio). Financial performance measures are driven by three critical issues profitability, size of the business, and the growth of business overtime (Ronald, 2011).

2.5 Summary of Literature Review

In empirical studies it is reported that most of the defaults arose from poor management procedures. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default. Although a vast body of literature supports the view that borrower characteristics are highly influential, institutional characteristics are equally

important and both factors need to be taken into account if financial performance is to be improved.

From the literature review above, the loan policies employed are varied. Their effectiveness is based on the minimization or elimination of defaults on loan repayment. Research has shown that Kenya has a well-developed commercial bank sector compared to most of Africa and the rest of the world. However it still faces challenges of loan administration and from the review of literature and studies undertaken, there was no research obtained on the relationship between loan policy and financial performance among the commercial bank in Kenya. It was therefore important to establish the relationship between loan policy and financial performance among the commercial bank in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methods in data collection and analysis and forms the blue print for conducting the research. It covers the research methodology, research design, population of study, data collection and processing methods and data analysis.

3.2 Research Design

This study adopted a descriptive survey research design. This was because descriptive survey research design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions (Cooper and Schindler, 2003). The design is also suitable since it helped to describe the state of affairs as they exist without manipulation of variables which was the aim of the study (Kothari, 2004). The primary purpose of the study was to study the relationship between loan policy and financial performance of commercial banks in Kenya.

3.3 Population

Target population in statistics is the specific population about which information is desired. According to Denscombe (2008), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. The target population of this study was all the 43 commercial banks in Kenya (CBK, 2012).

3.4 Sample

The sample design of this study is mainly based on Kothari's (2004) hypotheses. According to Kothari (2004) a sample of 10-30% of the target population is usually representative and

generalizable. Therefore, the sample size for the study was 13 commercial banks. The study area was stratified into two sampling sectors namely: international and local commercial banks. Therefore, the study used stratified random sampling technique to obtain a sample size of 13 commercial banks from a target population of 43 commercial banks in Kenya. The study also used simple random sampling technique across strata. According to Mugenda and Mugenda (2008), stratified sampling technique is useful for heterogeneous samples such as commercial banks that was grouped into sectors of Local and international commercial banks while random sampling technique accords each element in a sample an equal probability of being sampled hence eliminating representative biasness.

3.5 Data Collection

For the purpose of this study, the researcher used secondary data. Secondary data was obtained from the published annual reports spanning five years (2009-2013) for the sampled commercial banks.

3.6 Data Analysis

Data collected was edited, coded and classified into different components to facilitate a better and efficient analysis. Loan policy by commercial banks has various components. For the purpose of this study, Loan policy was analysed using its various components namely; loan outstanding, loan repayment and savings. Content analysis was used to determine the score for loan policy based on the number of sentences dedicated to each component of loan policy in the commercial bank's annual report. The total loan policy score was obtained by adding the scores for the three components of loan policy. The financial performance was measured using return on assets. Regression analysis was used to test the relationship between loan policy and financial performance of commercial banks in Kenya.

3.6.1 Conceptual Model

The conceptual model in this study is specified as follows:

$$Y=f\ (X_1, X_2, X_3, X_4)$$

Where Y is the financial performance; X_1 is the provisions for bad and doubtful debts; X_2 is the loan default rate; while X_3 is the collateral while X_4 was the control variables. The financial performance was measured using return on assets (ROA) which is calculated by dividing net income by total assets.

Return on assets (ROA) = [net income / total assets]

X_1 is the provisions for bad and doubtful debts=amount spent to cover bad and doubtful debts

X_2 is the loan default rate = [amount of non-performing loans/total loans advanced] * 100%

X_3 is the collateral = [amount of collateral on loans /operating profit] * 100%

X_4 = Control variable = bank ownership

3.6.2 Analytical Model

The multiple linear regression model and t-statistic were used to determine the relative importance (sensitivity) of independent variable (loan policy) in affecting the financial performance of commercial banks in Kenya.

The analytical model specification is as follows

$Y=\alpha+\beta_1X_1 + \beta_2X_{2+} \beta_3X_{3+} \beta_4X_4+\varepsilon$. Where; Y= is the dependent variable (Financial performance i.e. ROA) X_1= provisions for bad and doubtful debts, X_2 = loan default rate X_3 = collateral, X_4 will be the control variables ε= error term, β=coefficient of independent

variable α= constant. The control variables were the bank ownership in terms of international or local owned banks.

