INVESTIGATION OF THE EFFECTS OF BUSINESS RISKS ON THE
PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI, KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS OF MASTERS IN BUSINESS ADMINISTRATION SCHOOL OF
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JANUARY 2012
DECLARATION

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

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DEDICATION

This research project is dedicated to my wife Evelyn Children Evan, Geliane and Shyline for the love, inspiration, support and prayers throughout my MBA program. God bless you.
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OPERATIONAL DEFINITION OF TERMS

Risk: Risk is defined as “possibility of meeting danger, suffering loss or injury”. Risk is a measure of the probability and consequences of not achieving a defined goal.

Business risks: business risk is the possibility that the business may go wrong, or at least not produce the desired result. When used for a bank, this refers to strategic risk (related to a bank’s decision to enter new markets and develop new products) reputation risk, financial risks and environmental risks.

Business Risk Management: this refers to the systematic process of identifying, analyzing, and responding to risk by applying risk management principles and process.

Financial risks: Financial risks comprise two types, traditional banking risks-including balance sheet and income statement structure, credit and solvency risks- and treasury risks, based on financial arbitrage. The main categories of treasury risks are liquidity, interest rate, currency and market risks.

Operational Risk: is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. It includes the risks associated with entering new markets, developing new products, economic factors, and so on. As the name implies, is the risk of mistakes in processing transactions, making payments etc.

Performance: Performance is business drivers that show the success of the banking industry. Indicators of performance will focus on profit before tax, customer growth perspective and internal business process. Growth perspective looks at the ability of the bank to expand very fast. Customer perspective captures the ability to open many
accounts and profit before tax perspective includes expanded revenue opportunities through growth strategies.

**Commercial Banks:** commercial banks are the banks that are formed with the main objective of making profit through financial intermediation. They are hence trading business like any other. Their profits are usually generated through; Interest earned on loans and overdraft to customers.

**Financial Intermediary:** a bank or other financial institution that facilitates the flow of funds between different entities in the economy.

**Pure risk:** a risk in which a gain is not possible. The best outcome is that no loss occurs.

**Speculative risk:** a risk in which either a gain or a loss may occur.
## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ICAEW</td>
<td>Institute of Chartered Accountants in England and Wales</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
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<td>CRD</td>
<td>Capital Requirements Directive</td>
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<td>S &amp; Ls</td>
<td>Savings and Loans</td>
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<td>SACCOs</td>
<td>Savings and Credit Cooperatives Societies</td>
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<td>PMBOK</td>
<td>Project Management Body of Knowledge</td>
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<td>PRAM</td>
<td>Project Risk Analysis and Management</td>
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<td>ERM</td>
<td>Enterprise Risk Management</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<td>ATM</td>
<td>Automated Teller Machine</td>
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<td>DCs</td>
<td>Developed Countries</td>
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<td>LDCs</td>
<td>Less Developed Countries</td>
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<td>ATI</td>
<td>African Trade Insurance</td>
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<td>ICIEC</td>
<td>Islamic Corporation for Insurance of Investments and Export Credit.</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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ABSTRACT

The research project was an investigation of the effects of business risk on the performance of commercial banks in Kenya. In the late 1980’s margins attained from traditional banking business began to diminish and the past decade has seen dramatic losses in the banking industry. Banks that had been performing well suddenly announced large losses for example, the disastrous losses of the 1990’s, such as those at Orange county in 1994 and Barings bank in 1995. Commercial banks expose many risks in their ordinary course of business, such as interest rate, foreign exchange risks, environmental and operational risks that could minimize their profits by increasing their financial loss. This proposal determines how the financial institutions could reduce its financial loss from risk exposure by having risk management tools in place. The issues prompting the organization to manage risk are not necessarily identical to the issues leading it to purchase insurance. For example, cost reduction might be the reason for establishing a loss prevention, program, a motive less likely to be served by purchasing insurance. This study used descriptive survey type of research, a descriptive study aims at determining the what, when and how of a phenomenon which is the concern of the study. The target population for this study was commercial banks that are registered and regulated by the Central Bank of Kenya (CBK). According to the CBK (2010), there are 43 commercial banks in Kenya. These banks are all involved in providing banking services in the country. A census study was used given that not all commercial banks responded, the population of 29 commercial banks is considered to be small and selecting a sample from a small population would be meaningless. Primary data was collected by use of a structured questionnaire. Target respondents were risk managers. The questionnaire used both open and closed questions and largely has been designed to use likert scale. The questionnaires were administered on the basis of drop and pick method. Secondary data were used to supplement primary data. Data collected was both quantitative and qualitative; the qualitative data will be analyzed using content analysis and descriptive statistics was used to analyze the quantitative data. The data was presented using both statistical techniques as well as graphical techniques. The statistical techniques included frequency distribution and measure of central tendency whereas graphical techniques included tables, pie charts and bar charts. Questionnaires used to collect data were edited, coded and analyzed with the help of SPSS program. Findings of this study were presented by the use of tables, graphs and charts, which was interpreted to assist the researcher in making valid conclusion and recommendations. Conclusions derived were generalized to all commercial banks operating in Kenya.
CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Since the 1980s, rapid innovations in financial markets and the internationalization of financial flows have changed the face of banking almost beyond recognition. Technological progress and deregulation have both provided new opportunities for and increased competitive pressure among banks. In the late 1980s, margins attained from traditional banking business began to diminish and capital adequacy requirements began to increase (Greuning, 2009). The past decade has seen dramatic losses in the banking industry. Banks that had been performing well suddenly announced large losses. Exposure to risk is created whenever an act or circumstance gives rise to positive gain or loss that cannot be predicted with clarity. Banks have motives to address these exposures and this motivation gives rise to risk management. At this most basic level, risk management is practiced because the negative and positive possibilities of risk as well as moral considerations provide incentives for a bank to take steps.

It is evident that commercial banks are increasing rapidly and one of the greatest constraints facing them is losses that arise from unforeseen and unintended risks. An important objective of governments is to provide a stable economic environment for private individuals and business. One way they do this is by providing a reliable banking system where bank failures are rare and depositors are protected (Eales, 1995). Shortly after the disastrous crash of 1929, the United States took a number of steps to increase confidence in the banking systems and protect depositors. It created the Federal Deposit Insurance Corporation (FDIC) to provide safeguards to depositors in the event of a failure by a bank. It also passed the famous Glass-Steagall Act that
prevented deposit-taking commercial banks from engaging in investment banking activities. Risk management is now recognized as a key activity for all corporations. Many of the disastrous losses of the 1990s, such as those at Orange County in 1994 and Barings Bank in 1995, would have been avoided if good risk management practices had been in place (Hull, 2007).

Throughout the 1960s, 1970s, and 1980s Savings and Loans (S & Ls) in the United States failed to manage interest rate risk well. They tended to take short-term deposits and make long-term fixed-rate mortgages. As a result they were seriously hurt by interest rate increases in 1966, 1969-1970, 1974 and killer in 1979-1982. S & Ls were protected by government guarantees. Over 1,700 failed in the 1980s. A major reason for the failures was their inadequate interest rate risk management (Hull, 2007). The total cost to the US taxpayer of the failure has been estimated to be between $100 and $500 billion. The largest bank failure in the US, continental Illinois, can also be attributed to a failure to manage interest rate risk well. During the period 1980 to 1983 its assets (i.e. loans) with maturities over a year totaled between $7 billion and $8 billion, whereas its liability (i.e. deposits) with maturities over a year were between $1.4 billion and $2.5 billion. Continental failed in 1984 and was the subject of an expensive government bailout. Other major losses include:

Allied Irish Bank: this bank lost about $700 million from the unauthorized speculative activities of one of its foreign exchange traders, John Rusnak that lasted a number of years. Rusnak covered up his losses by creating fictitious option trades. Barings Bank: This 200-year-old British bank was wiped out in 1995 by activities of one trader, Nick Leeson, in Singapore. The trader’s mandate was to arbitrage between Nikkei 225 futures quotes in Singapore and Osaka.
Instead he made big bets on the future direction of the Nikkei 225 using future and options. The total loss was close to $1 billion. Hammersmith and Fulham: This British local authority lost about $600 million on a sterling interest rate swaps and options in 1988. The two traders responsible for the loss knew surprisingly little about the products they were trading. Kidder Peabody: The activities of a single trader, Joseph Jett, led to this New York investment dealer losing $350 million trading US government securities. The loss arose because of a mistake in the way the company’s computer system calculated profits.

National Westminster Bank: This British bank lost about $130 million from using an inappropriate model to value swap options in 1997. Long term capital management: This hedge fund lost about $4 billion in 1998 carrying out convergence arbitrage strategies. The loss was caused by a flight to quality after Russia defaulted on its debt. Orange County: The activities of the treasurer, Robert Citron, led to this California municipality losing about $2 billion in 1994. The treasurer was using derivatives to speculate that interest rate would not rise. Procter and Gamble: The treasury department of this large US Company lost about $90 million in 1994 trading highly exotic interest rate derivatives contracts with Bankers Trust. It later sued Bankers Trust and settled out of court. Enron’s counterparties: Enron’s managed to conceal its true situation for its shareholder with some creative contracts. Several financial institutions that allegedly helped Enron do this have had to settle shareholder lawsuits for over $1 billion. In addressing the need to mitigate and predict future losses in the economy, Kenya, through business organizations, requires business administrators to provide adequate financial risk management.
Risk management is a task similar to the other management functions as marketing, purchasing or finance. Thus, if we look at economical development from a functional viewpoint risk management is somewhat every countries do which directs to the realization of its overall economic objectives. The scenery of risk management shall be scrutinized first pursued by an argument on the dissertation proposal which focuses on the performance of commercial banks in Kenya. Businesses take different kinds of risks depending on the situation in the environment and the gravity of the need of the company. Taking risks can either provide benefits to a company or cause more problems to a company. Companies then have to make sure that when they take risk they know its probable effects and have actions to counter the negative effects. The greater the company’s stature is the greater risk is expected of them (Hull, 2007).

Mismanagement of risk can carry an enormous cost. In recent years business has experienced numerous, related risk reversals that have resulted in considerable financial loss, decrease in shareholder value, damage to company reputation, dismissal of senior management, and, in some cases, the very dissolution of the business. These increasingly risky environments, in which risk mismanagement can have dire consequences, mandates adopt a new more proactive perspective on risk management. All societies, both traditional and modern, face choices and decisions about how to confront risk. Where action can be deemed to have consequences, then it is the degree of uncertainty in the consequences that can be considered to be risk. Every time a choice is purposely made, risks are played off against each other, on a particular social understanding of the world. Equally for industrial and post-industrial societies, risk is a key question affecting every sphere of lifestyle, from diet to transport and power generation. How we manage risk is a central debate for policy makers and academics alike. Despite some of the most dramatic technological advances over the last 150 years, we now appear to live in a more dangerous world
than ever before. Concerns about ‘health, safety, and security’ in society have brought risk to the forefront of contemporary debate. These concerns have resulted in major shifts in social habits and practices.

Locally, in the month of July and August 2011, banks lose shs.145 million. In one of the cases, shs. 10 million was stolen from Dyer and Blair investment Bank. In another, cooperative bank reported shs. 5.9 million Was stolen and CFC Stanbic Bank has also lost shs. 47 million and shs. 4.9 million Was stolen from Barclays bank. In total, 136 cases of fraud were reported to police in two months and involved shs. 295, 969, 805 which was reported stolen. The money was lost mainly through credit card fraud, electronic fund transfer and transacting using stolen cheque leaves. Forgery and embezzlement by bank staff was also cited.

Risk is now of key interest to the business community who wish to limit potential corporate liability. This area of risk concerns with fundamental threats to business operations and viability. The management of risk is probably among the oldest recorded human activities. Risk can be traced back to the early philosophers of both East and West; evidence for this can be found among early civilizations of the West. As Aristotle (384-322 BC) put it: ‘it must be expected that something unexpected will happen.’ Many businesses operate on a very tight budget. Figures published by the insolvency service during 2005 show that 12,893 companies went liquidation and 10,839 self-employed people were declared bankrupt (Small Business ,2006). Companies’ decision on whether what should invest, how much should invest in, and is it worth to invest against the risk of accidental loss, yet, those are still depending on the company’s financial status and its financial returns. Nevertheless, shareholders and customers would expect business to continue no matter what and require losses to be minimized when disaster or unforeseen circumstances strike to ensure their profits and returns. Therefore, there is a scope for an
exploratory study to research on whether the structured risk management helps banks to minimize their loss exposures, thus proving better financial performance in financial institutions.

1.2 Statement of the problem.

From the foregoing background literature, the goal of risk management is to maximize the value of the bank in terms of its profitability and risk levels. The issues prompting the organization to manage risk are not necessarily identical to the issues leading it to purchase insurance. For example, cost reduction might be the reason for establishing a loss prevention program, a motive less likely to be served by purchasing insurance. Moriasi (2007) portends that Risk management occasionally refers to buying insurance and having enough fire extinguishers, but several factors have conspired to make insurance and passive deterrents inadequate. Locally, studies have been done by Moriasi (2007), Muchire (2005) on an assessment of risk mitigation strategies adopted by Kenyan insurers in enhancing organizational effectiveness and assessment of service quality in Kenya’s insurance industry. None of the above studies looked at the effects of risk management. Further, scanty research exists, that have determined the effects of financial risk management on the performance of commercial banks. Since financial risk management is one way of addressing the problem of losses in the commercial banks there is need to determine whether risk management in the banking industry has any impact on the performance of commercial banks in Kenya. The proposed study will fill these identified gaps by investigating the effects of business risks on the performance of commercial banks in Kenya.

1.3 Objectives of the study

1.3.1 General Objective

The general objective of this study is to investigate the effects of business risk on the performance of commercial banks in Nairobi, Kenya.
1.3.2 Specific Objectives

This study will be carried out to achieve the following specific objectives.

1. To determine the effects of financial risks on the performance of commercial banks.
2. To establish the effects of operational risks on the performance of commercial bank.
3. To establish the effects of environmental risks on the performance of commercial banks.

1.4. Research Questions

1. Do financial risks affect the performance of commercial banks?

2. Do operational risks affect the performance of commercial banks in Kenya?

3. Do environmental risks affect the performance of commercial banks in Kenya?

1.5 The significance of the study.

1.5.1 Banking industry

This study was a significant Endeavour in understanding the importance of assessing risk management in the banking industry. This study will be helpful to administrators and management practitioners for this will be a guide for them when they employ effective risk management approach to their organization. By examining the risks and other factors involved in banking industry, business administrators and management practitioners will be able to design measures to minimize risks. In this era of cut throat competition, the findings of this study will be most useful to many managers in the industry.

1.5.2 Academics
This study is deemed useful for future researchers on risk management strategies and its application to different business organization. This study could also serve as an academic tool in informing its reader about the business development and organizational change. Moreover, this research will provide recommendations on how to value business development as they are taking a large part in the organization’s success. In addition, this study will provide information to business leaders regarding business progress and development. Knowing how consumers perceive development of an organization will assist business leaders in establishing programs, policies, and staff development.

1.6 Scope of the study and limitations

The study covered the effects of business risks on the performance of commercial banks. The study was conducted in commercial banks and not all financial institutions. The main focus was the 43 banks’ head offices based in Nairobi. The study focused on the financial risks, operational and environment risks to form the basis of study. The risk management strategies used by the selected banks will be tracked and their effects on the performance of commercial banks be evaluated.

Since the market was very competitive, there was reluctance by some commercial banks to divulge information for and fear of it leaking to competitors. This challenge was overcome by the researcher getting an introductory letter from the university and reassuring the respondents that any information given will be for academic purposes and it will be treated with strict confidentiality.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

For the purpose of carrying out this study this chapter was subdivided into four sub sections that included; theoretical framework, empirical studies, conceptual framework and summary and gaps to be filled by the study.

2.2 Theoretical Literature

Evidence of the adoption of risk management practices is mixed. In the private sector, surveys have found that the existence of a full-time risk manager is positively related to the size of the organization (Blackwell, 2007). Small businesses are less likely to have a full time risk manager than large businesses. Further, those studies find that the risk manager’s duties tend to expand with the size of the organization. There is a competing view of risk management and its practice within organizations. Beginning in the mid-1970s, a number of individuals have seen a different relationship between the organization and the presence of a full-time risk manager (Williams, 1998). In this view, the presence of a full-time risk manager is positively related to the riskiness of the organizations, that organizations operating in a high risk environment are more likely to have a full time risk manager.

In the public sector, the development of risk management practices as lagged behind the private sector. Fully formed risk management programs in public entities are a relatively recent phenomenon. Local governments generally have been somewhat more cautious in the adoption of management “innovations” which may have led to some reluctance to develop the risk management function (Young, 1988). Government entities have, in some cases, employed
practices that masked the impact of risk on the organization. For instance, governmental accounting practices allowed (until recently) governments to ignore or defer the effects of some losses that occurred in a particular budgetary period.

Financial risk management is a form of risk management that has arisen principally in the banking industry as a systematic approach to dealing with specific financial risk, such as credit risks, currency exchange risks, transactional risks, and investment risks. Although banks have faced these risks for a long time, deregulation and increasing exposures to foreign exchange risks prompted banks to aggressively address such risks. Since the 1970s, banks have entered a new and riskier world. This is, in part, due to broad deregulation movements around the world, as well as economic trends that are creating new competitive pressures and global financial markets. The perils of this new world are well documented; whether it is the reported $1 billion hit Solomon Brothers took as a consequence of scandal in the bond-trading operations, or insolvency of Barings Bank in 1995 from bad foreign currency bets or Westpac’s (an Australian bank) estimated a $1.5 billion in bad debt write-offs in 1992. Whatever the root cause, the banking community has become aware of its exposure to risk (Blackwell, 2007).

Credit risk is important to banks for two reasons. First, credit risk is the primary risk in the largest asset category. Second, making loans is the primary business of the bank, so credit risk is a bank’s primary business risk (Blackwell, 2007). Since making loans is the primary business of a bank, it is important to the bank to properly price its product. The typical bank loan is made in the amount requested by the borrower, and the pricing of a bank loan is based on the interest rate charged on the loan. The interest earned on loans is the primary revenue source for a bank. Non-transaction deposits are primary liability category for a bank, and the interest paid on these deposits is their primary expense. The potential for changes in the difference between interest
earned and interest paid creates interest-rate risk for banks. A typical bank is exposed to interest rate risk because the rates on their loans change less frequently than the rates on their deposits. The timing of the rate changes on loans and deposits means that banks are less profitable when interest rate increases and more profitable when interest rate decline.

Interest rate has a variety of useful definitions, including: the time value of consumption, an opportunity cost, and the rental price of money (Blackwell, 2007). The loanable funds theory of interest rate states that, in the short-run, interest rates are determined by the supply and demand of loanable funds. When all the factors that determine the supply and demand of loanable funds at a given point in time are considered, the theory suggest that the equilibrium interest rates is a combination of a long-run base interest rate, various short-term factors of supply and demand, and current financial market risks. This approach to building interest rates has led to wide use of the loanable funds theory by market analysts and interest rates forecasters.

2.2.2 Commercial Banks

Globally, 2008 and 2009 presented one of the most treacherous periods to the financial sector as the global economy was plunged into a recession. Two years down the lane, as the global scenario patches up back to double-digit bonuses, locally tension is building up. In the rural areas where banks aggressively opened branches in their hey day, the situation has reduced drastically with the CBK report released in late 2010 estimating a 73.1% fall. Analysts attribute the slump in growth in new branches to the rapid rise of mobile phone banking and agency banking. But the slow-down in branch expansion was not initially envisaged as commercial banks chided mobile banking services.
The expansion frenzy by commercial banks witnessed between 2005 and 2010, which nearly doubled the total number of branches, was more pronounced in some parts than others. According to the central Bank statistics, although the overall number remained low, the number of outlets in western, Rift valley, Eastern and Northeastern parts increased at faster pace compared to the other regions. This is because, in the earlier periods, branches were concentrated around Nairobi, Mt.Kenya area, coast and Rift valley where the bulk of the economic activities were concentrated. Central Bank of Kenya (CBK) data shows that expansion in the banking sector was highest in 2007, which recorded a 55% increase, riding the economic growth wave that picked at 7.1 %. Banks opened a record 165 branches. In 2008 this reduced to 147 branches and 109 in 2009, as brick and mortal model lost appeal. 2010, however, according to the central bank only 41 branches were opened. Additionally, banks have been incorporating technology to improve service delivery and cut costs, pumping hundreds of millions of shillings in to-of-the range ATM software and enterprise resource planning. “Some of the technologies currently in use by banks have a life span of about three to four years. This calls for constant updating of the software.” As this happens, banks have been shouldering heavy wage bills. During the first nine months of 2010, most banks saw their staff cost run into billions of shillings, equity Bank, KCB, and National Bank of Kenya bore shs.3.7 billion, shs.5.7 billion and shs.1.7 billion respectively in employee payments.

Central Bank of Kenya governor praises the expansion, which saw the total number of branches across the country increase from a low of 534 to 1063, saying it is promoting access to financial services and promoting financial inclusion. It (expansion) is addressing the cost and distance constraints that deter access to financial services. The expansion peaked between 2006/07 and 2009/10, corresponding with improvements in the economy. This is in line with Kenya’s long-
term development blueprint, vision 2030, which targets to increase the savings rate from 14% to over 25% of the country’s total wealth as measured by GDP and investment from 20% to over 35%.