The multiple linear regression model and t-statistic was used to determine the relative importance (sensitivity) of each independent variable (loan policy) in affecting the financial performance of commercial banks which was measured using Return on Asset of commercial banks. The results are said to be statistically significant within the 0.05 level, which means that the significance value must be smaller than 0.05. The significance was determined by the t-value, which indicates how many standard error means the sample diverges from the tested value (Kothari, 2004). In addition, the Pearson Product Moment Correlation Coefficient was used to test the direction and magnitude of the relationship between the dependent and independent variables at 95% confidence level.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents data analysis and interpretation. The objective of the study was to determine the relationship between loan policy and financial performance of commercial banks in Kenya. Data was collected from 13 commercial banks from 2009 to 2013. The data sources included published annual reports for a period of 5 years (2009-2013) as well as other publications. Data was collected based on the variables of the study, that is, financial performance depicted by loan outstanding, loan repayment and savings.

4.2 Descriptive Statistics

4.2.1 Financial performance

The findings on the financial performance for the 13 commercial banks under study as depicted by return on assets (ROA) are as presented in the table 4.1 below.

Table 4.1 Financial performance (ROA)

Year	N	Mean	Std. Deviation
2009	13	2.53	1.082
2010	13	2.75	0.923
2011	13	3.48	0.692
2012	13	4.02	0.042
2013	13	4.54	0.016

The findings as shown in table 4.1 above indicate the trend of return on assets values over the 5 year period between 2009 and 2013. The lowest value for ROA was a mean of 2.53 in year 2009 while the highest value was a mean of 4.54 in year 2013. This represented a positive change in the ROA mean values of 2.01 over the 5 year period. The steady rise in ROA values over the 5 year period indicates that the financial performance of the commercial banks has been on the increase over the last 5 years. On the other hand the standard deviation indicates variation in the financial performance between various commercial banks.

4.2.2 Provisions for bad and doubtful debts

The findings on the provisions for bad and doubtful debts are as presented in the table 4.2 below.

Table 4.2 Provisions for bad and doubtful debts

Year	Percent (%)
2009	8.3
2010	11.5
2011	14.8
2012	15.2
2013	16.6

From the findings, the provisions for bad and doubtful debts was 8.3% in year 2009, 11.5% in year 2010, 14.8% in year 2011, 15.2% in year 2012 and 16.6% in year 2013. This was an 8.3% positive change (increase) in provisions for bad and doubtful debts over the 5 year period by the banks. This shows an steady upward increase of provisions for bad and doubtful debts amounts over the period. This implies that commercial banks engaged in prudent credit

risk management via provisions for bad and doubtful debts. This growth in provisions for bad and doubtful debts enhanced the financial performance of the commercial banks over the 5 year period by cushioning them from negative effects of non-performing loans and advances.

4.2.3 Loan default rate

The findings on the loan default rate values are as presented in the table 4.3 below.

Table 4.3 Loan default rate

Year	Percent (%)
2009	9.2
2010	8.4
2011	7.4
2012	6.8
2013	5.3

From the findings, the loan default rate was 5.3% in year 2013, 6.8% in year 2012, 7.4% in year 2011, 8.4% in year 2010 and 9.2% in year 2009. This was a 3.9% negative change in loan default rate over the 5 year period. This shows a steady decrease in loan default rate over the study period. This implies that commercial banks instituted strict loan recovery procedures over the 5 year period, growing their amounts of recovered loans and decreasing the loan default rate. This growth in amounts recovered loans increased the funds available for further lending which in turn enhanced the financial performance of the commercial banks over the 5 year period.

4.2.4 Collateral

The findings on the collateral values are as presented in the table 4.4 below.

Table 4.4 Collateral

Year	Percent (%)
2009	7.4
2010	9.6
2011	13.5
2012	16.8
2013	18.2

From the findings, the collateral were 7.4% in year 2009, 9.6% in year 2010, 13.5% in year 2011, 16.8% in year 2012 and 18.2% in year 2013. This was a 10.8% positive change in collateral over the 5 year period. This shows an steady upward increase in collateral amounts over the study period. This implies that commercial banks had put in place important means to mitigate against credit risk in scenarios when customers capacity to repay the loan was poor. This provided the commercial banks with cushioning from non performing loan when the credit risk and consequently enabled them to be on the positive financial performance despite the non performing loans.

4.3 Inferential Statistics

In determining the relationship between loan policy and financial performance of commercial banks in Kenya, the study conducted a multiple regression analysis to determine the nature of relationship between the variables. The regression model specification was as follows;

$$Y=\alpha+\beta_1X_1 + \beta_2X_2 + \beta_3X_3 +\varepsilon.$$

Where; Y= Financial performance

X_1= provisions for bad and doubtful debts, X_2= loan default rate and X_3= collateral

α=constant,

ε= error term,

β=coefficient of the independent variable.

This section presents a discussion of the results of the multiple regression analysis. The study conducted a multiple regression analysis to determine the relative importance of each of the variables with respect to financial performance of the commercial banks in Kenya. The study applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The findings are presented in the following tables;

Table 4.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. 898[a]	.8064	.792	0.0104

a. Predictors: (Constant), provisions for bad and doubtful debts, loan default rate and collateral

b. Dependent Variable: financial performance

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the three independent variables (provisions for bad and doubtful debts, loan default rate and collateral).

The three independent variables that were studied, explain 80.64% of variance in financial performance of commercial banks as represented by the R^2. This therefore means that other loan policies not studied in this research contribute 19.36% of variance in the dependent

variable. Therefore, further research should be conducted to investigate the other loan policies that affect the financial performance of commercial banks in Kenya.

Table 4.6 ANOVA (Analysis of Variance)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.323	2	.202	8.45	.004[a]
	Residual	5.408	3	.246		
	Total	6.898	5			

a. Predictors: (Constant), provisions for bad and doubtful debts, loan default rate and collateral

b. Dependent Variable: financial performance

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The "F" column provides a statistic for testing the hypothesis that all $\beta \neq$ 0 against the null hypothesis that β = 0 (Weisberg, 2005). From the findings the significance value is .004 which is less that 0.05; thus the model is statistically significance in predicting how provisions for bad and doubtful debts, loan default rate and collateral affect financial performance of commercial banks. The F critical at 5% level of significance was 3.23. Since F calculated (value = 8.45) is greater than the F critical (3.23), this shows that the overall model was significant.

Table 4.7 Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	
(Constant)	3.276	.826		3.61	.000
provisions for bad and doubtful debts	0.742	.0312	0.218	1.81	.0012
loan default rate	0.855	.864	0.359	8.41	.0008
collateral	0.678	.68	0.142	4.56	.0018

From the regression findings, the substitution of the equation

($\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$) becomes:

$Y = 3.276 + 0.742\ X_1 + 0.855\ X_2 + 0.678\ X_3 + \varepsilon$

Where Y is the dependent variable (financial performance), X_1 is the provisions for bad and doubtful debts variable, X_2 is the loan default rate variable, X_3 is the collateral variable.

According to the equation, taking all loan policies (provisions for bad and doubtful debts, loan default rate and collateral) constant at zero, financial performance will be 3.276. The data findings also show that a unit increase in provisions for bad and doubtful debts will lead to a 0.855 increase in financial performance; a unit decrease in loan default rate will lead to a 0.742 increase in financial performance while a unit increase in collateral will lead to a 0.678 increase in financial performance. This means that the most significant loan policy is provisions for bad and doubtful debts followed by loan default rate and collateral respectively. At 5% level of significance and 95% level of confidence, provisions for bad and

doubtful debts had a 0.0008 level of significance; loan default rate had a 0.0012 level of significance while collateral had a 0.0018 level of significance, implying that the most significant loan policy is provisions for bad and doubtful debts followed by loan default rate and collateral respectively.

4.4 Summary and interpretation of Findings

The objective of the study was to establish the relationship between loan policy and financial performance of commercial banks in Kenya.