The governor attributes the growth to competition, innovation and the need to tap the underbanked and unbanked populations. Once barriers to entry in the form of minimum balance were resolved and cost of maintaining micro-accounts was reduced. Kenyans found it easy to save and removed their savings under the mattresses and placed them with the banks. From this micro-accounts (up to shs1000, 000 covered by Deposit Protection Fund) have increased from 2.55 million accounts in 2007 to about 11.25 million accounts in 2010. It is when banks shifted from deposit mobilization to lending, especially non-secured loans targeting civil servants, thereby opening branches to lend across the country.

### 2.2.3 Risk Management

Risk management is the act or practice of dealing with risk. It includes planning for risk, identifying risk, analyzing risks, developing risk response strategies, and monitoring and controlling risks to determine how they have changed (Williams, 1998). Proper risk management is proactive rather than reactive, positive rather than negative, and seeks to increase the probability of project success. Proper risk management will attempt to reduce the probability of an event occurring and (or the magnitude of its impact as well as increase the probability of project success. Companies must take risks if they are to survive and prosper. The risk management function’s primary responsibility is to understand the portfolio of risks it plans to take in the future. It must decide whether the risks are acceptable and, if they are not acceptable, what action should be taken. Many banks now have sophisticated systems for monitoring the
decisions being made by customers so that, when they detect small differences between the maturities of the assets and liabilities being chosen, they can fine tune the rates they offer. Sometimes derivatives such as interest rate swaps are also used to manage their exposures. The result is that net interest income is very stable and does not lead to significant risk.

A string of large and highly public corporate failures over the past 10 to 15 years has focused investors’ and regulator’s attention worldwide on the way in which company directors and managers are managing risk. Many companies have focused on value creation as a key goal. But without adequate procedures in place to manage both the upside and the downside of risk, many of them have been unable to create real sustainable value. As a result, many countries are now issuing tighter guidelines on the way in which risk is monitored and publicly reported. “The events in the Middle East and North Africa have shown how quickly countries rated as relatively stable can become high risk,” Every business will be exposed to risk, no matter internal or external that can directly or indirectly result loss to a company, particularly to the small business which doesn’t have the strong capital background. Every small enterprise face loss exposures due to unforeseen circumstances that can reduce projected profits or impair operating efficiency. The study reveals that items subject to loss may be classified under property and its uses, freedom from legal obligations and personal health or earning capacity.

2.2.4 Development of risk management

Whilst the profile of risk management has undoubtedly risen in the last decade, there has been no huge breakthrough or developments of a high profile ‘must have’ management technique. In the 1990’s the idea of managing risk throughout the organization was relatively novel and most companies still focused on specific, mainly financial and insurance risks. The development of
risk management has been characterized by a gradual acceptance that a good risk management process is an essential part of being in business. The role of the risk manager has developed and been refined, although it is still relatively new and appointments of board level risk directors are only just starting to be made. Products for managing risks have developed too. Financial and insurance markets are no longer so clearly delineated and products cross into both areas. Insurance is no longer seen as an automatic solution to deal with risk. There is more discussion of companies choosing their ‘risk appetite’ and a greater understanding that companies need to look at their own risk culture. There is a better appreciation that a good communication and a learning culture, with openness, lack of blame and analysis of mistakes, is the key to effective risk management.

Enterprise risk management (ERM) as a term has attracted a lot of coverage. This coverage is welcome as it helps to increase the profile of risk management. However, ERM in itself is not a new technique as the ideas of an integrated risk management across the organization and of risk management being embedded in the culture is central to all risk management processes. Enterprises in the same industry, facing similar risks, will often choose different risk management strategies. Any company needs to ensure that it has a proper continuous risk management process and each company will organize differently, but the process will generally involve the following steps: Identifying and ranking the risk, inherent in the company’s strategy (including its overall goals and appetite for risk) Selecting the appropriate risk management approaches and transferring or avoiding those risks that the business is not competent or not willing to manage. Implementing controls to manage the remaining risk monitoring the effectiveness of risk management approaches and controls; and Learning from experience and making improvements.
2.2.5 Approaches to risk management

Since a bank’s equity capital is typically very low in relation to the assets on the balance sheet, a bank must manage its affairs conservatively to avoid large fluctuations in its earnings (Hull, 2007). There are two broad risk management strategies open to the bank. One approach is to identify risks one by one and handle each one separately (risk decomposition). The other is to reduce risks by being well diversified (risk aggregation). If a bank adopts a more diversified strategy of lending 0.01% of its available funds to each of 10,000 different borrowers, then it is in a much more safer position. Suppose that in a typical year the probability of any one borrower defaulting is 1%. We can expect that close to 100 borrowers will default in the year and the losses on these borrowers will default will be more than offset by the profits earned on the 99% of loans that perform well.

Market risks arise primarily from the bank’s trading activities. A bank has exposure to interest rates, exchange rates, equity prices, commodity prices, and the market variables. These risks are in the first instance managed by the traders. For example, there is likely to be one trader (or a group of traders) working for a bank who is responsible for the dollar/shilling exchange rate risk. At the end of each day the trader is required to ensure that risk limits specified by the bank are not exceeded. If the end of the day is approached and one or more of the risks limits is exceeded, the trader must execute new hedging trades so that the limits are adhered to. The risk managers working for the bank then aggregate the residual market risks from the activities of all traders to determine the total risk faced by the bank from the movements in market variables.
2.2.6 Financial risk management

Financial risk management is a process to deal with the uncertainty resulting from financial markets. It involves assessing the financial risks facing an organization and developing management strategies consistent with internal priorities and policies. The first part of the process involves identifying and prioritizing the financial risks facing an organization and understanding their relevance. Risk taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking business. On the other hand, excessive, poorly managed risk can lead to losses and thus endanger the safety of a bank’s deposits. Financial risk in a banking organization is the possibility that the outcome of an action or event could bring up adverse impacts on the financial institution’s capital or earning. Such outcomes could either result in direct loss of earning or capital or may result in imposition of constraints on bank’s ability to meet its business objectives. These constraints pose a risk as they could hinder a bank’s ability to conduct its ongoing business or take benefit of opportunities to enhance its business. As they make everyday decisions, managers of financial institutions are expected to ensure that the risk a financial institution is taking is warranted.

Risks are warranted when they are understandable, measurable, controllable and within a financial institution’s capacity to readily withstand adverse results. Sound risk management systems enable managers of financial institutions to take risks knowingly, reduce risks where appropriate and strive to prepare for future that cannot be predicted with absolute certainty. Risk management is a discipline at the core of every financial institution and encompasses all activities that affect its risk profile. The management of financial institutions should attach considerable importance to improve the ability to identify measure, monitor and control the overall levels of risks undertaken.
It is now widely acknowledged that utilization of better risk measures not only provides insights into risks, leading to better risk mitigation, but also leads to enhanced risk-return decisions, which improves capital deployment. Consequently, the Central Bank of Kenya expects that the adoption of these elements of sound risk management will translate to effective identification, measurement, control and monitoring of all risks affecting institutions. This process will further support institutions in computing and allocating their economic capital. Economical capital is the capital that a bank holds and allocates internally as a result of its own assessment of risk. Economic capital methods seek to translate quantitative risk assessment of multiple types into a single common metric-economic capital, which can be used as an indicator of risks and returns for business activity as a way to determine risk pricing and/or to allocate capital among banking activities and modify activities over time.

When financial prices change dramatically, it can increase costs, reduce revenues or otherwise adversely impact the profitability of an organization. Financial fluctuations may make it more difficult to plan and budget, price goods and services and allocate capital. There are three main sources of financial risks; financial risks arising from an organization’s exposure to changes in market prices such as interest rates, exchange rates and commodity prices, Financial risks arising from the actions of and transactions with other organization such as vendors, customers and counterparties in derivatives transactions and financial risk resulting from internal actions or failures of the organization, particularly people, processes and systems.

Financial rates and prices are affected by a number of factors. The factors that impact markets Interest rates are key components in many markets prices and an economic barometer. They are comprised of the real rates plus a component for the expected inflation, since inflation reduces the purchasing power of lender’s assets. Interest rates are also reflective of supply and demand
for funds and credit risk. Factors that influence the level of market interest rates include; Expected level of inflation, in turn impact the potential risk of an organization, general economic conditions, monetary policy and the stance of the central bank, foreign exchange market activity, foreign investor demand for debt securities and financial and political stability.

Foreign exchange rates are determined by supply and demand for currencies. Supply and demand in turn, are influenced by factors in the economy, foreign trade, and the activities of international investors. Some of the key drivers that affect exchange rates include; Interest rate differentials net of expected inflation, trading activities in other currencies, financial and political stability, monetary policy and the central bank, domestic debt levels and economic fundamentals.

As focus on risk intensifies, companies are enhancing their management of key risks. This is true not only for traditional risk classes, such as credit and market risks, but also for emerging areas such as operational, liquidity and reputation risk, which has become more important.

2.3. Sources of risks

Sources of risk are the sources of factors or hazards that may contribute to positive or negative outcomes. These same sources of risk also influence exposure to loss. For financial firms, managing risk for reward is their core skill for success. Designing products and marketing are very important for financial firms, but they are not the core skills required for success (Casserley, 1993). Financial firms can only prosper in their businesses by being able to separate well priced from badly priced risks. The risks that financial firms face are many, but they can easily be thought of as falling into three broad classes: financial risk, operational risk and environmental risk.

2.3.1 Credit Risks
Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet terms of any contract with the bank or if an obligor otherwise fails to perform as agreed. The largest source of credit risk is loans, albeit that credit risks exists throughout the other activities of the bank both on and off the balance sheet. These other activities include acceptances, inter-bank transactions, trade financing, foreign exchange transactions, futures, swaps, options and guarantees. Given the significant size of the loan portfolio in balance sheet of local banks, credit risk remains the largest risk type in the local banking sector. Therefore, an effective and sound credit risk management is important to the stability of any local financial institution. Overall, the management of this risk requires the development of an appropriate credit risk culture and environment. A sound credit extension process, maintaining appropriate credit administration, measurement and monitoring process and ensuring adequate credit controls enhances this.

Establishment of sound and well-defined policies, procedures and limits is vital in the management of credit risk. An effective credit policy is the one that defines the credit concentrations, limits and exposures the organization is willing to assume. The limits ensure that credit activities are adequately diversified. The policy on large exposures should be well documented to enable banks to take adequate measures to ensure concentration risk is mitigated. The policy should stipulate clearly the percentage of the bank’s capital and reserves that the institution can invest grant loans or extend to other credit facilities. In the case of large exposures, banks must pay attention to the completeness and adequacy of information about the debtor. If there is doubt that the debtor might have difficulties in meeting its obligations to the bank, the concern should be raised with the credit management and a contingency plan developed to address the issues. Lending to insiders or related Parties typically include an
institutions, parent, major shareholders, subsidiaries, affiliate companies or directors. The policy should require that the board approve all loans to related parties. The main exposures limits covered under the policies should include the following; Acceptance exposures to individual borrowers, maximum exposures to connected groups and insider dealings, limits in relation to geographical location, maximum exposure to individual economic sectors (for example commercial consumer real estate) and accepts limits on specific products.

2.3.2 Liquidity Risks

Liquidity risk is the current or prospective risk to earning and capital arising from a bank’s inability to meet its liabilities when they fall due without incurring unacceptable losses. Liquidity risk may not be seen in isolation because it is often triggered by consequences of other financial risk such as credit risk, market risk and similarly, liquidity problems may have significant implications on the whole financial system. Liquidity is the ability of an institution to generate sufficient cash or its equivalent in a timely manner at a reasonable price to meet its commitments as they fall due. Liquidity risk management systems involve not only analyzing bank on and off balance sheet positions to forecast future cash flows but also to how the funding requirements could be met. The funding involves identifying the funding market to which the bank has access, understanding the nature of those markets, evaluating the bank’s current and future use of the market and monitoring signs of confidence erosion.

Institutions should formulate a comprehensive liquidity policy statement that takes into account all on- and off- balance sheet activities and should be recommended by senior management and approved by the board of directors. The key elements of any liquidity policy should include: General liquidity strategy (short and long term), specific goals and objectives in relation to
liquidity risk management, process for strategy formulation and level of approval within the institution, A procedure manual which should explicitly narrate the necessary operational steps and processes to execute the relevant liquidity risk controls, Periodic review and updating of the manual to take into account new activities change in risk management approaches and systems Management should be able to accurately identifying and quantifying the primary sources of a financial institution’s liquidity risk in a timely manner and Management should always be alert for new sources for liquidity risk at both the transaction and portfolio levels.

An effective measurement and monitoring system is essential for adequate management of liquidity risk. Consequently, that enable those to capture liquidity risk ahead of time so that appropriate remedial measures could be prompted to any significant losses. An effective liquidity risk measurement and monitoring system not only helps in managing liquidity in times to crisis but also optimize return through efficient utilization of available funds. Key elements of an effective risk management process include an efficient management information system (MIS), to measure, monitor and control risk.

In order to have effective implementation of policies and procedures, institutions should institute review process that should ensure the compliance of various procedures and limits prescribed by senior management. Institutions should have an adequate system of internal controls over its liquidity risk management process. There should be regular, independent reviews and evaluations of the effectiveness of the system. A fundamental component of the internal control system should include; A strong control environment, an adequate process for identifying and evaluating liquidity risk, the establishment of control activities such as policies and procedures and adequate information system with regular independent reviews and evaluations of the effectiveness of the system and ensuring that appropriate revisions or enhancements to internal
are made. Financial institutions should ensure that all aspects of the internal control systems are effective including those that are not directly part of the risk management process. Periodic review should be conducted to verify the level of liquidity risk management’s compliance with limits and operating procedures.

2.3.3 Interest Rate Risks

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Excessive interest rates risk can pose a significant threat to a financial institution’s earning and capital base. Changes in interest rate affect a financial institutions earning by changing its net interest income and the levels of other interest sensitive income and operating expenses. Changes in interest rates thus have adverse effects both on a financial institution’s earning, capital and its economic value. The goal of interest rate risk management is to maintain a financial institution’s interest rate exposure within self imposed parameters over a range of possible changes in interest rates.

In general, but depending on the complexity and range of activities, a financial institution should have interest rate risk measurement and monitoring systems that; assess the effects of rate changes on both earnings and economic value of the institution, Provide a meaningful measure of a financial institution’ current levels of interest rate risk exposure and utilize generally accepted financial concepts and risk measurement techniques. The risk measurement system should support a meaningful evaluation of the effects of stressful market condition on the financial institutions. Stress testing should be designed to provide information on the kinds of conditions under what the financial institutions’ strategy or positions would be most vulnerable and thus may be tailored to the risk characteristics of the institution. Possible stress scenarios
might include abrupt changes in the general level of interest rate, changes in relationships among key market rates, changes in the liquidity of key financial markets or changes in the volatility of market rates.

2.3.4 Price Risks

Price risk is the risk that a bank may experience loss due to unfavorable movements in market prices. It arises from the volatility of positions taken in the four fundamentals economic markets: interest-sensitive debt securities, equities, currencies and commodities. The volatility of each of these markets exposes banks to fluctuations in the price or value of on – and off-balance sheet marketable financial instruments.

As measuring risk is critical to understanding the potential loss an institution may be exposed to, the most common approaches to measuring and limiting price risk include; To limit the size and concentration of investment that is price sensitive, based on percentage of either total investment or total asset of the institution, adherence to the prudential regulations and limits on investments imposed by the banking act and determine the size of the loss that works be incurred should the prices of shares and other investments move against the position the financial institution has taken accurate and timely information systems are critical to the management of price risks and for ensuring compliance with relevant risk limits. Financial institutions should; devote the resources necessary to generating information on compliance with relevant risk limits, design standardized reports to communicate the information regarding risk concentration, current position country exposures among others.

2.3.5 Foreign Exchange Rate Risks
Foreign exchange rate risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. The potential for loss arises from the process of revaluing foreign currency positions on both on–and off- balance sheet items, in shillings term. All financial institutions should formulate a sound foreign exchange risk management framework that must encourage the following critical areas: board and critical oversight, policies, procedures and limits, risk identification and measurement, monitoring and management information systems and internal controls.

Measuring risk is very critical to understanding the potential loss an institution may be exposed to an event of any loss. Common approaches to measuring and limiting exchange rate risks are; limit the size of an open positions in each currency as of the close of business each day, adherence to the regulatory requirements that pertain to the net open positions, determine, on a continues basis, the size of the loss that would be incurred should the exchange rate move against the financial institution’s open position provide strong assurance that foreign exchange losses will not substantively diminish the total earning of the financial institutions and they ensure adequate training of personnel and segregation of duties between the front and the back office. Accurate and timely information systems are critical to the management of foreign currency position, and for ensuring compliance with relevant risk limits. Financial institutions should; devote the resources necessary to generating information on compliance with relevant risk limits, design standardized reports to communicate the information regarding open foreign exchange positions, liquidity positions, ensure that positions and exposures are reported on a consolidated basis such reports should be prepared and verified by persons not responsible for transacting foreign currency business.

2.4 Operational risks
Operational risk is associated with human error, system failure and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal control, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses. Operational risks exist in all products and business activities. The focus on operational risk has gained momentum in the recent past as a result of various developments that have influenced the manner in which banking operations are conducted. Some of these developments include the use of sophisticated technologies, the growth of e-commerce, mergers and acquisitions, the financial institution’s increasing reliance on large scale service providers and use of financial technologies that reduce credit and market risk but increase operations risk. Operational risk includes legal risks. Legal risks are the current and prospective risk to earnings or capital arising from non-conformance with laws, rules prescribed practice, internal policies and procedures or ethical standards. Legal risks expose the institutions to fines, civil penalties, payment of damages and the violations of contracts. The objective of operational risk management is to; To find out the extent of the financial institutions operating risk exposure, to understand what drive it, to allocate capital against it, identify and employ tools both internally and externally, that would help in risk mitigation.

2.4.1 Strategic Risks

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of organizations strategic goals the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery
networks, and managerial capacities and capabilities. In strategic management, the organization’s internal characteristics are evaluated against the impact of economic technological, competitive regulatory and other environmental changes.

Effective management of strategic risk requires that policies, procedures and limits be established to ensure objective evaluation of and responsiveness to a bank’s business environment. Procedures for defining and reviewing the institutions’ business strategy are intended to ensure that the following aspects are given adequate consideration. The institutions inherent strengths, the identified weaknesses, Opportunities external to the institution and External factors that pose threats to the institution. Institutions need strong internal control systems to ensure that they are not unduly exposed to strategic risks.

2.5 Environmental risks

2.5.1 Regulatory Risks

Regulatory risk is the risk of non-compliance with regulatory guidelines, regulatory risk is the current and prospective risk to earning capital arising from violations of, or non-conformance with laws, rules, regulations prescribed practice, or ethical standards issued by the regulations from time to time. Regulatory risk also arises in situations where the laws or rules governing certain bank products or activities of the bank’s clients may be ambiguous or untested. Regulatory risk exposes an institution to fines, civil money penalties, payment of damage, and the violation of contracts. It can lead to diminished reputation, reduced franchise value, limited business opportunity, reduced expansion potential and an inability to enforce contracts. The institution should have a strong control structure that has proven effective. Compliance management systems should be sound and minimize the likelihood of excessive or serious future
violations or non compliance. Appropriate controls should and systems should be implemented to ensure compliance problems and assess performance.

2.5.2 Reputation Risks

Reputation risk is the potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer’s base, costly litigation, or revenue reductions. This risk may result from a financial institution’s failure to effectively manage any or all of the other risk type. Reputation risk also involves external perception, thus reputation risk is where the actions of the business damage its reputation, to the extent that it may lose business or offer to bear or share losses suffered by their customers. Many management teams have been criticized for the way they handle a crisis- not because of their strategy was ill conceived or clumsily implemented, but because they failed to tell the outside world what the strategy was. Managing reputation risk is an important feature of sound risk management practice in any financial institution.

2.5 Summary and Gaps to be filled by the study

Commercial banks play an important role in any type of the economy and occupy the heart of any economic development of both LDCs and DCs. An important general principle in finance is that there is a trade-off between risk and return. Banks must manage the risks they face carefully. Equity capital is typically about 5% of assets and profit before taxes is often less than 1% of assets. Large trading in loan losses, an economic downtown leading to a sharp rise in loan losses, or other unexpected events can lead to an erosion of equity capital and put the bank in a precarious position. Regulations have become increasingly active in ensuring that the capital a bank keeps is commensurate with the risk it takes. It is important to bear in mind that the
overriding objectives are to reduce the downside risks and minimize lost opportunities from risks facing the business and not simply to come up with processes that appear to do so in order to comply with corporate governance requirement but, more importantly, will also be improving the quality and returns of the bank.

Insurance is no longer seen as an automatic solution to deal with risk, banks used to protect themselves by buying insurance but insurance is only one way. Ultimate responsibility for the way in which a bank’s business is conducted lies with the board of directors. The members of the board usually delegate the day-to-day management of banking to officers and employees, but board members are responsible for the consequences of unsound or imprudent policies and practices concerning lending, investing, protecting against internal fraud, and any other banking activity. The composition of a board of directors is crucial. Studies have found that nearly 60% of failed banks had board members who either lacked banking knowledge or were informed and passive regarding supervision of the banks affairs (Greuning, 2009). A strong managing director and a weak board are a recipe for disaster.
2.6 Conceptual Framework

**Independent variables**

**Financial risks**
- credit risks, liquidity risks, interest rate risks, price risks, foreign exchange rate risks.

**Operational risks**
- operation risks, strategic risks.

**Environmental risks**
- regulatory risks, reputation risks

**Dependent variable**

**Performance of commercial banks**
- profit before tax
- Number of employees
- Number of branches
- active number of accounts

**Intervening variables**
- Limited finances
- Weak board of directors

Source: (Author, 2011)

2.6.1 Performance of commercial banks

With effective risk management, the bank will reduce the probability of an event occurring and (or the magnitude of its impact as well as increase the probability of the success of the bank). According to Dorfman (2009) the first objective for the risk manager is to make sure the
organization can survive losses. The bank should operate efficiently in a risky environment, that is, risk management procedures operate smoothly. For example, the risk manager should be sure that loss controls classes are held and that employees are motivated to perform their assignments safely.

2.6.2 Financial risks

Financial risks comprise two types of risks. Traditional banking risks - including balance sheet and income statement structure, credit and solvency risks – can result in loss for a bank if they are not properly managed. Treasury risks, based on financial arbitrage, can result in a profit if the arbitrage is correct or a loss if it is incorrect. The main categories of treasury risks are liquidity, interest rate, currency and market (including counterparty) risks. A bank should develop a sound credit extension process, ensure that all aspects of the internal control systems are effective and should have interest rate risk measurement and monitory systems that assess the effects of rate changes on both earnings and economic value of the institution.

2.6.3 Operational risks

Operational risks are related to a bank’s overall business processes and the potential impact thereon of compliance with bank policies and procedures, internal systems and technology, information security, measures against mismanagement and fraud, and business continuity concerns. Another aspect of operational risk encompasses the bank’s strategic planning, governance and organization structure, management of staff careers, and internal resources. To mitigate risks the bank should identify and employ tools both internally and externally and policies, procedures and limits be established to ensure objective evaluation of and responsiveness to a bank’s business environment.
2.6.4 Environmental risks

Environmental risks are associated with a bank’s business environment, including legal and regulatory factors. Environmental risks include all types of exogenous risks that if they were to materialize, could jeopardize a bank’s operations or undermine its ability to continue in business. The institution should have a strong control structure proven effective.

2.6.5 Intervening variables

Commercial banks may budget little amount of money for risk management which will make the bank to fail to meet its objectives of effective risk management. The ultimate responsibility for the way in which a bank’s business is conducted lies with the board of directors. Studies have found that nearly 60% of failed banks had board members who either lacked banking knowledge or were informed and passive regarding supervision of the banks affairs.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter was subdivided into six subsections which included the research design, target population, sampling methods, research instruments, data collection procedures and data analysis.

3.2 Research Design

This study employed descriptive survey design. This involved using a survey design as a strategy for collecting and analyzing data that allowed the researcher to gather information, summarize, present and interpret data for the purpose of classification. According to Bryman (2008) a research design provides a framework for the collection and analysis of data. A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem. Since the conditions or occurrences that this study intends to major in already exist or have occurred, relevant variables on this analysis was selected.

According to Gay (1992) this method determines and reports the way things are such as public opinions and attitudes whereby a clear layout of pertinent and precise information on the study aspect and phenomenon are obtained and general conclusion drawn. The researcher used both primary and secondary data. Primary data was obtained by administering questionnaires and secondary data was obtained from books, journals and internet. The research focused on the effects of business risk on the performance of commercial banks in Kenya.
3.3 Target population

According to Frankel and Wallen (1993), this refers to the larger group to which one hopes to apply the findings of the study. In this case, the target population was all the 43 commercial banks head quarters in Kenya (CBK, 2010). The study respondents were the risk managers and bank managers of these banks (see appendix iii).

3.4 Sampling procedure

A census survey of the 43 commercial banks was carried out. A census study was used given that not all the commercial banks that was able to give out the information which brought the total respondents to 28 banks. The population of the 28 commercial banks is considered to be small and selecting a sample from a small population would be meaningless.

3.5 Data collection procedures and Data collection instruments

3.5.1 Data Collection Instruments

The study utilized questionnaires for data collection. The questionnaire was used to collect data from bank managers and risk managers. The questionnaires were developed based on the objectives of the study and the data was collected using structured questionnaire and open ended where closed ended was asked in order to get the answers sought by the research questions. A likert scale was used to gauge the degree of response in terms of strength or weaknesses on a scale of one to five.
3.5.2 Data collection procedure

The researcher employed drop and pick method to ascertain higher response rate as compared to mailed questionnaires. This study was carried out after authority has been received from the university. Then piloting of the research instruments was carried out to allow the researcher to add or subtract research items from instruments. The researcher visited the commercial banks, seeks consent from the respondents and gave careful instruction to the respondents on how to fill the questionnaire. Record of respondents was kept to establish the rate of data loss.

3.6 Data Analysis

Descriptive statistics and inferential statistics were used in the analysis of the data. The data was presented using both statistical techniques as well as graphical techniques. The statistical techniques included frequency distribution and measures of central tendency where as graphical techniques included bar graphs and pie charts. Inferential statistics included correlation analysis. collected in the process of carrying out this study was edited, then coded and subjected to SPSS program that enabled the researcher to generate tables, charts and graphs for the purpose of presenting the data. Interpretations of the data collected were based on the research questions set and recommendations were made to the various stakeholders like policy makers, research institutions and supporting university.
CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter reports the main results obtained by analysis of data and presentation of the results of the questionnaire data. The results were on the effects of business risk management on the performance of commercial banks in Nairobi, Kenya. The focus was on financial risks, operational risks, and environmental risks. Data generated from this research was both qualitative and quantitative and summary of the data analysis was provided at the end of the chapter. The results were presented in tables, charts, and graphical forms covering various variables.

4.2 Analysis of Response Rate and Background Information

4.2.1 Response Rate.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Expected response</th>
<th>Actual response</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>28</td>
<td>65.12</td>
</tr>
</tbody>
</table>

Source (Field data, 2011)

Most of the respondents returned the questionnaires after filling them. Out of the 43 questionnaires dispersed 28 were received back giving a response of 65.12%. The high response was attributed to the fact that the researcher personally administered the questionnaire to the commercial bank head offices. The researcher made follow ups and collected back the questionnaires.
4.2.2 Background Information

<table>
<thead>
<tr>
<th>Structure</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid LOCALLY OWNED</td>
<td>15</td>
<td>53.6</td>
<td>53.6</td>
</tr>
<tr>
<td>FOREIGN OWNED</td>
<td>7</td>
<td>25.0</td>
<td>78.6</td>
</tr>
<tr>
<td>BOTH LOCALLY AND FOREIGN OWNED</td>
<td>6</td>
<td>21.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Field data, 2011)

The respondents included 15 locally owned banks, 7 foreign owned banks and 6 locally and foreign owned banks. This revealed that 53.6% of the respondents are in locally owned banks, 25% of the respondents were from foreign owned banks and 21.4% of the respondents were from the locally and foreign owned banks.

In figure 4.2 below, it was revealed that 67.9% of the respondents were commercial banks that had been in the Kenyan banking industry for more than 15 years, 21.4% of the respondents were
commercial banks that had been in the Kenyan banking industry for between 10-15 years. The study also revealed that 3.6% of the respondents were commercial banks that had been in the Kenyan banking industry for between 5-9 years and 7.1% of the respondents were commercial banks that had been in industry for between 1-4 years it was revealed that no bank that had been in the industry for less than one year.

Figure 4.2 The period the banks have been in the banking industry.

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid between 1-4 years</td>
<td>2</td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>between 5-9 years</td>
<td>1</td>
<td>3.6</td>
<td>10.7</td>
</tr>
<tr>
<td>between 10-15 years</td>
<td>6</td>
<td>21.4</td>
<td></td>
</tr>
<tr>
<td>more than 15 years</td>
<td>19</td>
<td>67.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Field data, 2011)
In figure 4.3 below, study revealed that 28.6% of the commercial banks had more than 1000 employees and 14.3% of the commercial banks had employees between 501-1000. It was also revealed that 21.4% of the commercial banks had employees who were between 301-500. 25% of the respondents were commercial banks that had employees that were between 101-300 and 10.7% represented those commercial banks that had less than 100 employees.

**Figure 4.3: current number of employees in the commercial banks**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid less than 100</td>
<td>3</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>between 101-300</td>
<td>7</td>
<td>25.0</td>
<td>35.7</td>
</tr>
<tr>
<td>between 301-500</td>
<td>6</td>
<td>21.4</td>
<td>57.1</td>
</tr>
<tr>
<td>between 501-1000</td>
<td>4</td>
<td>14.3</td>
<td>71.4</td>
</tr>
<tr>
<td>over 1000</td>
<td>8</td>
<td>28.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** (field data, 2011)
4.3 Business risks

4.3.1 View of risks by commercial banks

In table 4.4 below, it was revealed that 67.9% of the commercial banks view risk as both a threat and an opportunity because risks leads to a bank making losses and also because the industry takes care and is a custodian of very volatile, liquid and sensitive assets which if not taken care of well could lead to huge losses and thus need to mitigate the risks. An opportunity because chances of success is high with high risks. It was revealed 21.4% of the commercial banks view risk as a threat because of the eminent losses posed. 10.4% of the respondents indicated that they view risk as an opportunity. An opportunity since chances of success is high with high risks and because it enables a bank to enhance effective performance and minimize the damages to occur.

Figure 4.4 View of risk by commercial banks

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid opportunity</td>
<td>3</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Threat</td>
<td>6</td>
<td>21.4</td>
<td>32.1</td>
</tr>
<tr>
<td>Both</td>
<td>19</td>
<td>67.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.3.2 Availability of full time risk managers in commercial banks

In the figure 4.5 below, it was revealed that most of the commercial banks have the full time risk managers. It was indicated that 96.4% of the banks have full time managers and 3.6% of the commercial banks do not have full time managers instead they rely on credit managers and the operations managers.

Figure 4.5 Availability of full time risk managers in commercial banks.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid yes</td>
<td>27</td>
<td>96.4</td>
<td>96.4</td>
<td>96.4</td>
</tr>
<tr>
<td>no</td>
<td>1</td>
<td>3.6</td>
<td>3.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.3.3 Risk management practices

The ratings by respondents on the extent to which the risk managers perform duties in the commercial banks were subjected to descriptive statistical analysis through the use of frequency distribution on each item. Percentages rating on various duties performed by the risk managers were analyzed effectively to give the presentation.

<table>
<thead>
<tr>
<th>DUTIES</th>
<th>NE</th>
<th>SE</th>
<th>ME</th>
<th>LE</th>
<th>VLE</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying the risk faced by the bank</td>
<td>0.00</td>
<td>0.00</td>
<td>3.57</td>
<td>32.14</td>
<td>64.29</td>
<td>100</td>
</tr>
<tr>
<td>Measuring the potential risk of each risk</td>
<td>0.00</td>
<td>0.00</td>
<td>7.14</td>
<td>35.71</td>
<td>57.14</td>
<td>100</td>
</tr>
<tr>
<td>Determining and monitoring of exposures</td>
<td>0.00</td>
<td>0.00</td>
<td>7.14</td>
<td>25.00</td>
<td>67.86</td>
<td>100</td>
</tr>
<tr>
<td>Provision of leadership in risk management</td>
<td>0.00</td>
<td>0.00</td>
<td>3.57</td>
<td>28.57</td>
<td>67.86</td>
<td>100</td>
</tr>
</tbody>
</table>

Where NE = no extent, SE = small extent, ME = moderate extent, LE = large extent and VLE = very large extent.

In table above, it was revealed that 96% of the risk managers identify the risks faced by commercial banks indicating that risk managers are playing an active role to mitigating risks affecting the banking industry. The industry’s risk management policies are established to identify and analyze the risks faced by the industry to set appropriate risk limits and controls. It
was also revealed that 93% of the respondents indicated that the risk managers measure the potential effect of each risk. Stress testing and scenario analysis are important components of the industry’s risk assessment processes, and are used to assess the financial management capability of the industry to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors which define the context within which the industry operates.

The table above also revealed that 96% of the respondents indicated that the risk manager determine and monitor exposures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The board audit committee is responsible for monitoring compliance with the industry’s risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risk faced by the industry. It was also revealed that 96% of the respondents indicated that the risk managers provide leadership in risk management. The banking industry, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

| Table 4.2: Extent to which risk managers perform their duties. |
|-----------------|---------|---------|---------|---------|---------|
|                 | N       | Minimum | Maximum | Mean    | Std. Deviation |
| Identifying risk| 28      | 3       | 5       | 4.61    | .567    |
| Measure of risk potential | 28      | 3       | 5       | 4.50    | .638    |
| Determining and monitoring exposure | 28      | 3       | 5       | 4.61    | .629    |
| Leadership management | 28      | 3       | 5       | 4.64    | .559    |
| Valid N         | 28      |         |         |         |         |
4.3.4 Frequency of risks in commercial banks.

Table 4.3: extent of the frequency of risks in commercial banks.

<table>
<thead>
<tr>
<th>RISKS</th>
<th>NE</th>
<th>SE</th>
<th>ME</th>
<th>LE</th>
<th>VLE</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>strategic risk</td>
<td>14</td>
<td>18</td>
<td>29</td>
<td>28.6</td>
<td>10.7</td>
<td>100</td>
</tr>
<tr>
<td>credit risk</td>
<td>0</td>
<td>21</td>
<td>11</td>
<td>25</td>
<td>42.9</td>
<td>100</td>
</tr>
<tr>
<td>liquidity risk</td>
<td>7.1</td>
<td>25</td>
<td>21</td>
<td>17.9</td>
<td>28.6</td>
<td>100</td>
</tr>
<tr>
<td>interest rate risk</td>
<td>3.6</td>
<td>29</td>
<td>21</td>
<td>28.6</td>
<td>17.9</td>
<td>100</td>
</tr>
<tr>
<td>price risk</td>
<td>14</td>
<td>32</td>
<td>21</td>
<td>21.4</td>
<td>10.7</td>
<td>100</td>
</tr>
<tr>
<td>foreign exchange risk</td>
<td>3.6</td>
<td>29</td>
<td>21</td>
<td>28.6</td>
<td>17.9</td>
<td>100</td>
</tr>
<tr>
<td>operation risk</td>
<td>0</td>
<td>18</td>
<td>21</td>
<td>21.4</td>
<td>39.3</td>
<td>100</td>
</tr>
<tr>
<td>reputation risk</td>
<td>25</td>
<td>21</td>
<td>21</td>
<td>14.3</td>
<td>17.9</td>
<td>100</td>
</tr>
<tr>
<td>regulatory risk</td>
<td>18</td>
<td>29</td>
<td>18</td>
<td>14.3</td>
<td>21.4</td>
<td>100</td>
</tr>
</tbody>
</table>

Where NE = no extent, SE = small extent, ME = moderate extent, LE = large extent and VLE = very large extent.

The commercial banks have exposure to the following risks from its use of financial instruments.

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank’s processes, personal, technology and infrastructure and from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. In table 4.3 above, 61% of the respondents indicated that operation risk occurs more frequently, 18% of the respondents revealed that it occurs less frequently. Operational risks arise from all the bank’s operations and are faced by all business units. This is supported by the development of overall banking standards for the management of operational risk in areas such as compliance with regulatory requirement, ethical and business standards, training and professional development, documentation of control and procedures and requirements for the reconciliation and monitoring of transactions amongst others.

Financial risks among others credit risks is the risk of financial loss to the bank if the customer or counterparty to the financial instrument fails to meet its contractual obligations and arises
principally from the bank's loans and advances to customers and other banks and investment securities. In table 4.3 above, 72% of the respondents indicated that credit risk occurs more frequently in the banking industry, 21% of the respondents revealed that credit risk occurs less frequently in the banking industry. The banking industry structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segment.

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities. In table 4.3 above, 47% of the respondents revealed that liquidity risk occurs more frequently, 32% of the respondents indicated that liquidity risk occurs less frequently. The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to depositors from customers.

Regulatory risks include the risks of non-compliance with regulatory requirement. Table 4.3 above, 36% of the respondents indicated that regulatory risks occurs more frequently in the banking industry, 47% of the respondents revealed that regulatory risks occurs less frequently. The compliance function is responsible for establishing and maintaining an appropriate framework of banking industry compliance policies and procedures.

Reputation risk is the risk of failing to meet the standards of performance or behavior required or expected by stakeholders in commercial activities or the way in which business is conducted. In table 4.3 above, 36% of the respondents revealed that reputation risks occurs more frequently, 47% of the respondents indicated that the risk occurs less frequently. Reputation risks arise as a result of poor management of problems occurring in one or more of the primary banking risk areas (credit, market, operational risk areas) and/or from social, ethical or
environmental risk issues. All members of staff have a responsibility for monitoring the industry’s reputation.

In the environmental risks the operations and financial results and the market price and liquidity of the bank’s equity shares may be affected by the government policy or taxation of earnings and/or revenue or political, social, economic, ethnic or other development in or affecting the country. There is always the risk that changes in government and subsequently regulations and legislature can always affect the operations of not only the bank, but the industry and the entire economy as a whole.

4.3.4 Challenges banks face in risk management practices

In table 4.4 below, it was indicated that 89.29% of the commercial banks have appropriate risk identifiable tools to deal with risks as compared to 10.71% of the respondents who indicated that they lack tools to deal with risks which makes it more effect to deal with the problems of risks. It was also revealed that 92.86% of the commercial banks receive support from top management as compared to 7.14% of the respondents who indicated that they don’t have support from top management which is a good indication of proper dealing with risks.

In table 4.4 it was revealed that 82.14% of the commercial banks have the right human resource to deal with risks as compared to 17.86% which indicated that they lack human resources with the right skills. It was revealed that 46.43% of the commercial banks face financial constraints in the process of risk management this is supported by figure 4.6 below which indicated that the process of risk management is complex and costly.
Table 4.4 challenges commercial banks face in the process of risk management

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>YES</th>
<th>NO</th>
<th>TOTAL%</th>
</tr>
</thead>
<tbody>
<tr>
<td>lack of appropriate risk identifiable tools</td>
<td>10.71</td>
<td>89.29</td>
<td>100.00</td>
</tr>
<tr>
<td>lack of management support</td>
<td>7.14</td>
<td>92.86</td>
<td>100.00</td>
</tr>
<tr>
<td>lack of the right human resources</td>
<td>17.86</td>
<td>82.14</td>
<td>100.00</td>
</tr>
<tr>
<td>inability to understand the nature and implications of risks</td>
<td>17.86</td>
<td>82.14</td>
<td>100.00</td>
</tr>
<tr>
<td>budgetary constraints</td>
<td>46.43</td>
<td>53.57</td>
<td>100.00</td>
</tr>
<tr>
<td>inability of sustaining risk management</td>
<td>25.00</td>
<td>75.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source (field data, 2011)

4.3.5 The process of risk management

In table 4.6 below, it was indicated that 71.4% of the respondents revealed that the process of risk management is complex and costly. 17.9% of the respondents revealed that the process was simple but costly and 10.7% of the respondents revealed that the process is complex but cheap.

Figure 4.6 the process of risk management

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>complex and costly</td>
<td>20</td>
<td>71.4</td>
</tr>
<tr>
<td></td>
<td>simple but costly</td>
<td>5</td>
<td>17.9</td>
</tr>
<tr>
<td></td>
<td>complex but cheap</td>
<td>3</td>
<td>10.7</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Field data, 2011)

4.4 Effects of financial risks on the performance of commercial banks

The ratings on the various aspects of financial risks on performance of commercial bank were subjected to descriptive analysis through the use of percentages and tables so as to make an
100% of the respondents indicated that financial risks affect the performance of commercial banks.

### 4.4.1 Extent to which financial risks affect commercial banks

Table 4.5: Extent to which financial risks affect commercial banks

<table>
<thead>
<tr>
<th>RISKS</th>
<th>NE</th>
<th>SE</th>
<th>ME</th>
<th>LE</th>
<th>VLE</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit risks</td>
<td>11</td>
<td>18</td>
<td>21</td>
<td>21.4</td>
<td>28.6</td>
<td>100</td>
</tr>
<tr>
<td>liquidity risks</td>
<td>14</td>
<td>32</td>
<td>7.1</td>
<td>32.1</td>
<td>14.3</td>
<td>100</td>
</tr>
<tr>
<td>interest rate risks</td>
<td>14</td>
<td>21</td>
<td>25</td>
<td>28.6</td>
<td>10.7</td>
<td>100</td>
</tr>
<tr>
<td>price risks</td>
<td>18</td>
<td>29</td>
<td>18</td>
<td>32.1</td>
<td>3.57</td>
<td>100</td>
</tr>
<tr>
<td>foreign exchange risks</td>
<td>7.1</td>
<td>29</td>
<td>25</td>
<td>25</td>
<td>14.3</td>
<td>100</td>
</tr>
</tbody>
</table>

In table 4.5 above, it was revealed that 50% of the respondents indicated that credit risk affects to a large extent the performance of commercial banks, 39% of the respondents indicated that credit affects performance of commercial banks in a small extent and 11% revealed that they don’t affect the performance of commercial banks. In table 4.5 it is also revealed that 39% of the respondents indicated that interest rate risks affect the performance of commercial banks to a large extent, 46% of the respondents revealed that it affects the performance of commercial banks in a small extent and 14% indicated that interest rate risk does not affect the performance of commercial banks. The table revealed that financial risks affects the performance of commercial banks in a small extent and this is due to the risk management tools that are in place and the duties performed by the risk managers as revealed in table 4.2 and the support the banks get from top management as revealed in table 4.4.
Credit risk, foreign exchange risk, liquidity risk and interest rate risk affects the performance of commercial banks in a very large extent having a mean of 3.39, 3.11, 3.00, and 3.00 respectively. Price risk affects commercial banks in a large extent having a mean of 2.75.

4.5 Effects of operational risks on the performance of commercial banks

Table 4.6 extent to which operation risks affects the performance of commercial banks

<table>
<thead>
<tr>
<th>RISKS</th>
<th>NE</th>
<th>SE</th>
<th>ME</th>
<th>LE</th>
<th>VLE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>breaches in internal actions</td>
<td>11</td>
<td>32</td>
<td>25</td>
<td>17.9</td>
<td>14.3</td>
<td>100</td>
</tr>
<tr>
<td>staff human error</td>
<td>21</td>
<td>14</td>
<td>21</td>
<td>35.7</td>
<td>7.14</td>
<td>100</td>
</tr>
<tr>
<td>systems failure</td>
<td>18</td>
<td>18</td>
<td>11</td>
<td>35.7</td>
<td>17.9</td>
<td>100</td>
</tr>
<tr>
<td>processes- inadequate procedures</td>
<td>14</td>
<td>21</td>
<td>21</td>
<td>32.1</td>
<td>10.7</td>
<td>100</td>
</tr>
<tr>
<td>Fraud</td>
<td>14</td>
<td>14</td>
<td>21</td>
<td>14.3</td>
<td>35.7</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 4.6 above, it is revealed that operation risks such as breaches in internal actions, staff human error, system failure and inadequate procedures under processes affect the performance of commercial banks in a small extent as compared to a large extent this is due to the central bank regulations and Basel Accord requirements the banks has put in place a comprehensive end to end framework for operation risk management. 41% of the respondents indicated that it affects the performance of commercial banks in a greater extent despite all the measures that has been put in place.
In operation risks, fraud, system failure and process inadequate procedures affect the performance of commercial banks in a very large extent having a mean of 3.43, 3.18, and 3.08 respectively. Breaches in internal risk and staff error affect the performance of commercial banks in a large extent having a mean of 2.93.

4.6 Effects of environmental risks on the performance of commercial banks

Table 4.7 Extent to which environmental risks affect commercial banks

<table>
<thead>
<tr>
<th>RISKS</th>
<th>NE</th>
<th>SE</th>
<th>ME</th>
<th>LE</th>
<th>VLE</th>
<th>TOTAL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>regulatory</td>
<td>18</td>
<td>25</td>
<td>21</td>
<td>21.4</td>
<td>14.3</td>
<td>100</td>
</tr>
<tr>
<td>Political</td>
<td>18</td>
<td>21</td>
<td>18</td>
<td>35.7</td>
<td>7.14</td>
<td>100</td>
</tr>
<tr>
<td>social-cultural</td>
<td>11</td>
<td>18</td>
<td>39</td>
<td>28.6</td>
<td>3.57</td>
<td>100</td>
</tr>
<tr>
<td>Economic</td>
<td>7.1</td>
<td>14</td>
<td>18</td>
<td>42.9</td>
<td>17.9</td>
<td>100</td>
</tr>
<tr>
<td>Legal</td>
<td>21</td>
<td>14</td>
<td>32</td>
<td>17.9</td>
<td>14.3</td>
<td>100</td>
</tr>
</tbody>
</table>

In the table 4.7 above, it was revealed that political factors, social cultural factors and legal factors affect the performance of commercial banks in a small extent. It was revealed that 8% of the respondents indicated that both political, social cultural and legal factors affect the performance of in a very large extent. Economic factors affect the performance of commercial banks in a greater extent and this is due to natural factors in economic which can not be controlled for example drought and earthquakes.
Economic factors affect the performance of commercial banks in a very large extent having a mean of 3.50. Social-cultural, political, regulatory and legal factors affect the performance in a large extent.

### 4.7 Indicators of performance (business drivers)

#### Profit before tax in billions

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>28</td>
<td>6.30</td>
<td>.20</td>
<td>6.50</td>
<td>1.5127</td>
<td>1.56865</td>
<td>2.461</td>
</tr>
<tr>
<td>2007</td>
<td>28</td>
<td>6.89</td>
<td>.21</td>
<td>7.10</td>
<td>1.9396</td>
<td>1.78681</td>
<td>3.193</td>
</tr>
<tr>
<td>2008</td>
<td>28</td>
<td>7.70</td>
<td>.30</td>
<td>8.00</td>
<td>2.4413</td>
<td>1.89988</td>
<td>3.610</td>
</tr>
<tr>
<td>2009</td>
<td>28</td>
<td>8.66</td>
<td>.34</td>
<td>9.00</td>
<td>3.0806</td>
<td>2.42946</td>
<td>5.902</td>
</tr>
<tr>
<td>2010</td>
<td>28</td>
<td>13.29</td>
<td>.21</td>
<td>13.50</td>
<td>4.2404</td>
<td>3.18813</td>
<td>10.164</td>
</tr>
</tbody>
</table>

**Valid N (listwise) 28**

### Correlation analysis

<table>
<thead>
<tr>
<th>Time in years</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit in billions</td>
<td>1.5127</td>
<td>1.9316</td>
<td>2.4413</td>
<td>3.0806</td>
<td>4.2404</td>
</tr>
</tbody>
</table>

**Null hypothesis:** there is no relationship between profit before tax and time in years

**Alternative hypothesis:** there is a relationship between profit before tax and time in years

**Pearson's product-moment correlation**
Data: Year and Profit
$t = 7.9805, \text{ df} = 3, \text{ p-value} = 0.004105$
Alternative hypothesis: true correlation is not equal to 0
95 percent confidence interval:
0.6892415 0.9985616
Sample estimates:
cor
0.9772484

Since the \textit{p} value is 0.004105 and the correlation coefficient is 0.9772484. There is a strong positive correlation between time in years and profit before tax being generated. Also the confidence interval is [0.689 0.999] which does not contain a zero. Hence the null hypothesis is rejected therefore there is a positive relationship between time in years and profit gained.
However, there is an increase in variation among the banks indicating the amount of profit made among the banks is significantly varying over time.

<table>
<thead>
<tr>
<th>Year</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1313.00</td>
<td>36.00</td>
<td>1349.00</td>
<td>2.8661E2</td>
<td>331.14116</td>
<td>1.097E5</td>
</tr>
<tr>
<td>2007</td>
<td>2380.00</td>
<td>38.00</td>
<td>2418.00</td>
<td>3.7136E2</td>
<td>485.62554</td>
<td>2.358E5</td>
</tr>
<tr>
<td>2008</td>
<td>4342.00</td>
<td>44.00</td>
<td>4386.00</td>
<td>5.2389E2</td>
<td>823.57992</td>
<td>6.783E5</td>
</tr>
<tr>
<td>2009</td>
<td>5028.00</td>
<td>65.00</td>
<td>5093.00</td>
<td>6.3254E2</td>
<td>954.87779</td>
<td>9.118E5</td>
</tr>
<tr>
<td>2010</td>
<td>5483.00</td>
<td>80.00</td>
<td>5563.00</td>
<td>7.2411E2</td>
<td>1045.71883</td>
<td>1.094E6</td>
</tr>
</tbody>
</table>

Correlation analysis

<table>
<thead>
<tr>
<th>Time in years</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>287</td>
<td>371</td>
<td>524</td>
<td>633</td>
<td>724</td>
</tr>
</tbody>
</table>

\textbf{Null hypothesis}: there is no relationship between time in years and number of employees

\textbf{Alternative hypothesis}: there is relationship between time in years and number of employees.

\textbf{Pearson's product-moment correlation}

Data: Year and Employees
$t = 19.1203, \text{ df} = 3, \text{ p-value} = 0.0003124$
Alternative hypothesis: true correlation is not equal to 0
95 percent confidence interval: 
0.9367376 0.9997444

Sample estimates:
cor
0.995922

Since p is 0.0003124 and correlation coefficient is 0.995922. There is a strong positive correlation between time in years and number of employees employed. Also the confidence interval is [0.9367 0.9997] which does not contain a zero. Hence the null hypothesis is rejected. Therefore, there is a positive relationship between time in years and number of staff.

### Number of branches

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>28</td>
<td>130.00</td>
<td>.00</td>
<td>130.00</td>
<td>17.2857</td>
<td>28.86605</td>
<td>833.249</td>
</tr>
<tr>
<td>2007</td>
<td>28</td>
<td>131.00</td>
<td>.00</td>
<td>131.00</td>
<td>20.7143</td>
<td>30.44684</td>
<td>926.878</td>
</tr>
<tr>
<td>2008</td>
<td>28</td>
<td>169.00</td>
<td>1.00</td>
<td>169.00</td>
<td>25.2143</td>
<td>37.36839</td>
<td>1.396E3</td>
</tr>
<tr>
<td>2009</td>
<td>28</td>
<td>191.00</td>
<td>1.00</td>
<td>191.00</td>
<td>29.8214</td>
<td>43.35218</td>
<td>1.879E3</td>
</tr>
<tr>
<td>2010</td>
<td>28</td>
<td>210.00</td>
<td>1.00</td>
<td>210.00</td>
<td>33.3929</td>
<td>47.91531</td>
<td>2.296E3</td>
</tr>
</tbody>
</table>

Valid N (listwise) 28

### Correlation analysis

<table>
<thead>
<tr>
<th>Time in years</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of branches</td>
<td>18</td>
<td>21</td>
<td>25</td>
<td>30</td>
<td>33</td>
</tr>
</tbody>
</table>

**Null hypothesis:** there is no relationship between time in years and number of branches

**Alternative hypothesis:** there is a relationship between time in years and number of branches

**Pearson's product-moment correlation**

Data: Year and Branches

t = 39.0903, df = 3, p-value = 3.683e-05

Alternative hypothesis: true correlation is not equal to 0

95 percent confidence interval:
0.9844433 0.9999387

Sample estimates:
cor
0.9990198
Since $p$ is 0.00003683 and correlation coefficient is 0.9990198. There is a strong positive correlation between time in years and number of branches. Also the confidence interval is $[0.9844 \text{ 0.9999]}$ which does not contain a zero. Hence the null hypothesis is rejected. Therefore there is a positive relationship between time in years and number of branches opened.
CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter gives a summary of the findings that were analyzed by the researcher in the study. It also involves the conclusions derived, recommendations given and the areas recommended for further study by the researcher in light of the data collected and the analysis thereof.

5.2 Summary of the findings

It was indicated that 96.4% of the commercial banks have full time risk managers based at bank headquarters. 67.9% of the commercial banks view risk as both a threat and an opportunity and risk managers performed well in their duties and functions that were bestowed on them. It was indicated that 96% of risk managers identify the risks faced by the bank and measure the potential effect of each risk. It was also indicated that 93% of risk managers determine and monitor the risk exposures and provide leadership in risk management. The rating also indicated that 93% of the risk managers carry out regular monitoring and documentation of risk indicators, frequent training, they align risk management with bank culture and they include risk management activities in job description.

In financial risks it was indicated that financial risks affects the performance of commercial banks. In the extent to which financial risks affect the performance it was indicated that credit risk, foreign exchange risks, liquidity risks and interest rate risk affects the banks in a very large extent having means of 3.39, 3.11, 3.00 and 3.00 respectively. With a mean of 2.75 commodity price risks affect commercial banks in a large extent as the industry is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows.
It was indicated that operational risks affect the performance of commercial banks. On the extent to which it affects the banks it was indicated that fraud, system failure, process inadequate procedures risks affect the performance of commercial banks to a very large extent having a mean of 3.43, 3.18 and 3.04 respectively. Breaches in internal risks and staff human error affects in a large extent with both having a mean of 2.93. Operational risks arise from all the bank’s operations and are faced by all business units. It is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank’s processes, personnel, technology and infrastructure.

It was indicated that environmental risks affect the performance of commercial banks in Kenya. On the extent to which they affect the performance of commercial banks it was indicated that economic factors affect the performance of commercial banks in a very a large extent having a mean of 3.50 and social-cultural, political factors, regulatory and legal factors affect the banks in a large extent with the mean of 2.96, 2.93, 2.89, 2.89 respectively. Economical factors affect commercial banks in a very large extent. The operations and financial results are affected by Kenyan government policy or taxation of earning and/or revenues or political, social, ethnic, economic or other development in or affecting Kenya. The performance of the Kenyan economy has been affected by its political situation. As a result of the outcome of, and relation to, the 2007 elections, Kenya experienced a period of social and political turmoil; as a result all sectors of the economy, banking sector included, faced a difficulty first quarter of 2008.

It was indicated that performance of commercial banks for the last five years has been increasing despite the presence of financial risks, operational risks and environmental risks. Effective risk management in the banking sector has led to profit before tax of most of the commercial banks to increase with time. Number of employees and branches also increased drastically.
5.3 Conclusion

The study concludes by underscoring the immense importance of effective risk management in the banking industry as business risks affect commercial banks in a large extent. Risk management is effective due to the duties performed by the risk managers of commercial banks. Risk taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking. Risk management in the banking industry involves financial risk management, operational risk management and environmental risk management which are practiced by the commercial banks in Kenya which leads to better performance of commercial banks.

Financial risk management is a process to deal with the uncertainty resulting from financial markets. Financial risks in a banking industry is the possibility that the outcome of an action or event could bring up adverse impacts on the financial institution’s capital or earnings. Such outcomes could either result in imposition of constraints on bank’s ability to meet its business objectives. These constraints pose a risk as they could hinder a bank’s ability to conduct its ongoing business or take benefit of opportunities to enhance its business. Financial risk management is important as it improves the performance of commercial banks. Risk managers should be competent in performing their duties.

The banking industry ensures that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor control and report such risks. It is effective because of compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions.
Environmental risks are very important in the performance of commercial banks. It is effective when risk managers comply with laws, rules, regulations, prescribed practice, or ethical standards issued by the regular from time to time. The banking industry has management systems that are sound and minimize the likelihood of excessive or serious future violations or non compliance.

5.4 Recommendations

The following issues are paramount in risk management in relationship to performance of commercial banks in Kenya.

The commercial banks should ensure that staff members comply with regulatory requirements, ethical and business standards, training and professional development in order to avoid exposing an institution to fines, civil penalties, payment of damage and violation of contracts which will lead to diminished reputation, limited business opportunity, reduced expansion potential and inability to enforce contracts.

Employ staff of high integrity and professionalism so as to reduce the risk of fraud.

5.4.1 Recommendations for further study

This study recommends that,

Similar studies should be extended to other financial institutions such as savings and credit cooperative societies (SACCOs).

Similar study focusing on the effects of fraud on the performance of commercial banks should be considered. As it was discovered that even if effective risk management practices are applied, it adversely affects the performance of commercial banks in the banking industry.
REFERENCES


Bell, J (2002). Doing a Research Project. Open University press, Buckingham,


APPENDIX I: INTRODUCTION LETTER

Dear respondent,

RE: RESEARCH ON THE INVESTIGATION OF THE EFFECTS OF BUSINESS RISKS ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA.

I am a postgraduate student of Kenyatta University, masters of business administration, school of business. I am carrying out the above research. Your organization has been selected to be part of this study and I kindly request you to assist me in filling the attached questionnaire. Kindly fill in all the parts. The document will be collected in a week’s time.

The information you give will be purely used for the purpose of this research and will be treated in confidence. In no way will the name of your organization appear in the final report.

A copy of the final report will be made available to you upon request. Your assistance and corporation will be highly appreciated.

Yours faithfully,

Felix Mogo

Student
APPENDIX II: QUESTIONNAIRE

This questionnaire is on the effects of business risks on the performance of commercial banks in Kenya. The undertaking is in line with a research study requirement in partial fulfillment of a master of business administration degree (project management). The information collected will be used for the said purpose only.

Section One: Bank Profile.

Please provide appropriate responses to the following questions:

Tick where appropriate.

1. Name of the bank (optional).................................

2. What is the ownership structure of your bank?
   a) Locally owned   ( )
   b) Foreign owned ( )
   c) Both locally and foreign owned ( )

3. For how long has your bank been in the Kenyan banking industry?
   a) Less than a year ( )
   b) Between 1-4 years ( )
   c) Between 5-9 years ( )
   d) Between 10-15 years ( )
   e) More than 15 years ( )

4. Number of branches within Kenya..............................

5. Current number of employees in your bank?
   a) Less than 100 ( )
   b) Between 101-300 ( )
   c) Between 301-500 ( )
   d) Between 501-1000 ( )
   e) Over 1000 ( )

Section two: Risk profile.

6. How does your bank view risk?
a) Opportunity ( )
b) Threat ( )
c) Both ( )

Please, give brief reasons for your response in the question above.

7. Does your bank have a full time risk manager?
   Yes ( ) No ( )

If no who manages risks in your bank.

8. Please rate the extent to which the risk manager in your bank performs the following duties.
   (5=very large extent, 4=large extent, 3=moderate extent, 2=small extent, 1=no extent at all)

<table>
<thead>
<tr>
<th>Duties</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying the risk faced by the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measuring the potential effect of each risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determining and monitoring of exposures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision of leadership in risk management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Please rank the following risks according to their frequency of occurrence in your bank
   (5=very large extent, 4=large extent, 3=moderate extent, 2=small extent, 1=no extent at all)

<table>
<thead>
<tr>
<th>Risks</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. How easy is it to manage risks in commercial banks in Kenya?
   a) Complex and costly ( )
   b) Simple but costly ( )
   c) Simple and cheap ( )
   d) Complex but cheap ( )

11. The following are some of the suggestions that could help establish common risk culture in a bank. Please rate the extent to which your bank practices them. (5=very large extent, 4= large extent, 3=moderate extent, 2=small extent, 1= no extent at all)

<table>
<thead>
<tr>
<th>Practices</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of common risk language</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular monitoring and documentation of risk indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immediate communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequent training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empowerment of risk managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identifying and training internal risks experts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aligning risk management with bank culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including risk management activities in job description</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Does your bank face the following challenges in the process of risk management?

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of appropriate risk identifiable tools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of top management support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of the right human resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inability to understand the nature and implications of risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary constraints</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Inability of sustaining risk management

Others (specify)

**PART A**

**Financial risks**

13a) Do financial risks affect the performance of commercial banks? **Yes ( ) No ( )**

13b) If yes please rate the extent to which the following financial risks affect performance of your bank.

(5=very large extent, 4=large extent, 3=moderate extent, 2=small extent, 1=no extent at all.)

<table>
<thead>
<tr>
<th>Risks</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PART B**

**Operational risks**

14a) Do operational risks affect the performance of commercial banks? **Yes ( ) No ( )**

14b) If yes Please rate the extent to which the following operational risks affect performance of your bank.

(5=very large extent, 4=large extent, 3=moderate extent, 2=small extent, 1=no extent at all.)

<table>
<thead>
<tr>
<th>Risks</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breaches in Internal actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff- human error</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systems failure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes- inadequate procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PART C**

**Environmental risks**

15a) Do environmental risks affect the performance of commercial banks? **Yes ( ) No ( )**
15b). Please rate the extent to which the following environmental risks affect performance of your bank (5=very large extent, 4=large extent, 3=moderate extent, 2=small extent, 1= no extent at all.)

<table>
<thead>
<tr>
<th>Risks</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social-cultural</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economical factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Part D: Performance

16. Please indicate the profit before tax for your bank for the following years.

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. Please indicate the number of employees in your bank for the past five years.

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Please indicate the number of branches of your bank in Kenya.

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of branches</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Please indicate the number of active accounts in your bank at the end of every year.

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of active accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for taking time to complete this questionnaire. If you have any question please do not hesitate to contact Felix 0724-454807 or mogoifelix@yahoo.com
APPENDIX III: LIST OF COMMERCIAL BANKS IN KENYA

1. African Banking Corporation Ltd
2. Bank of Africa Kenya Ltd
3. Bank of Baroda (K) Ltd
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CFC Stanbic Bank Ltd
7. Chase Bank (K) Ltd
8. Citibank N.A Kenya
9. City Finance Bank Ltd
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya Ltd
12. Cooperative Bank of Kenya Ltd
13. Credit Bank Ltd
15. Diamond Trust Bank (K) Ltd
16. Dubai Bank Kenya Ltd
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd
19. Equity Bank of Kenya
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First Community Bank Ltd
24. Giro Commercial Bank Ltd
25. Gurdian Bank Ltd
26. Gulf African Bank limited
27. Habib Bank AG Zurich
28. Habib Bank Ltd
29. Imperial Bank Ltd
30. Investment & Mortgage Bank Ltd
31. Kenya Commercial Bank Ltd
32. K-Rep Bank Ltd
33. Middle East Bank (k) Ltd
34. National Bank of Kenya Ltd
35. NIC Bank Ltd
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Prime Bank Ltd
39. Southern Credit Banking Corporation Ltd
40. Standard charted Bank Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank Ltd
43. Victoria Commercial Bank Ltd

Source: Central Bank of Kenya (2010)

APPENDIX IV: RESEARCH WORK PLAN

<table>
<thead>
<tr>
<th>Activity</th>
<th>Duration</th>
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</thead>
<tbody>
<tr>
<td>Proposal writing</td>
<td>12 weeks</td>
</tr>
<tr>
<td>Proposal presentation</td>
<td>1 week</td>
</tr>
<tr>
<td>Data collection and analysis</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Report writing</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Report submission</td>
<td>1 week</td>
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</tbody>
</table>

APPENDIX V: BUDGET

<table>
<thead>
<tr>
<th>Budget items</th>
<th>Shillings.</th>
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</thead>
<tbody>
<tr>
<td>Stationary</td>
<td>3,000</td>
</tr>
<tr>
<td>Typesetting and printing</td>
<td>10,000</td>
</tr>
<tr>
<td>Photocopying</td>
<td>3,500</td>
</tr>
<tr>
<td>Binding</td>
<td>6,500</td>
</tr>
<tr>
<td>Pilot study</td>
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<tr>
<td>Data collection and analysis</td>
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<tr>
<td>Transport</td>
<td>17,000</td>
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<tr>
<td>Contingencies (10%)</td>
<td>4,400</td>
</tr>
<tr>
<td>Total</td>
<td>48,400</td>
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</tbody>
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