From the findings, financial performance of the 13 commercial banks under study increased over the 5 year period. The mean increase in the return on assets (ROA) from 2.53 in year 2009 to 4.54 in year 2013 indicate a steady growth in the commercial banks' financial performance over that period. These findings are consistent with Oretha (2012) established that commercial banks during the pre-liberalization period were not effective in managing their credit risk in contrast to the post-liberalization period. The evaluation of earnings performance depend upon key profitability measures such as (return on equity and return on assets) to industry bench mark and peer group norms (Federal Reserve Bank, 2002). Profitability as a measure of performance is widely accepted by Banks, financial institutions management, company owners and other creditors as they are interested in knowing whether or not the firm earns sustainability more than it pays by way of interest (Sadakkadulla &Subbaiah, 2002).

The study findings revealed that the commercial banks' percentages for provisions for bad and doubtful debts rose from 8.3% in year 2009 to 16.6% in year 2013. The steady increase in provisions for bad and doubtful debts over the 5 year period indicates that the commercial banks experienced growth in their provisions for bad and doubtful debts amounts over that period, contributing to their increased financial performance over the period. These findings

are consistent with Mwangi (2010) who found out that there exist a relationship between finance performance (in terms of profitability) and credit risk management in terms of (non-performing loans and capital adequacy ratio). Dang (2011) found a positive relationship between loan policy and financial performance in Ghanaian commercial banks. The result is consistent to that of Adekanye (1987), who found a significant positive relationship between non performing loans with profitability of rural and community banks in Ghana. The findings are also in line with Yaron, Benjamin and Piprek (1997) who reported that one of the challenges facing SACCO's in India is that during election years and even at other times, there is considerable propaganda from political platforms for the postponement of loan repayment or pressure on the credit institutions to grant extensions to avoid or delay loan repayment and this negatively affects their financial performance.

The study findings revealed that the commercial banks' percentages for loan default rate decreased from 9.2% in year 2009 to 5.3% in year 2013. The steady decrease in loan default rate over the 5 year period indicates that commercial banks instituted strict loan recovery procedures over the 5 year period, growing their amounts of recovered loans and decreasing the loan default rate. These findings are consistent with Pollio and Obuobie (2008) in Ghana on Microfinance Default Rates concluded that the probability of default decreased with the frequency of monitoring, the availability of non-business income, years in business, the number of guarantors and whether the client was a first time borrower. The findings are also collaborated by Keitany (2013) who observed that there is strong negative relationship between the loan default and the profitability of SACCOs in Nairobi County Kenya. The findings are also in line with Dang (2011) found a positive relationship between loan policy and financial performance in Ghanaian commercial banks and Akinlo and Ogo-Temi (2002) who indicated that effective loan policies leads to better bank performance.

The study findings revealed that the commercial banks' percentages for collateral rose from 7.4% in year 2009 to 18.2% in year 2013. The significant increase in collateral over the 5 year period indicates that commercial banks had put in place important means to mitigate against credit risk in scenarios when customers capacity to repay the loan was poor. This provided the commercial banks with cushioning from non performing loan when the credit risk and consequently enabled them to be on the positive financial performance despite the non performing loans. These findings are consistent with Paxton (1996) who on a study on determinants of successful loan repayment, in order to avoid delays in repayment, observed that one of the requirements by financial institutions was that every borrower had to have savings amounting to 20% of the loan in order to access credit.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study established that financial performance for the commercial banks significantly improved. Therefore, the loan policy of the commercial banks significantly enhances their financial performance. The study found out that there was a positive change (increase) in provisions for bad and doubtful debts over the 5 year period by the banks. This shows an steady upward increase of provisions for bad and doubtful debts amounts over the period. The commercial banks had engaged in prudent credit risk management via provisions for bad and doubtful debts. This growth in provisions for bad and doubtful debts enhanced the financial performance of the commercial banks over the 5 year period by cushioning them from negative effects of non-performing loans and advances.

The study found out that there was a steady decrease in loan default rate over the study period. This implies that commercial banks instituted strict loan recovery procedures over the 5 year period, growing their amounts of recovered loans and decreasing the loan default rate. This growth in amounts recovered loans increased the funds available for further lending which in turn enhanced the financial performance of the commercial banks over the 5 year period.

The study established that commercial banks had put in place important means to mitigate against credit risk in scenarios when customers capacity to repay the loan was poor. This provided the commercial banks with cushioning from non performing loan when the credit risk and consequently enabled them to be on the positive financial performance despite the non performing loans.

5.2 Conclusion

Given the significant increase in provisions for bad and doubtful debts over the 5 year period and the corresponding increase in the commercial banks' financial performance over the same period, the study concludes that provisions for bad and doubtful debts significantly enhanced the financial performance of the Kenyan commercial banks.

Given the steady decrease in loan default rate over the 5 year period and the corresponding increase in the commercial banks' financial performance over the same period, the study concludes that declining loan default rate significantly enhanced the financial performance of the Kenyan commercial banks.

Given the significant increase in collateral over the 5 year period and the corresponding increase in the commercial banks' financial performance over the same period, the study concludes that collateral significantly enhanced the financial performance of the Kenyan commercial banks.

The study established that financial performance for the commercial banks significantly improved. Therefore, the loan policy of the commercial banks significantly enhanced their financial performance.

From the regression analysis, the study established that a unit increase in provisions for bad and doubtful debts lead to a 0.855 increase in financial performance; a unit decrease in loan default rate lead to a 0.742 increase in financial performance while a unit increase in collateral will lead to a 0.678 increase in financial performance.

Therefore, the most significant loan policy is provisions for bad and doubtful debts followed by loan default rate and collateral respectively. The study further revealed that there is a relationship between loan policy and financial performance of commercial banks in Kenya.

5.3 Recommendations to Policy

From the findings, the study established that provisions for bad and doubtful debts amounts significantly increased over the 5 year period. Therefore the study recommends that the management of the commercial banks should institute strict loan recovery measures in order to reduce the amounts spent on provisions for bad and doubtful debts. This would in turn increase the banks' interest earnings on loans, significantly enhancing the financial performance of the commercial banks.

The study revealed that there was a decrease in loan default rate for the commercial banks over the 5 year period. The study recommends that the management of the commercial banks should re-evaluate their customers' due diligence clients to correctly establish capacity of the customer to repay. This will in turn grow the banks' performing loans thereby further enhancing their financial performance.

From the regression analysis findings, the study revealed that other loan policies not studied in this study contributed up to 19.36% of the commercial banks' financial performance. The study therefore recommends that similar studies on the other loan policies that influence the banks' financial performance should be conducted. This will help them identify new investment opportunities that would help the commercial banks to enhance their financial performance, enabling them also to reduce over-reliance on interest income on loans as an income source.

The central bank should review the loan policies for the banks to ensure sound loan policies are put in place based on prevailing economic environment for improved financial performance.

5.4 Limitations of the Study

The study was faced with lack of availability of information as banks level of information disclosure differed where some of the banks did not disclose all the information on loan policy.

The study was limited by lack of co-operation by the study respondents owing to their busy work schedule when the researcher sought clarification from the commercial banks.

The study was conducted using financial data derived from secondary data obtained from financial statements of commercial banks.Such data has some limitations since it can be manipulated by management to suit their own needs.

The study was further limited by the inconsistency of financial information where all published sources seemed to have different figures from the other. Documents heavily relied on statistical reports and annual reports by the CBK disregarding any other source that differed with the figures in these documents.

5.5 Suggestions for Further Studies

Since this study explored the relationship between loan policy and financial performance of commercial banks in Kenya, the study recommends that; similar study should be done in other financial institutions within the financial sector such as micro-finance institutions in Kenya for comparison purposes and to allow for generalization of findings on the relationship between loan policy and the financial performance of financial institutions.

There is also need to identify and understand the emerging changes in loan policy by commercial banks and how they influence the financial performance of the commercial banks. Therefore a study on the emerging loan policy changes on the financial performance of commercial banks is recommended.

The study suggests that further studies be done on other financial institutions in Kenya as each financial institution has their own loan policy and would influence financial performance differently.

The study also suggests that a study should be done on the relationship between loan policy on competitiveness of commercial banks in Kenya.

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APPENDICES

APPENDIX I: COMMERCIAL BANKS IN KENYA

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Chase Bank Kenya
8. Housing Finance Bank
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Dubai Bank Kenya
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank Limited
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich
29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank

32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank