AN ASSESSEMENT LOAN POLICY AND ITS INFLUENCE ONFINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ELDORET TOWN

BY

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Research Project Submitted to the School of Post Graduate Studies in Partial Fulfillment of the requirement for the conferment of masters of Business Administration of the School of Business and Economics, Department of Business Administration, Kisii University

SEPTEMBER, 2016

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DEDICATION

I wish to dedicate this research project to my family members and for their encouragement and support during my studies. I also wish to dedicate this project to my husband Sammy for providing a leaning shoulder throughout the study period.

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I am greatly indebted to my supervisors, for the scholarly guidance and assistance they accorded me throughout this project. I also wish to acknowledge the Kisii University lecturers in who successfully took me through the course.

ABSTRACT

Loan policies and procedures are designed to guide lending and ensure prudent lending operations. The purpose of this study was to examine the Loan policy and its influence on financial performance of Commercial Banks in Eldoret town. To achieve this the study sought to find out the effects of liquidity management on financial performance of commercial banks in Eldoret town, to investigate the influence capital adequacy requirements as a determinant financial performance of commercial banks in Eldoret town, to determine the influence of Management policies on financial performance of commercial banks in Eldoret town, to determine extent to shares savings and deposits affect financial performance of commercial banks in Eldoret town. The study was guided by the two theories that is transactions cost theory and asymmetric information theory. The target population was 156 respondents drawn from the various banks and comprises of branch managers and credit officers. To get a representative sample, the study used purposive sampling method to sample branch managers of the commercial banks licensed by central bank of Kenya and for the case of selecting credit officers the study used simple random sampling technique. Data was collected using questionnaires and analyzed using descriptive and inferential statistics. The study concluded that the regression weights of all of the independent variables were significant with liquidity management $p=0.036$, capital adequacy $p=0.40$, Management policies $p=0.002$ and shares savings and deposits $p=0.000$. Thus all the variables of the study, liquidity management, capital adequacy, Management policies and shares savings and deposits are predictor variables for financial performance of commercial banks. The study recommends that Commercial banks ought to focus its attention on capability building and special training of bank managers and employees ,they should continuously review their credit policies and establish lost loan provision policies, Further commercial banks should properly address loan policy challenges; lastly commercial banks should ensure transparency and efficiency of its internal processes of management coupled with the protection and enforceability of the rights of the stakeholders. The study suggests that further study should be undertaken in order to investigate the determinants of loan performance in commercial banks in Kenya. Findings from such s study will provide more insight on the relationship between the loan performance, which could be useful in informing risk management strategies and policy in Kenyan commercial banks.

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ABBREVIATIONS

COD	Certificate of Deposit
GSEC	Government Securities;
KTDJLB	Kenya Trade Development Joint Loan Board
LABB	Placements, loans and advances to building; societies and other banking Institutions;
SACCOs	Savings and Credit Co-operative

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Commercial banks might supply lending on short, medium and long-run basis jointly of the various services rendered by commercial banks to their customers (Athanasoglou, 2005).Commercial banks offer loans and advances to numerous people, business organizations furthermore as government thus enabling them to begin investment and numerous development activities as a mean of aiding their growth particularly causative toward the economic development of a country normally (Han, 2008). Bank plays a very important role of savings, mobilization and monetary resource allocation to varied establishments. These roles create them a very important contribution towards economic process and development. By performing arts this role, commercial banks have the ability, prospects and scope to mobilize monetary resources and allocating them to productive investments. regardless of the sources of the generation of financial gain or the economic policies of the country, industrial banks would be additional willing to offer out loans and advances to their numerous customers bearing in mind, the principles that guide their operations that embrace, profitableness, liquidity and financial condition (Mutesasira, 2007).According to Chantapong (2005) commercial banks choices on whether or not to lend out loans are influenced by numerous factors which are the prevailing rate, volume of deposits, level of domestic and foreign investment, the liquidity magnitude relation, status and public recognition. Lending practices round the world may be back derived from the amount of amendment in industries that enlarged the rate of production activities thereby transfer regarding the necessity for big capital to fund comes. Several leaders of business at this era were notable to converge with the explosion within the monetary needs and so they turned to the banks for finance (Athanasoglouetal, 2005).Yaron, (2007) argues that disposition is that the integral a part of commercial banks business. Therefore, their administration needs considerable quantity of skills and sleight on the management half. once the bank is irrevocably committed to paying interest on deposits it's mobilized from numerous sources, their ability to articulate loan ready avenues wherever deposits is also place to form financial gain. Maintaining liquidity and guaranteeing safety needs improved pragmatic policy formulation and applications.

a lot has modified in terms of disposition activities of varied industrial banks. Opinions deliberated on factors that are answerable for banks temperament to lend a lot of credit to varied sectors of the economy, and a few highlighted the results of extension of credits on productivity and output (Mutesasira, 2007).. This might flow from to poor receiver behavior and lack of relationship disposition as proved by unfavorable loan policies. Dang (2011) found a positive relationship between policy on loans and monetary performance in Ghanaian commercial banks (Njiru, 2006).

1.1.1 Loan Policy

According to Mutesasira, (2007), loan underwriting policies and also the written documentation that sets forth these standards, as determined by loan committee of the bank. A bank's loan strategy may produce low standards of credit in taking different loans, procedures in thought of the past-due and delinquent loans.

There exist systems in place and procedures that banks have in places so as to secure payment from their customers once payment becomes due. Systems are began, the follow up and late payment chasing procedures similar to letter and telephone calls. They are available in to operations once customer's account becomes delinquent. It 'sonly payment has been obtained from a client that the sale is complete (Wei, 2007). Collection policy is a very important part of the general credit risk management method among commercial banks. A good assortment policy is essential in dominant the investments in debtors and additionally reducing the danger of monetary loss and illiquidity through slow payment (Kabiru, 2002). If the collection policy is incredibly demanding, it's going to create customers get different suppliers and this could need putting a balance thus on guarantee business continuity. It's a reality that there'll be late payers in client base. Once payments square measure thought to be late varying of procedures and ways is also adopted to get payments.

1.1.2 Financial Performance

How best a company is seen to be performing maybe analyzed at in form of profits and returns. Performance is measured by the end result of a firm's policies and operations in financial terms. Lending is risky to most banks as a result of reimbursement of loans will rarely be absolutely

secured. According to Brown (2006), implicit contracts between lenders and borrowers, thus, banking relationships will encourage high effort and timely repayments. Foluso (2008), additionally make sure that long-run relationships area strong tool.

Markets of credits are subject to short interactions, borrowers might solely be actuated to repay if they understand that, because of reporting of credit, their current behavior is seen by different lenders. Foluso (2008), in his study shows the role of reporting on loan pattern of reimbursement and performance of market on credit depends on the effort of relationship integrate banking. Hence, once mutual relationships are not possible, the credit market primarily collapses within the absence of acceptable customer behavior. As repayments are not third-party enforceable, several borrowers default and banks might not fruitfully offer credit contracts to customers (Brown et al, 2006).

1.1.3 Commercial Banks in Kenya

Commercial banks in Kenya play a vital role in mobilizing financial resources for investment by extending credit facilities to many companies and investors. Loans however expose the banks to the greatest level of risk. There are 43 licensed commercial banks in Kenya, one mortgage finance company and one credit reference bureau. Of the 43 financial institutions, 32 are locally owned and 11 are foreign owned. The Credit Reference Bureau of Africa was the first to be registered in Kenya by the Central bank of Kenya that aims to enable commercial banks to share information about borrowers to facilitate effectiveness in credit scoring (CBK, 2012).
The low quality loans led to high levels of non-performing loans and subsequently eroded profits of banks through loan provisioning some of which appeared out rightly political. Commercial banks adopt different credit risk management guidelines that are determined by; ownership of the financial institutions, loan policies, banks regulatory environment. Banks may additionally have the satisfactory credit score control policies however may not always file high profits In additional although there are industry set standards on good loan policies and further banks have different characteristics, (Rajan ,2004)

1.2 Statement of the Problem

Loan policies and procedures are designed to guide lending and ensure prudent lending operations. Recently, issuing of loans has become an issue of concern for commercial banks. It's difficult for businesses and individuals to fulfill the banks requirements to receive loan, this is because small and growing firms often operate in new unexplored business locations that are prone to higher risk (Bruns, 2004). It is further argued that commercial banks have difficulties in giving loans to customers because of asymmetric information, which is in a higher level than for big firms that are public. It is hard for financial institutions to acquire valuable information about small businesses, because of less and uncertain information (Binks, Ennew& Reed, 1992).

Commercial banks heavily depend on the customer's and organization's credit history in borrowing to award certain amount of loans, that account movement is seen to be a vital element in taking into account approval of loans. Commercial banks consider borrower's personal behavior as an important factor in approving loans sought from the banks. The type of the credit policies used by the commercial banks influence the number of the loans procured by the financial institutions and thus the competitiveness of the commercial banks in credit facilities and thus the performance in the banking sector (Sangmi, 2010).

Locally few studies have been done on loan policies, among them includes on credit risk management in commercial banks in Kenya and found out that despite the fact that commercial banks have put in place strict measures to management of credit risk, recovery of loan is still an issue to many commercial banks. The study by Akinlo and Ogo-Temi (2002) indicated that effective loan policies lead to better bank performance. The result of the study by Adebisi&Oloyede (2004) is supported by the study by Hosna et al (2009) in Sweden and Flamini et al., (2009) in Sub-Saharan Africa commercial banks.To improve this banks tend to reduce interest rate but are not willing to lend and yet people are willing to borrow .Therefore this leaves a gap that this study sought to fill this gap by assessing loan policy and its influence on financial performance of Commercial Banks in Eldoret town.

1.3 Objective of the study

1.3.1 General objective of the study

The main objective of the study was to assess loan policy and its influence on financial performance of Commercial Banks in Eldoret town.

1.3.2 Specific Objectives of the Study

The study was guided by the following objectives:

i. To assess the effects of liquidity management on financial performance of commercial banks in Eldoret town.
ii. To investigate the influence of capital adequacy requirements as a determinant financial performance of commercial banks in Eldoret town.
iii. To determine the influence of Management policies on financial performance of commercial banks in Eldoret town.
iv. To determine extent to which shares savings and deposits affect financial performance of commercial banks in Eldoret town.

1.5 Research Hypotheses

The study was guided by the following hypotheses:

H_{01}: There is no significant relationship between liquidity management requirements and financial performance in commercial banks in Eldoret town.

H_{02}: There is no significant relationship between capital adequacy requirements and financial performance in commercial banks in Eldoret town.

H_{03}: There is no significant relationship between Management policies and financial performance of commercial banks in Eldoret town.

H_{04}: There is no significant relationship between shares savings and deposits and financial performance of commercial banks in Eldoret town.

1.5 Significance of the study

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

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

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

1.7 Scope of the study

The study was specific to commercial banks that are based in Eldoret town. The target groups were employees and customers. The research took a period of three weeks to obtain feedback from the groups. The variables were studied in the study were liquidity management, capital adequacy requirements, Management policies, shares savings and deposits. The research took place from June 2016 to August 2016 in commercial banks within Eldoret town on effects of loan policy on financial performance.

1.8Limitations of the study

The researcher faced many challenges which include suspicion from the respondent due to the nature of the study; the respondents may refuse to cooperate in answering all the questions as required and might even be hostile to the researcher as they view the researcher as an intruder in their business. There may be also a possibility of encountering non-response from the respondents. Thus the researcher assured the respondents that the study was only for academic purposes. The researcher was able to overcome these limitation factors through the emphasis on the confidentiality of the study. The researcher assured the respondents that the study is purely for academic purposes. The researcher was also requested well in advance for the permission to

carry out the research in the premises, so as to decrease hostility and non-cooperation from the respondents.

CHAPTER TWO

LITERATURE REVIEW

2.2 Theoretical Review

The theoretical framework of a research project relates to the philosophical basis on which the research that is done, and becomes a link between the theoretical aspects and the practical components of the investigation undertaken. The study was guided by the two theories that is transactions cost theory and asymmetric information theory.

2.2.1 Transactions Cost Theory

This study was guided by Transactions Cost Theory developed by Schwartz in the year 1974;this theory conjectures that financial institutions can also have an advantage over conventional creditors in checking the actual financial situation or the creditworthiness in their clients. Financial institutions actually have a higher ability to display and force compensation of the credit score. These kinds of superiorities may additionally provide providers a cost advantage when in comparison with monetary establishments. Three resources of fee benefits have been cataloged with the aid of Rajan and Petersen (2007) benefit in information acquisition, in controlling the consumer and in salvaging value from present assets.

The first supply may be even by the very fact that financial institutions will get data regarding consumers quicker and at lower price as a result of its obtained during a traditional course of business. That is, the frequency and also the quantity of customer orders offer providers an idea of the customer’s condition; the client use of cost reduction for early payment might serve to alert the supplier of a weakening within the credit-worthiness of the buyer, and sellers typically visit customers a lot of typically than lenders. Smith (1987) in his model concludes that during a two-part credit with high rate, those consumers that don't value more highly to make the most of the discount may be understood as high risks, as a result of they'll be having financial

difficulties. Counting on penalties for later payers, straightforward web terms will turn out an identical sign.

The ability of the financial institutions to save values from assets that exist is that the third supply of cost advantages.. Within the case of purchaser default, the financial institutions will seize the products that are provided, of course, financial institutions will reclaim the firm's assets further. The distinction between them is that as corporation's commercialism are fairly often from identical business, the provider already contains a network to sell the products and consequently repossessing and marketing prices would bellower. Two interesting approaches related to this cost advantage were made by Petersen androgen (2007). the higher collateral they supply and also the bigger the credit offered by the suppliers. The latter show that the extent to that the purchasers rework the merchandise is additionally important. The less they're reworked, the better it'll be for the supplier to repossess and sell the quality victimization identical channel. Another study associated with transaction cost theory was created by mineral (1987), and hypothesizes that there's a positive relation between credit offered and demand variability. This analysis intends to find out how transaction cost theory has affected financial performance of commercial banks.

2.2.2 Asymmetric Information Theory

Financial institutions, commonly, do now not understand the actual credit-worthiness in their consumers and additionally customers do now not have information about their quality of service. To remedy this problem, Smith (2007) developed a model in which financial institutions provide two part credit terms, to enable them apprehend potential defaults faster than financial intermediaries. Smith also proposed that with asymmetric information about product great, financial institutions provide change credit score to permit customers to verify product high-quality earlier than charge. The motive that leads financial institutions to increase this credit is that they've a huge interest in a purchaser's achievement, on account that they count on the

purchaser to shop for more items and carrier from them in the destiny. even though success of the customer is crucial, the quality of the product bought is also essential, and could determine new purchases (Deloof, 2006).

As a consequence, corporations fairly often supply money-back guarantees as warranties further. Trade credit has some advantages in comparison with money-back guarantees and warranties. First, in a very case of money-back or warranties, if the vendor isn't in business any longer, the clients are often broken. Second, once payment is created at the time of sale, a client, seeking the benefits of the money-back system, could attempt to persuade the vendor that the standard of the merchandise isn't as secure (Wei, 2007).

The theory will be relevant to this study because small corporations tend to supply a lot of trade credit than massive corporations, since tiny corporations still got to establish their name concerning product quality corporations with longer production cycles prolong their assortment amount, they have to turn out high-quality product corporations marketing product whose quality is tough to live extend long credit periods as a result of customers should have enough time to assess quality. Organizations could attempt to pass them off as high-quality product during this case, because the price of extending trade credit will increase, these corporations can have less incentive to delude the data on quality. Financial institution have insider information on loan policies which should be given or disclosed to the borrowers before the loan is given or approved this will reduce loan defaults hence repayment will be high and leads to improved bank performance.

2.3 Empirical Review

Performance of finances is the initiative of management to improve the accuracy and timeliness of the financial institution to meet the required standard while supporting day to day operation

(Bessis, 2008). Financial performance key measures are driven by three critical issues as follows profitability, size of the business, and growth of the business overtime. On the other hand, financial performance measures profitability assess, size, and growth rates are essential to monitor overall financial performance and progress (Ronald, 2011).

According to James and John (2005) liquidity ratios are defined as a firm's financial ability to pay back short-term obligations. Much insight can be obtained into the present solvency of cash of an organization and the ability of an organization to stay solvent. Liquidity ratios can be viewed as a measure of current ratio and quick ratio. Steve et al. (2006) defined current ratio as a measure of an entity's liquidity. Current ratio can be calculated as current assets divided by the current liabilities. The higher the current ratio, the greater ability of the firm pays its bills.

Liquidity measures the ability of managers in firms to fulfill their immediate commitments to shareholders without having to increase profits on underwriting and investment activities and liquidate financial assets (Adams and Buckle, 2003).

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

They are meant to measure an organization long-term financial obligation to meet its obligations. When a firm has debt, it has the obligation to repay the interest. Holding debt will increase the firm's riskiness. The level of financial leverage shows the ability of listed firm to manage their economic exposure to unexpected losses (Adams and Buckle, 2003). According to Johnson& Scholes (2007) managers of an organization establish a process for developing a useful set of performance indicators for the organization. One reason for this is that many indicators give useful but only partial view of overall picture .The evaluation of earnings performance depends upon key profitability to industry bench mark and peer group norms (Federal Reserve Bank, 2002).

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

There has been limited research or scholarly studies about Loan Policy since most critics believe loan recovery consume much of the companies time by going to look for clients and auction assists so as to recover the loans. Studies like that of Mwenda, (2005) that showed worrying trends in the loan defaults among banks. Further bank specific factors like, , terms of credit, interest margin, size, credit orientation, rapid growth of loan, guidelines on borrower admittance, risk assessment and monitoring are observed to be having significance on the occurrence of non-performance due to loan defaulting. Malla, (2013) in his study to establish the effect of loan default on financial performance of commercial banks in Kenya However none has been done on loan policy and its influence on financial performance of Commercial Banks in Eldoret town.
The factors that determine performances of banks can be categorized into bank specifically internal and external factors (Al-Tamimi, 2010; Aburime, 2005). Internal factors are bank's features that affect the institution's performance. The determinants are affected by internal decisions of management and the board. The external factors are widely spread that are beyond organization's control and determines the profits of financial institutions.

2.4.1 Liquidity management and financial performance

Oretha (2012) established that business banks throughout the pre-liberalization amount weren't effective in managing their credit risk in distinction to the post-liberalization amount. Variations within the credit policies by seven of the 9 business banks replicate financial and financial policy actions, wherever expansionary economic policy partially accrued inflationary pressure and also the financial authority. Throughout the post-liberalization amount, most banks used the services of a specialist to build their credit risk management policies that reduced the danger exhibit by defaulting on loans. Business banks in Liberia ought to focus additional attention on capability building and special coaching of bank managers whose perform relate to credit and loans to function a passage of giving them ample information on a way to upset credit problems and mitigate credit risk two-faced by these banks. Liquidity management is measured by current ratio and asset ratio. Current ratio is calculated by current assets over current liabilities (C.A/A.L) and asset ratio determine financial risk of business and is calculated by (Sales/Average Assets).

A study by Pollio and Obuobie (2008) in African nation on Microfinance Default Rates complete that the chance of default decreased with the frequency of observation, the quantity of guarantors

and whether or not the consumer was a primary time receiver. Yaron, Benjamin, and Piprek (2007) according that one in every of the challenges Sacco's in Bharat face is that in election years and even at alternative times, there insignificant info from political platforms for the postponement of loan reimbursement or pressure on the credit establishments to grant extensions to avoid or delay loan reimbursement. A second challenge according by was that there's a risk of a cooperative society turning into a scheme if the regulative framework fails, giving rise to questionable management, that doesn't observe standard monetary management practices. this is often a malpractice that has since occurred within the country, deed several investors desolated by loss of their cash.

Wakuloba (2010) studied the causes of loan default in African country Trade Development Joint Loan Board (UGTDJLB) theme. consistent with the findings, the theme had high and rising default rates over the amount. the most causes of default were poor business performance, diversion of funds and domestic issues. The recommendations were that the board be strong through capability building in pc applications to hurry transfer process and guarantee timely disbursements.

Keitany (2013) discovered that there's sturdy negative relationship between the loan default and also the gain of SACCOs in Nairobi, Kenya. The tests showed that the regression model could be a smart fit the info because the independent variables statistically and considerably predict the variable. The regression model could be a smart match of the info. Personality varieties square measure susceptible to loan default why credit markets could fail. The study recommends that nihilist should; endlessly review credit policies, establish lost loan provision policies, and character of loan candidates.

Makanda (1986) additionally commented on the potential role of cooperative in agro-business of cooperative movement and reasons for poor performance in African country. but the on top of studies have taken key interest on cooperative have centered in the main on agricultural cooperatives although agricultural cooperative square measure several ,the role of nihilist within the movement ought to be recognized particularly within the monetary sector, this paper focuses thus fills the gap in literature.

Njiru (2006) carried a study on a listing of non-performance of credits with all particulars ought to be assessed on a case by case basis to see if the case is reversible. Precisely what will be done to enhance reimbursement capability and whether or not or not discovered or assortment plans are used. Provision level ought to be thought of to see the nihilist capability to resist loan defaults.

Mwaura, (2005) lack of credit analysis, credit follow-ups moreover as hostile disposition square measure the key factors that contribute to poor performance in loan disposition by nihilist societies in Kenya. Mwangi (2010) study discerned that there exist a relationship between finance performance and management of credit risk. Monetary performance measures square measure driven by 3 important problems gain, size of the business, and also the growth of business overtime (Ronald, 2011).

2.4.2 Capital Adequacy Requirements and Financial Performance of commercial banks

Effects of Capital Adequacy necessities on money Performance of economic banks Capital provides buffer against losses and so it ensures safety and soundness of the money establishments. it's necessary to make sure that the banks have spare capital. Capital rules square measure thus place in situ to make sure that the banks meet the minimum capital necessities expected of them. Capital adequacy refers to a relative measure: it establishes the most level of leverage that a financial organization is allowed to succeed in on its operations (Johnson, 2007). it's measured by the magnitude relation of risk-weighted assets relative to restrictive equity, that has been internationally suggested to be capable twelve.5 times, or unremarkably referred to as a capital adequacy magnitude relation of V-day (Johnson, 2007).

Njiiru, (2003) asserts that the Kenyan industry is comparatively a replacement development having begun with many agencies concerning twenty years past. Since then there has been a gradual shift in interest and resources allocation towards helping the informal sector in an exceedingly sort of ways that. within the 1970's the most organization providing credit to the informal sector were church based mostly organizations. The programs purpose to innovations like cluster loaning contracts because the keys to their success. Cluster loaning effectively create a receivers neighbors co-signers to loans mitigating issues created by data asymmetries between

borrower and loaner. Neighbours can then have incentives to watch one another and to exclude risky borrowers from participation prompting repayments even within the absence of collateral necessities (Modurch, 1999). cluster loaning mechanism permits a gaggle of people typically known as commonality to supply collateral or loan guarantee through a gaggle reimbursement pledge. The repayments square measure created daily, weekly, monthly, or when four weeks.

Nonetheless, it's to be remembered that this prudent customary planned by the urban center Committee was supposed to be applied to international and enormous banking establishments from developed countries, which it's been translated to many money systems in developing countries despite the well-known variations in institutional risk profile, scale of operations and national economic environments (Guidotti et al, 2004; Jansson, 2007).

It seems that capital adequacy necessities might have an effect on the extent of potency as a result of they act as mounted inputs within the production method. Estrada and Osorio (2004) provide one choice by expressly permitting restrictive value factors to work out the extent of potency. This specification directly captures the restrictive burden borne by the banks and helps perceive the dynamics of hidden prices which can be troublesome to watch in observe. maybe, tighter capital restrictive necessities meant to safeguard the industry might manufacture some fortuitous adverse consequences on behavior of the bank, and with resources allocation analysis done by Fare et al. (2004) found that risk-based capital standards had a big impact on profit potency. Hughes and Mester (2003) conjointly argue that a rise in reserve necessities raises the chance value of funds and acts as a tax on the value of deposits, thereby impairing banks' deciding. However, most researchers would opt for the necessity to implement policies on capital requirement, the question remains: what's the proper benchmark to enforce rules while not jeopardizing the power of banks to service the economy expeditiously. To properly address this question, it's become necessary to totally analyze the result of capital rules, particularly the capital adequacy magnitude relation on banks potency.

The goal of economic regulation is to change banks to enhance liquidity and financial condition. Stricter regulation could also be sensible for bank stability, however not for bank potency. Barth, Caprio and Levine (2006) study what affects bank regulation and the way banking regulation works. Their analysis on most countries shows that sturdy regulators and capital adequacy standards don't improve bank potency. Barth et al. (2004) proposes varied reasons for and against proscribing bank activities. However, overall their results indicated that proscribing

banks might not solely lower bank potency but also increase the likelihood of a banking crisis. From the long-run purpose of read, as African nation economic process is very keen about credit offer, the banks got to grow their loan scales at sure rates therefore on support the sustained economic process. Therefore, they'll be two-faced with the requirement for capital supplementation so as to stay up with the restrictive necessities on Capital
Adequacy magnitude relation (CAR).Pasiouras (2008) mentioned that stricter capital adequacy, powerful oversight and market discipline power promote technical potency. However, solely the latter one is critical. insufficient capital will increase the danger of failure while excessive capital impose spare prices on banks and their customers and will cut back the potency of the banking industry. moreover, theory provides conflicting predictions concerning the impact of restrictive and higher-up policies on banks performance (Barth et al., 2004; 2007a).This analysis intends to seek out the results of Capital Adequacy necessities on money Performance of economic banks.

2.4.3 Effects of Management policies on financial performance of commercial banks.

According to McGee, (2008) Management policies adoption has become a vital topic in developing economies in recent years. Directors, house owners & company managers have started to know that there are privileges that may accrue from having an honest company governance structure (McGee, 2008).Countries with sturdy company practices attract capital. Countries that guarantee capitalist rights and have sensible company's governance practices like adequate company speech act, sound board practices, are a lot of probably to draw in each domestic and international investor than those that don't. Company's governance is concerning the method within which boards supervise the running of a corporation by its managers, and the way board members are successively responsible to shareholders and also the company. This has implications for company behavior towards workers, shareholders, customers and banks (OECD, 2004).
Management policies are rules and regulation that govern an organization. Organization with good management policies means it has a good corporate governance which is defined as the relationship among shareholders, management, members of board of administrators, employees, customers, suppliers and different interest teams in deciding the direction and performance of companies (Monks & ;Minow, 2004). company governance refers thereto mix of law, regulation

and applicable voluntary non-public sector practices that modify the corporation to draw in monetary and human capital, perform with efficiency, and thereby uphold itself by generating semi-permanent quantity for its shareholders, whereas respecting the interests of stakeholders and society as a whole (Hart & ; Milstein, 2003).

The principal characteristics of effective management policies are transparency disclosure of relevant monetary and operational info and internal processes of management oversight., Protection and enforceability of the rights of the stakeholders; and administrators capable of severally approving the corporation‘s strategy and major business plans & selections, and of severally hiring management, watching management‘s performance and integrity, and exchange management once necessary (World Bank, 2009). Effective company governance structures encourage corporations to form price (through entrepreneurism, innovation, development and exploration) and supply responsibility and management systems commensurable with the risks involved(ASX company Governance Council, 2003).Good company governance activities that change rules into specific recommendations, orienting interests with the aim of conserving and enhancing the organization‘s price, facilitating its access to capital and conducive to its longevity(IBGC, 2010).

The thought of company management rules may be a key issue for the development of economic process and potency. prime level management thought-about the company management rules as a tool to cut back the direction or misconduct in structure processes, and for the social control of regulation and management policies and selections for cover of the rights of stockholders & stakeholders in industry (Gompers et al. 2003).Good company practices cause reduced agency prices in companies, and there's a discount in inefficiencies caused by conflict of interest between managers, house owners and stakeholders, companies have improved competitive advantage over different companies, and there's fulfillment of their social responsibilities towards the communities that they operate in (OECD, 2004).Shleifer&Vishny (2007) note that having an honest company rules and regulation system ensures companies have access to capital and accumulated returns. Investors are willing to pay massive premiums for corporations with effective company governance (Coombes& Watson, 2000).Commercial banks lend cash that's in result borrowed from depositors, and also the failure of banks might lead to a financial loss for the depositors. The interests of depositors ought to be protected, and for this reason, amongst difference; the importance of company governance of banks differs from that of

other corporations and wishes special attention. The Board and management of banks need to take into consideration the interests of those non-shareholders such as depositors. To be competitive in an exceedingly dynamical world, banks furthermore as banking supervisors should still introduce and adapt their company governance practices and frameworks; so they'll meet new demands and grasp new opportunities (OECD, 2006). monetary potency is that the main issue for banking sector, if bank performs well than it's monetary resources to get the company goal and to alive the hope of survival within the competitive market. Many studies are done on the link between company governance and firm performance. Yermack (2006), Claessens et al. (2000), Kappler and Love (2003), labor leader et al. (2003), Black et al. (2003), Sanda et al. (2003), Weir & Laing (2009) and Baghat& ; Bolton (2008) found that company Governance results in high company performance and defend interests of shareholders. Hence, this study seeks to search out how Management policies has led to the expansion of monetary performance in industrial banks.

2.4.4 Shares savings, deposits and financial performance of commercial banks

Nafula (2003) in KIPPRA discussion Paper No. 30 performed An Econometric evaluation on the bank Portfolios and bank profits in Kenya. Their outcomes counseled that except for client deposits and investments in subsidiary groups, all other elements loans and advances; certificate of deposit; government securities; deposit balances from other banks; placements, and different monetary institutions and other assets affect bank profits positively. Usually, customer deposits, which include demand deposits, financial savings deposits and time deposits, are a proxy for reservable deposits. Those deposits also constitute the most inexpensive source of price range available to commercial banks. Therefore, the performance of financial institutions is associated with its potential to attract personal deposits. Consequently, one way to improve a bank's profitability or profits is to formulate competitive regulations for attracting personal deposits. But, the central bank of Kenya requires that banks retain a certain percentage in their deposits with themselves. Further, Nafula (2003) stated that the consumer deposits variable enters the equation negatively with very significant coefficients in all of the regressions.

Empirical investigations on the impact of deposits on banks economic normal performance have generated combined consequences. Demirguc-Kunt and Huzinga (2008) in their studies using

bank information for 80 nations between the years 1988-2005, investigated the determinants of commercial banks interest margins and profitability. Their outcomes confirmed that banks that rely largely on deposits for their investment were much less worthwhile, because deposits require greater branching and other expenses. Markets of credits are prone to short interactions, debtors would possibly completely be triggered to repay in the event that they understand that, additionally due reporting of credit score, their present behaviour is seen by using different lenders. Foluso (2008), in his study shows the position of reporting on loan pattern of reimbursement and market performance on credit depends on the attempt of relationship to integrate banking. Once mutual relationships aren't feasible, the credit market normally collapses in the absence of applicable customer behavior. As payments aren't third party enforceable, several debtors default and banks might not fruitfully provide credit contracts to customers (Brown et al, 2006).

Dietrich and Wanzeried (2009) in their study to investigate the determinants of business banks profitability in Switzerland used of 1919 observations from 453 banks in Switzerland included in the yearly growth in deposits within the impartial variables that they used. Their results showed that the every year increase in deposits did no longer affect profitability appreciably. They found no empirical evidence that business banks in Switzerland have been capable of converting at a growing length of liabilities in terms of deposits to earning assets. Grigorian and Manole (2002) applied envelopment analysis to bank-level facts on some transition economies between the years 2005 to 2008. Their results indicated that that well capitalized banks performed better in terms of their ability to accumulate loan reimbursement. This was attributed to the opportunity of implicit deposit coverage which in turn encourages greater deposits. They however, found less proof linking capitalization to sales. However, their investigations observed some proof that foreign banks have been able to entice greater deposits with the aid of paying decreased charges. This they attributed to implicit deposit insurance. The potential to draw deposits at lower rates would suggest better profit margins and subsequently better profitability. Deposits but, had negative association with ROCE. similarly overall deposits to total assets had negative correlation with return on capital equity that indicates that banks that depends on customers deposits for their funding are less profitable.

Gul et al (2011) the usage of records on top fifteen Pakistani commercial banks over a duration 2005-2009, investigated the effect of, loans, assets deposits, equity, inflation, financial and market capitalization on profitability signs. Their effects showed that deposits, amongst other factors had tremendous correlation with return on assets. Deposits but, had poor relationship with ROCE. Similarly general deposits to general assets had negative correlation with return on capital equity that suggests that banks that depends on customers' deposits for their investment are less profitable.

Naceur and Goiaed (2001) did a study on the factors that determines Tunisian banks' monetary performances all through the length 1980–2005. Heggested (2007) believed that banks with excessive percentage of time and savings deposits incurred high funding cost and consequently had less profit. Heggested used percentage of income after taxation to general assets as an alternative for profitability and common ratio of time and savings deposits to general deposits as a proxy for balance sheet control. This study intends to find out the shares savings and deposits have facilitated the monetary performance of business banks.

2.5 Summary of Literature Review

In empirical studies it is shows that many defaults on loan repayment arise from lack of management policies. From the literature review above, the loan policies employed are varied. Their effectiveness is based on the minimization or elimination of defaults on loan repayment. Research has shown that Kenya has a well-developed commercial bank sector compared to most of Africa and the rest of the world. Zech, (2003).However it still faces challenges of loan administration and from the review of literature and studies undertaken, there was no research obtained on the relationship between loan policy and financial performance among the commercial bank in Kenya. It was therefore important to establish the loan policy and financial performance among the commercial bank in Kenya.

2.6 Knowledge Gap

There has been limited research or scholarly studies about loan Policy since most critics believe loan recovery consume much of the companies time by going to look for clients and auction assists so as to recover the loans. Banks are increasingly a central source of credit for the negative in many countries. Studies like that of Mwenda, (2005) that showed a worrying trends

in the loan defaults among banks whereby it was revealed that in macroeconomic and bank specific factors determined incidences of non-performing credits and loan default rates. Further bank specific factors like, bank size, credit terms, orientation of credit, efficiency in operations, rules on customer admittance, assessment of risk are found to be having significance on the occurrence of non-performance due to loan defaulting. Malla, (2013) in his study to establish the effect of loan default on financial performance of commercial banks in Kenya However none has been done on Loan policy and its influence on financial performance of Commercial Banks in Eldoret town.

2.7 Conceptual framework

The relationships between these variables are illustrated in figure 2.1

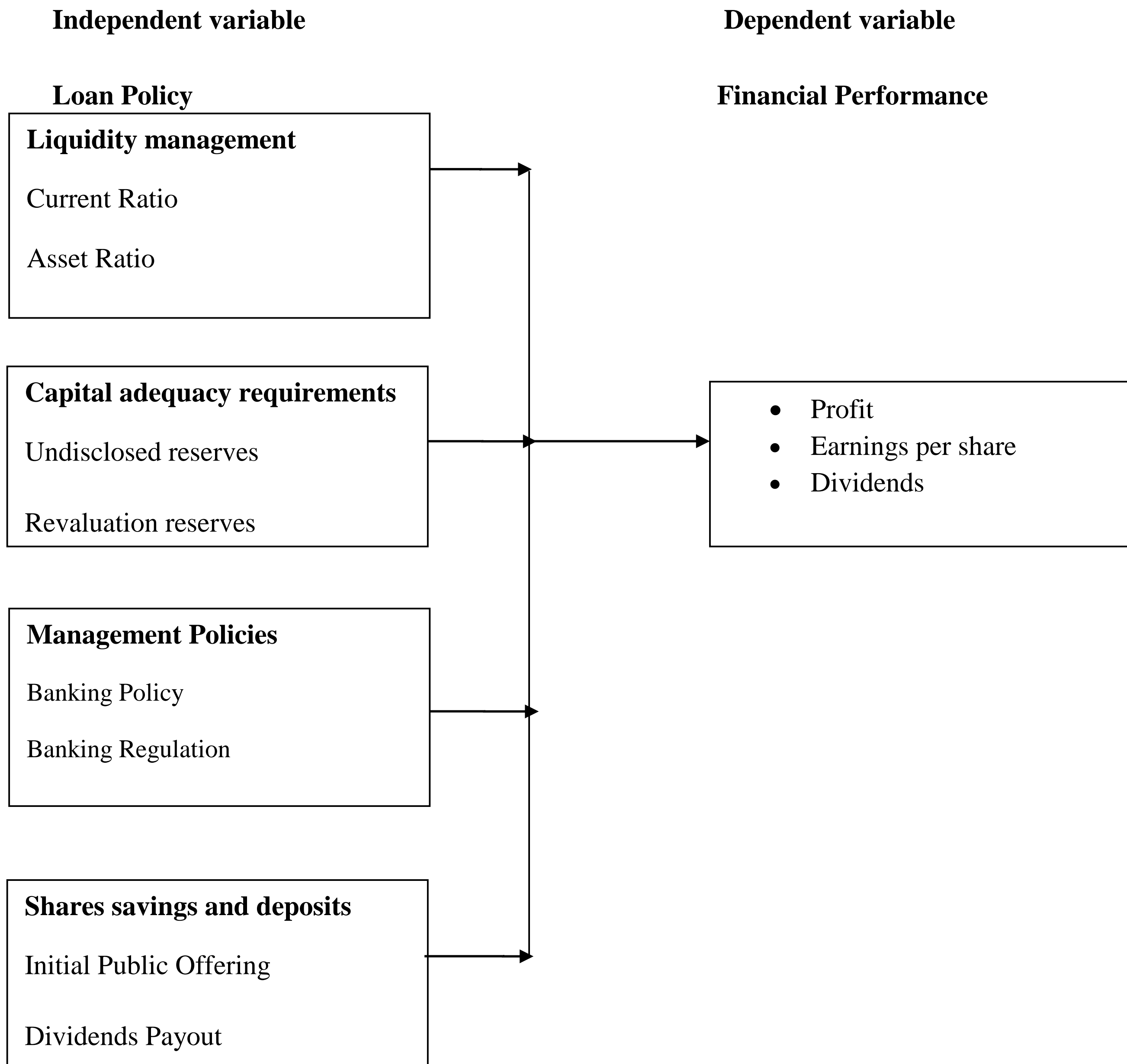

Figure 1.1: Conceptual framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study adopted a descriptive survey research design. This was design was appropriate because the study sought to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The design was also suitable since it helped to describe the situation as they exist without alteration or manipulation of variables which was the aim of the study (Kothari, 2004). The primary purpose of the study was to study the effect of loan policies on financial performance of Commercial Banks in Kenya3.2 Target Population

Target population in statistics is the specific population about which information is desired. According to Orodho, (2003), a population is a well-defined or set of people, services, elements, events and households that are being investigated. The target populations of this study was all the 30 licensed commercial banks in Eldoret (Central Bank of Kenya, 2016).The target population was 156 respondents drawn from the various banks and comprises of 9 branch managers and 147 credit officers. The study will target branch managers and credit officers of best performing commercial banks ranked by CYTONN'S Investment as at 14thSeptember, 2015 as shown in (Appendix IV).

3.3 Description of the Sample and sampling procedures

Sampling is that part of statistical practice which concerns the selection of individual observations intended to yield some knowledge about a population of concern, especially for the purposes of statistical inference. The main aim of sampling is to reduce statistical errors. A sampling frame has the property that study can identify every single element and include any in the sample. The most straight forward type of frame is a list of elements of the population preferably the entire population with appropriate contact information. The sampling frame must be representative of the population and this is a question outside the scope of statistical theory demanding the judgment of experts in the particular subject.

Licensed commercial banks were suitable for this study due to the credibility and authenticity of data obtained from them because they must adhere to the various guidelines and requirements as issued by central bank Kenya from time to time.

To get a representative sample, the study used purposive sampling method to sample branch managers of the commercial banks licensed by central bank of Kenya, the process which involves selecting a sample based on level of experience or knowledge of the group to be sampled. For the case of selecting credit officers the study used yamanes sampling method there after used simple random sampling technique as shown below:

Sample Determination

In order to determine the sample of middle level managers the study used Yamane's (1967) formulae which is as follows;

$$\mathbf{n = \frac{N}{1 + N (e) 2}}$$

Whereby;

n refers to the sample size,

N refers to the population size, (147)

e is the level of precision (0.05).

n= 147

$$n = \frac{147}{1 + 147(0.05)2}$$

n= 107

Therefore, 9 respondents were sampled from branch managers and 107 credit officers making a total of 116 respondents

Table 3.1 Sample size

Listed Commercial banks	Branch managers	Credit Officers	Total
CfCStanbic	1	12	13
I&M	1	14	15
Standard Chartered	1	11	12
Equity	1	21	22
KCB	1	7	8
DTBK	1	8	9
Co-operative bank			**13**
	1	**12**	
NIC	**1**	**12**	**14**
Barclays Bank	**1**	**9**	**10**
Total	**9**	**107**	**116**

Source: Author (2016)

3.4 Description of Research instruments

3.4.1 Questionnaire

To carry out the research, questionnaires were used. The questionnaire allows measurement for or against a particular view point. A questionnaire has ability to collect a large amount of information within a very short time. Through use of questionnaires, information was collected from a large number of people and the questions was easily analyzed and it allowed anonymity, (Orodho, 2009).The questionnaire had both open-ended questions and closed questions. Open-ended questions sought in-depth information while the closed ones was easily analyzed an understood.

3.5Description of the Data Collection Procedures

Data is anything given as a fact on which research inference was based. It is anything actual or assumed as a basis of reckoning (Mugenda and Mugenda, 2008). In this study the researcher obtained an introductory letter from Kisii University. Once approval is granted, the researcher collected data using questionnaires. Questionnaires, were used since the study was concerned mainly with variables that cannot be directly observed such as views opinions, perception and feeling of the respondents. Questionnaires were distributed to the respondents then collected after the agreed period of time.

3.6 Validity and Reliability of Research Instruments

3.6.1. Validity

Validity of an instrument is the success of a scale in measuring what it sets out to measure so that differences in individual scores can be taken as representing true differences on the characteristics under study. Content validity refers to the subjective agreement among professionals that a scale logically appears to reflect accuracy of what it purports to measure (Kothari, 2005).

The sample of instrument was pre-tested to improve its validity and relevance to the objectives of the study. The questionnaires were scrutinized for errors and omissions, ambiguity, legibility and relevance. The questionnaires content, structure and sequence was appropriately amended to remove any ambiguities and to enhance content validity. To determine the content validity of the questionnaire items, research experts were used to examine them and their suggestions and comments were used as a basis to modify the research items.

3.6.2 Reliability

Reliability refers to the consistency that an instrument demonstrates when applied repeatedly under similar conditions (Kerlinger, 2003). To determine reliability of research instruments, the instrument was pre-tested through a peer review cum pilot study before the actual data collection to enhance reliability. The importance of pre-testing a questionnaire according to Creswell (2003) is to help the researcher understand the meaning of the questions to be put to the

respondents and how they arrive at their response. The constructs testing for reliability was achieved by calculating the Cronbach's alpha as shown in table 3.2.

Table 3.2 Reliability Test of Constructs

Variables	No of items	Reliability Cronbach's alpha	Comment
Liquidity management	5	.711	Acceptable
Capital adequacy requirements	5	.874	Acceptable
Management policies	5	.782	Acceptable
Shares savings and deposits	5	.718	Acceptable
Financial performance	5	.794	Acceptable

From the results in table 3.2 above on the test of reliability of the proposed constructs. The findings indicated that liquidity management had a cronbach's alpha coefficient of 0.711, capital adequacy had a coefficient of 0.874, and Management policies 0.782, share savings and deposits 0.718and financial performance had a coefficient of 0.794. This indicated that all the study variables had Cronbach's Alpha are above the suggested value of 0.7 thus the study was reliable. Creswell (2003) stated that a reliability value above 0.7 is considered to be adequate test of reliability of a research instrument.

3.7 Description of Data Analysis procedures

The study is expected to generate both quantitative and qualitative data. Descriptive statistics data analysis method was applied to analyze numerical data gathered using closed-ended questions. This was done using Statistical Package for Social Sciences (SPSS) computer software. SPSS was considered appropriate since it allowed the study to follow clear set of quantitative data analysis procedures that leads to increased data validity and reliability and demonstrates the relationship between the research variables. Descriptive analyses provided the

foundation upon which correlational studies emerge; they also provide clues regarding the issues that should be focused on leading to further studies (Kothari, 2005). Descriptive statistics assisted in computing measures of central tendencies and measures of variability in order to determine how independent variables affect the dependent variable

Inferential statistics were applied through correlation analyses which were used to establish with statistical significance, the nature of the existing relationship between the dependent variable and the independent variables. The study further employed multivariate regression model to study the determinants of loan policy in the banking sector. The research chose regression method because of its ability to test the nature of influence of independent variables on a dependent variable. Regression was able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable, although Multivariate analysis has the following assumptions; Linear relationship, Multivariate normality, No or little multicollinearity, No auto-correlation and Homoscedasticity. Therefore, the study used linear regression analysis to analyze the data. The regression model was in the form:

$Y= \alpha +\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4 + \varepsilon$

Where Y=Loan Policy and;

X_1= Liquidity management

X_2= Capital adequacy requirements

X_3= Management policies

X_4= Shares savings and deposits

α=constant value

ε =error term

The regression analysis tested the variation of the dependent variable explained by the variation in the independent variables by calculation of the R2 and adjusted R2 statistics. ANOVA for regression was also used to determine the goodness of fit. Bivariate regression models was first fitted to determine the influence that each of the independent variables had on the dependent variable. A multiple regression model was then fitted to determine the combined effect that the

independent variables had on the dependent variable when acting jointly. Qualitative data drawn from open-ended question in the questionnaire was analyzed through summarizing the set of data drawn from the respondents in frequency tables. The data was assigned numerical value and entered into the SPSS computer system. The study findings were presented in form of frequency tables, pie charts and bar charts.

3.8 Ethical Considerations

The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. Saunders et al. (2013) research subjects have ethical rights. In the spirit of honesty, all thoughts, ideas, writing or drawings that were borrowed from others even if paraphrased into my own words were properly credited through acknowledgement and citation

The study made sure that all the respondents are aware of the objectives of the research and their contribution to its completion at the same time treat them with respect , courtesy and moreover exercise precaution not to violate the respondent's rights. Response were kept strictly confidential and used only for academic purpose. Explicit consent was sought from the respondents so as to ensure that their participation in the study is out of their own volition.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Response Rate

Out of the target population of 9 commercial banks with a sample of 116 respondents, 106 (91.4%) responded to the questionnaire. The remaining numbers of questionnaires were misplaced. This shows that a large number of respondents were willing to give out information towards the study and thus responded positively by completing the questionnaires given to them. This was considered adequate for the objectives of this study

Table 4.1 Response Rate

Questionnaires	No.	%
Issued questionnaires	116	100
Returned questionnaires	106	91.4

4.2 Demographic characteristics

For the study to be complete, it was necessary to find out the demographic information of the respondents as this would enable the researcher understand the respondents involved in the study. In the process of finding out the same the study sought out the age of respondents, Gender of respondents, respondents' work experience, level of education and respondents position in their organizations. The findings were as follows:

4.2.1 Gender of the Respondents

It was necessary for the study to find out the gender of the respondents involved in the study as this would assist in knowing who participated in the study, table 4.2 show the gender distribution

of people working in commercial banks in Eldoret Town and enable the researcher know whether gender equality is held .

Table 4.2 Gender of Respondents

Gender of respondents	F	%
Male	59	55.7%
Female	47	44.3
Total	**106**	**100.0**

From table 4.2 show that, 55.7% were male while 40.9% were female respondents. This shows that respondents were more male than female. This was confirmed by the responses from the questionnaires filled where males were more than females. More significantly it shows that data obtained is free of gender bias.

4.2.2 Respondents' Age Bracket

The age of the respondent is important in research because people of different ages have varying ideas about certain issues. The study sought to determine the age of the respondent and the results are as indicated in table 4.3.

Table 4.3: Respondents' Age Bracket

Age in years	Frequency	Percent
21-30 years	35	33.0
31-40 years	47	44.3
41-50 years	15	14.2
Over 50 years	9	8.5
Total	**106**	**100.0**

From table 4.3 shows that, 35(33.0% of the respondents were between 21-30 years, 47(44.3%) were aged between 31–50 years, 15(14.2%) between 41–50 years and 9(9.5%) were above 50 years. This implies that there was fair representation of the population as almost all classes were

represented and the data provided reflected the views of the entire population and the majority of the respondents are matured which means they can give a matured view. It also indicated that commercial banks in Eldoret town had more middle level employees who are in their middle adulthood and enjoy their careers; also they are still energetic and can work to meet the organizations objectives.

4.2.3 Education Level

Education level has an impact on how people respond to different opinions. The study sought to establish the education level of the respondent. The findings are indicated in table 4.4.

Table 4.4: Education Level of respondents

Academic qualification	Frequency	Percent
O level	8	7.6
Tertiary	33	31.1
Undergraduate	49	46.2
Post graduate	13	12.3
Others	3	2.8
Total	**106**	**100.0**

The finding reveals that 8(7.6% of the respondents are o-level holders, 33(31.1%) are diploma holders,49(46.2%) and undergraduate,13(12.3%) are postgraduates and 3(2.8%) of the respondents represented others who could be primary school certificate holders. This shows that majority of the respondent were degree holders, followed by diploma, this implies that the respondents are educated which means they could read, understand and interpret questionnaires reliably thus data collected was found to be reliable.

4.2.4 Working Experience

The working experience of respondents is helpful because one gain experience and have knowledge on different issues. The findings on the duration as tabulated in table 4.5

Table 4.5: Working Experience

Working Experience in years	Frequency	Percent
Less than 3 Years	29	27.4
Between 3 – 7 Years	42	39.6
Between 7-12 years	18	16.9
Over 12 Years	17	16.1
Total	**106**	**100.0**

The findings revealed that 29(27.40%) of the respondents had work experience of less than3 years, 42(39.6%) had work experience of between 3–7 years, 18(16.9%) had worked for a period of between 7-12 years and 17(16.1 %) had work experience of more than 12 years. This show that majority of the respondent have work experience of between 3-7 years. This implies that almost all respondents had taken reasonably enough time in service within the commercial banks and thus the data they provided was believed to be reliable.

4.3. Descriptive Analysis

The descriptive statistics are presented in the section that follows; the information was sought in relation to the study objectives. In this section the study used descriptive statistics, which include, mean and standard deviation. According to Aggresti (2009), Mean (x): is the average value calculated by adding up the values of each case of the study variables and dividing by the total number of cases, mean was used to measure the central tendency of the data. The standard deviation is a value which indicates the degree of variability of data. It indicates how close the

data is to the mean .the evaluation of mean was done in accordance to Aggresti (2009) who indicated that a mean of 1.00 -2.49 was evaluated to be very weak, 2.50 -3.49 Weak, 3.50 -4.49 Strong and 4.50 - 5.00 Very Strong, while for standard deviation of greater than 0.5 was evaluated to indicate homogeneity and a standard deviation less than 0.5 indicates heterogeneity of data.

4.3.1 Liquidity management and financial performance

The study sought to identify the effects of liquidity management on financial performance of commercial banks in Eldoret town. This is shown in table 4.6 below;

Table 4.6 Liquidity management and financial performance

Liquidity management	**M**	**SD**
Loan applications will be taken by individual lenders or assigned by the Chief Lending Officer.	3.87	1.243
Each lender is responsible for recommending an upgrade or downgrade of a loan in his/her portfolio at the time that pertinent information is obtained.	3.98	1.069
The loan policy should clearly communicate the strategic goals and objectives of the bank	4.20	.999
A bank may choose to enter into participations if it is unable to generate sufficient loan demand independently.	4.13	1.122
The policy should also establish the desired mix of the loan portfolio and limits on individual loan types.	4.35	.957

From the findings respondents indicated that Loan applications will be taken by individual lenders or assigned by the Chief Lending Officer was supported by a mean of 3.87 and a standard deviation of 1.243, on whether each lender is responsible for recommending an

upgrade or downgrade of a loan in his/her portfolio at the time that pertinent information is obtained, the response was supported by a mean of 3.98 and a standard deviation of 1.069, on the issue that he loan policy should clearly communicate the strategic goals and objectives of the bank the mean was 4.20 spread at a standard deviation of 0.99,Further on whether a bank may choose to enter into participations if it is unable to generate sufficient loan demand independently the mean was 4.13 and a standard deviation of 1.122,lastly when asked liquidity management policy should establish the desired mix of the loan portfolio and limits on individual loan types, the respondents agreed at mean of 4.35 spread at standard deviation of 0.957. This was supported. This implies that all the respondents were in agreement that liquidity management is significant for organizational performance since their responses were between 3.50 -4.49 implying a Strong relationship between the variables. Additionally the standard deviation was between o.9 to 1.2 which was higher than 0.5 indicating the homogeneity of study data.

These findings concur to that of Mwaura, (2005) who stated that lack of credit analysis, credit follow-ups moreover as hostile disposition square measure the key factors that contribute to poor performance in loan disposition by nihilist societies in Kenya. Additionally Mwangi (2010) discerned that there exist a relationship between finance performance and management of credit risk. Monetary performance measures square measure driven by 3 important problems gain, size of the business, and also the growth of business overtime. This is further supported by transactions cost theory developed by Schwartz (1974) concludes that in a two-part credit with high interest rate, those buyers that do not choose to take advantage of the discount can be interpreted as high risks, because they may be having financial difficulties. Depending on penalties for later payers, simple net terms can produce a similar sign.

4.3.2 Capital adequacy requirements and financial performance

The study sought to identify the effects of capital adequacy requirements on financial performance of commercial banks in Eldoret town. This is shown in table 4.7 below;

Table 4.7 Capital adequacy requirements and financial performance

Capital adequacy requirements	M	SD
Provide an effective framework to measure, monitor, and control credit risk.	3.85	1.233
Provide guidance and timely information on emerging issues and regulatory concerns that should be incorporated into the loan policy.	3.83	1.253
Ensures the institution's stability and soundness	4.26	.908
Establishes authority, rules and framework to operate and administer the loan portfolio effectively	4.11	.949
Controls lending risk	3.88	1.169

As illustrated in table 4.7 majority of the respondents strongly agreed on the effects of capital adequacy requirements on financial performance of commercial banks in Eldoret town, on whether capital adequacy Provide an effective framework to measure, monitor, and control credit risk the respondents agreed with a mean of 3.85 and a standard deviation of 1.233,on whether it provides guidance and timely information on emerging issues and regulatory concerns that should be incorporated into the loan policy the respondent agreed at a mean of 3.83 and a standard deviation of 1.253,further they agree that capital adequacy requirements ensures the

institution's stability and soundness with a mean of 4.26 and a standard deviation of 0.908, they also agreed that capital adequacy establishes authority, rules and framework to operate and administer the loan portfolio effectively with a mean of 4.11 spread from the mean at a standard deviation of 0.949 and lastly the respondents agreed that capital adequacy requirements controls lending risk a mean of 3.88 spread at a standard deviation of 1.169. This implies that capital adequacy is a critical factor for financial performance of commercial banks, this was because since their responses were between 3.50 -4.49 implying a Strong relationship between the variables. Additionally the standard deviation was between o.9 to 1.2 which was higher than 0.5 indicating the homogeneity of study data.

These findings are consistent to that of Johnson, (2007) who stated that the effects of Capital Adequacy necessities on money Performance of economic banks Capital provides buffer against losses and so it ensures safety and soundness of the money establishments. He further states that it's necessary to make sure that the banks have spare capital. Estrada and Osorio (2004) asserts that capital rules ensures that the banks meet the minimum capital necessities expected of them. It seems that capital adequacy necessities might have an effect on the extent of potency as a result of they act as mounted inputs within the production method. Caprio and Levine (2006) states that the goal of economic regulation is to change banks to enhance liquidity and financial condition. Stricter regulation could also be sensible for bank stability, however not for bank potency

This concurs with group lending theory that allows a group of individuals often called solidarity to provide collateral or loan guarantee through a group repayment pledge. The repayments are made daily, weekly, monthly, or after four weeks. Further Lee and Stowe (2003) in asymmetric information theory states that small firms tend to offer more trade credit than large firms, since small firms still have to establish their reputation about product quality. Firms with longer production cycles prolong their collection period, since they produce high-quality goods.

4.3.3 Management policies and financial performance

Corporate Governance has become a very important topic in developing economies in recent years. The study sought to identify the effects of Management policies on financial performance of commercial banks in Eldoret town. This is shown in table 4.8 below;

Table 4.8Management policies and financial performance

Management policies	**M**	**SD**
Loan policy increase earnings per share	3.84	1.381
Change in loan policy change earnings per share	4.06	1.186
The banks' earnings per share improve with improved Loan policy	4.35	.957
The policies ensure that the bank doesn't go under receivership	4.11	1.045
The adoption of the policies leads to conductions of healthy transactions in the bank.	4.07	1.017

On the findings regarding the effects of Management policies on financial performance of commercial banks in Eldoret town majority of the respondents agreed ,on the extent to which loan policy increase earnings per share, respondents strongly agreed with a mean of 3.84 spread at a standard deviation of 1.381; Change in loan policy change earnings per share had a mean of

4.06 with a standard deviation of 1.186, the bank's earnings per share improve with improved Loan policy had a mean of 4.35 spread at a standard deviation of 4.35, The policies ensure that the bank doesn't go under receivership was supported by a mean of 4.11 spread at a standard deviation of 1.045 and the adoption of the policies leads to conductions of healthy transactions in the bank was supported by a mean of 4.07 spread at standard deviation of 1.017.

These results are consistent to World Bank, (2009) which states that effective company governance structures encourage corporations to form price (through entrepreneurism, innovation, development and exploration) and supply responsibility and management systems commensurable with the risks involved.

Milstein, (2003) who asserts that the principal characteristics of effective company governance are transparency disclosure of relevant monetary and operational info and internal processes of management oversight and management. Milstein, (2003) further states that protection and enforceability of the rights of the stakeholders; and administrators capable of severally approving the corporation‘s strategy and watching management‘s performance and integrity, and exchange management once necessary

Lastly Gompers et al. (2003) asserts that good company practices because reduced agency prices in companies, and there's a discount in inefficiencies caused by conflict of interest between managers, house owners and stakeholders, companies have improved competitive advantage over different companies, and there's fulfillment of their social responsibilities towards the communities that they operate in. Asymmetric information theory states that sellers, generally, do now not know the actual credit score-worthiness in their customers and also customers do not have information about goods quality, to resolve the first trouble, Smith (2007) proposed that with asymmetric information about product quality, sellers offer trade credit score to permit customers to confirm product fine before charge. The cause that leads suppliers to extend this credit is that they've an incredible hobby in a patron's achievement, given that they expect the purchaser to shop for more goods and provider from them inside the destiny. Although success of the customer is important, the best of the product bought is also vital, and will determine new purchases

4.3.4 Shares savings and deposits on financial performance

The study sought to identify the effects of shares savings and deposits on financial performance of commercial banks in Eldoret town. This is shown in table 4.9 below;

Table 4.9 Shares savings and deposits on financial performance

Shares savings and deposits	M	SD
Shares and deposits Provide adequate capital for the bank thus ensuring stability.	3.70	1.353
Customers who are shareholders will be the customers of the bank thus enhancing stability of the bank	3.88	1.169
Shares savings and deposits Ensures the institution's stability and soundness	4.24	.972
Establishes authority, rules and framework to operate and administer the loan portfolio effectively	4.07	1.017
Shares savings and deposits ensures continuity of the bank thus leading to profitability	4.38	.889

Respondents were further asked to rate the effects of shares savings and deposits on financial performance of commercial banks in Eldoret town. From the findings in table 4.8, the respondents agreed that Shares and deposits Provide adequate capital for the bank thus ensuring stability with a mean of 3.70 and standard deviation of 1.353,Customers who are shareholders will be the customers of the bank thus enhancing stability of the bank with a mean of3.88 and a standard deviation of 1.169, Shares savings and deposits Ensures the institution's stability and soundness had a mean of 4.24 spread at 0.972 standard deviation, on the issuer that shares and savings establishes authority, rules and framework to operate and administer the loan portfolio effectively the respondents agreed at a mean of 4.07 and a standard deviation of 1.017 and shares savings and deposits ensures continuity of the bank thus leading to profitability was agreed with a mean of 4.38 and standard deviation of 0.889. This implies that commercial banks use shares savings and deposits to make sure they improve their profitability or earnings is to formulate aggressive policies for attracting personal deposits.

These findings are supported by Heggested (2007) who believed that banks with a high percentage of time and savings deposits incurred high funding cost and thus had less profit. Manole (2002) suggested that well capitalized banks ranked higher in terms of their ability to collect loan repayment. This they attributed to the possibility of implicit deposit insurance which in turn encourages more deposits.

4.3.5 Financial performance of commercial banks

The study sought to identify the effects of loan policy on financial performance of commercial banks in Eldoret town. This is shown in table 4.10 below;

Table 4.10Financial performance of commercial banks

Financial performance	**M**	**SD**

Organizational loan policy leads to improved profitability	3.82	1.351
Organizational loan policy leads improved its organizational image	4.05	1.099
Organizational loan policy leads to reduced loan defaulters	4.38	.889
Organizational loan policy leads to improved Earnings per share	4.15	.993
loan policy leads to improved organizational dividends	4.24	.972

From the findings on table 4.10 on the effects of loan policy on financial performance of commercial banks in Eldoret town, majority of the respondents agreed that banks loan policy leads to improved profitability with a mean of 3.82 and standard deviation of 1.351, on whether banks loan policy leads to improved organizational image the respondents agreed at a mean of 4.05 and standard deviation of 1.099, Organizational loan policy leads to reduced loan defaulters was supported by a mean of 4.38 with spread from the mean at a standard deviation of 0.889,they also agreed that Organizational loan policy leads to improved Earnings per share with a mean of 4.15 and a standard deviation of 40.993 and they agreed that loan policy leads to improved organizational dividends with a mean of 4.24 with spread from a standard deviation of 0.972.This implies loan policies of commercial banks is a very essential component of the performance as it plays a key role in reducing the danger of monetary loss and illiquidity of banks which later translates to improved performance.

The findings concurs to that of Foluso (2008) who posits that , the role of reporting on loan pattern of reimbursement and performance of market on credit depends on the effort of relationship integrate banking. Hence, once mutual relationships are not possible, the credit market primarily collapses within the absence of acceptable customer behavior. Further Brown (2006) states that performance is measured by the end result of a firm's policies and operations in financial terms. Lending is risky to most banks as a result of reimbursement of loans will rarely be absolutely secured.

4.4. Inferential Statistics

Inferential statistics was applied through correlation analysis which was used to establish with statistical significance, the nature of the existing relationship between the dependent variable and the independent variables. The study also employed multivariate regression model to study the determinants of loan policy in the banking sector. The dependent variable was the financial performance of the commercial banks in Eldoret town which was measured using liquidity management, capital adequacy ,Management policies and shares savings and deposits.

4.4.1 Correlation analysis

From the study Karl Pearson's coefficient of correlation was used to check the linear relationship between the variables, The Pearson correlation coefficient is a very useful way to measure the statistical relationship that exists between independent and dependent variables. The evaluation of the correlation was in accordance to Saunders (2003) who indicated that r=1 shows a Perfect linear correlation, $0.9 < r < 1$ indicates Positive strong correlation, $0.7<r < 0.9$ Positive high correlation $0.5 < r < 0.7$ Positive moderate correlation, $0< r < 0.5$ Weak correlation r=0 No, relationship and $-1 <r = < 0$ Negative relationship.

4.4.1.1 Correlations between Liquidity management and financial performance

Table 4.11 Correlations between Liquidity management and financial performance

		liquidity..mngt	financial...performance
Liquidity management	Pearson Correlation	1	.783**
	Sig. (2-tailed)		.000
	N	106	106
Financial performance	Pearson Correlation	.783**	1
	Sig. (2-tailed)	.000	
	N	106	106

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

The table 4.11 is giving the relationship between liquidity management and financial Performance of commercial banks in Eldoret town whereby the respondents N is 106 and the

significant level is 0.01, the results indicate that liquidity management has positive high correlation to financial performance(r=0.783p=0.000) which was less than the significant level of 0.05. When p-value is less than significant level of 0.05, it is can be concluded that variables are correlated and null hypothesis is rejected and the alternative hypothesis is adopted (Saunders, 2003). This indicates that that there is a significant association between liquidity management and financial Performance of commercial banks in Eldoret town. This implies that liquidity management contributes to positive financial Performance of commercial banks.

4.4.1.2 Correlations between Capital adequacy requirements and financial performance

Table 4.12 Correlations between Capital adequacy requirements and financial performance

		Capital adequacy	Financial performance
Capital adequacy	Pearson Correlation	1	.788**
	Sig. (2-tailed)		.000
	N	106	106
Financial performance	Pearson Correlation	.817**	1
	Sig. (2-tailed)	.000	
	N	106	106

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

The table 4.12 is giving the relationship between capital adequacy and financial Performance of commercial banks in Eldoret town whereby the respondents is 106 and the significant level is 0.01, the results indicate that capital adequacy has positive high correlation to financial performance equal to r=0.817 and the p-value is .000 which is less than 0.05., thus the variables

are correlated and null hypothesis is rejected and remains with alternative. This means that there is a significant relationship between capital adequacy and financial Performance of commercial banks in Eldoret town. This implies that capital adequacy contributes to positive financial Performance of commercial banks.

4.4.1.3 Correlations between

Management policies and financial performance

Table 4.13Correlations between Management policies and financial performance

		Management policies	Financial performance
Management policies	Pearson Correlation	1	.788**
	Sig. (2-tailed)		.000
	N	106	106
Financial performance	Pearson Correlation	.788**	1
	Sig. (2-tailed)	.000	
	N	106	106

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

The table 4.13 is giving the relationship between Management policies and financial Performance of commercial banks in Eldoret town whereby the respondents N is 106 and the significant level is 0.01, the results indicate that Management policies has positive high correlation to financial performance equal to r=0.788 and the p-value is .000 which is less than 0.05. When p-value is less than significant level, it is concluded that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis (Saunders, 2003). This means that there is a significant relationship between Management policies and financial Performance of commercial banks in Eldoret town. This implies that Management policies contributes to positive financial Performance of commercial banks.

4.4.1.4 Correlations between Shares savings and deposits on financial performance

Table 4.14 Correlations Shares savings and deposits on financial performance

		Shares savings and deposits	**Financial performance**
Shares savings and deposits	Pearson Correlation	1	.837**
	Sig. (2-tailed)		.000
	N	106	106
Financial performance	Pearson Correlation	.837*	1
	Sig. (2-tailed)	.000	
	N	106	106

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

The table 4.14 is giving the relationship between shares savings and deposits and financial Performance of commercial banks in Eldoret town whereby the respondents N is 106 and the significant level is 0.01, the results indicate that Management policies has positive strong correlation to financial performance equal to r=0.837 and the p-value is .000 which is less than 0.05. When p-value is less than significant level, it is concluded that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis (Saunders, 2003). This means that there is a significant relationship between shares savings and deposits and financial Performance of commercial banks in Eldoret town. This implies that shares savings and deposits contributes to positive financial Performance of commercial banks.

4.4.2 Regression analysis

The study employed multivariate regression model to study the determinants of loan policy in the banking sector.

4.4.2.1 Test of Linear assumption

The linear regression analysis tests the relationship between the independent and dependent variables and if the relationships are liner in nature. From the study test of assumption of linearity was done using the Pearson product moment as shown in table 4.15 below

Table 4.15 Test of Linear assumption

		Liquidity management	Capital adequacy	Management policies	Shares savings'	Financial performance
Liquidity management	Pearson Correlation	1	.			
Capital adequacy	Pearson Correlation	.765**	1			
Management policies	Pearson Correlation	.777**	.801**	1		
Shares savings	Pearson Correlation	.797**	.837**	.879**	1	
Financial performance	Pearson Correlation	.783**	.788**	.817**	.894**	1

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

4.4.2.2 Test of Homoscedasticity assumption

Homoscedasticity assumes that the dependent variable show an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis. The study used Durbin-Watson statistic to test the assumption of Homoscedasticity, the Durbin-Watson statistic should be between 1.5 and 2.5.the results in table 4.16 indicated that The Durbin-Watson statistic is 2.016 which is between 1.5 and 2.5 and therefore the data is not auto correlated.

Table 4.16 Test of Homoscedasticity assumption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.903[a]	.815	.808	.29961	2.016

a. Predictors: (Constant), shares savings, liquidity management, Management policies , capital adequacy

b. Dependent Variable: financial performance

4.2.2 3 Test of Normality assumption

Normality is one of the assumptions for multivariate analysis. This study used skewness and kurtosis to test normality of data. Skewnessis used to describe how symmetrical the distribution of data is on the other hand kurtosis is used to describe how flat or peaked the distribution of data is. According to Hair *et al., (*2010) skewness and kurtosis should be between ±1.96. Table 4.17 shows all variables with corresponding skewness and kurtosis values. Clearly, most of the variables were between ±1.96 indicating that the data is normal.

Table 4.17 Skewness and Kurtosis Scores

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Liquidity management	106	-.951	.235	.641	.465
Capital adequacy	106	-1.335	.235	1.683	.465
Management policies	106	-1.099	.235	.892	.465
Shares savings	106	-1.266	.235	1.807	.465
Financial performance	106	-1.106	.235	.755	.465
Valid N (listwise)	106				

4.4.3.1 Regression analysis between Liquidity management and financial performance

From the study multivariate regression model was used to find out the determinants of loan policy and also measure the relationship between the dependent variable financial performance and independent variable liquidity management. The results are shown in the section that follows

Table 4.18 Model Summary of Liquidity management and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.783[a]	.614	.610	.42672	1.797

a. Predictors: (Constant), liquidity..mngt

b. Dependent Variable: financial...performance

Table 4.18 illustrates the model summary used in this study, R squared is coefficient of determination which tells us the variation in the dependent variables of the study due to changes in the independent variables, from the findings in the above table the value of R squared was 0.614 an indication that there was variation of 61.4% on financial performance of commercial banks in Eldoret due to changes in liquidity management. This show that 61.4% changes in financial performance of commercial banks in Eldoret could be accounted for by liquidity management is the correlation coefficient which shows the relationship between the study variables, therefore, the study indicated that there was a strong positive relationship between liquidity management and financial performance of commercial banks in Eldoret town as shown by 0.614.

Table 4.19 ANOVA of Liquidity management and financial performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.065	1	30.065	165.114	.000[b]
	Residual	18.937	104	.182		
	Total	49.003	105			

Table 4.19 illustrates the Analysis of Variance (ANOVA) which assesses the overall significance of the model. According to the table $p < 0.05$, (0.000), indicating that there was sufficient evidence that the model is useful in explaining the financial performance of commercial banks in Eldoret town.

Table 4.20 Coefficientsof Liquidity management and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.849	.244		3.474	.004
	Liquidity management	.804	.060	.798	13.504	.000

a. Dependent Variable: financial performance

From the data in the above table the established regression equation was Y = 0.849 + 0.804X1

From the above regression equation it was revealed that liquidity management is statistically significant in influencing financial performance of commercial banks in Eldoret town with a p value less than 0.05, the study also reveals that, a unit increase in liquidity management would lead to increase in performance of commercial banks in Eldoret town by a factor of 0.804.

This concurs with the findings of Mwangi (2010) who discerned that there exist a relationship between finance performance and management of credit risk. Monetary performance measures square measure driven by three important problems gain, size of the business, and also the growth of business overtime. Further Mwaura, (2005) states that lack of credit analysis, credit follow-ups moreover and hostile disposition as the key factors that contribute to poor performance in loan disposition by cooperative societies in Kenya

4.4.2.2 Regression analysis between Capital adequacy requirements and financial performance

From the study multivariate regression model was used to find out the determinants of loan policy and also measure the relationship between the dependent variable financial performance and independent variable Capital adequacy. The results are shown in the section that follows

Table 4.21Model Summary of Capital adequacy requirements and financial

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817[a]	.667	.664	.39612

a. Predictors: (Constant), capital...adequacy

Table 4.21 illustrates the model summary used in this study, R squared is coefficient of determination which tells us the variation in the dependent variables of the study due to changes in the independent variables, from the findings in the above table the value of R squared was 0.667 an indication that there was variation of 66.7% on financial performance of commercial banks in Eldoret due to changes in capital adequacy. This show that 66.7% changes in financial performance of commercial banks in Eldoret Town could be accounted for by capital adequacy, R squared is the correlation coefficient which shows the availability of relationship between the study variables, and therefore, there was a strong positive relationship between capital adequacy and financial performance of commercial banks in Eldoret town as shown by 0.667.

Table 4.22ANOVAof Capital adequacy requirements and financial

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.684	1	32.684	208.302	.000[b]
	Residual	16.318	104	.157		
	Total	49.003	105			

a. Dependent Variable: financial...performance
b. Predictors: (Constant), capital...adequacy

Table 4.22 illustrates the Analysis of Variance (ANOVA) which assesses the overall significance of the model. According to the table (p=0.000), indicating that there was sufficient evidence that the model is useful in explaining the financial performance of commercial banks in Eldoret town.

Table 4.23 Coefficients of Capital adequacy requirements and financial

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.380	.195		7.062	.000
	Capital adequacy	.694	.048	.817	14.433	.000

a. Dependent Variable: financial...performance

From the data in the above table 4.23, the established regression equation was $Y = 1.380 + 0.694X_2$

From the above regression equation it was revealed that capital adequacy to a constant zero, financial performance of commercial banks in Eldoret town would be 0.694, such that a unit increase in capital adequacy would lead to increase in performance of commercial banks in Eldoret town by a factor of 0.694. The study also found that all the p-value=0.000 was less than 0.05 and indication that capital adequacy is statistically significant in influencing financial performance of commercial banks in Eldoret town.

These findings are supported by Johnson, (2007) who stipulated that the effects of capital adequacy necessities on financial Performance of commercial banks and provides buffer against losses and so it ensures safety and soundness of the money establishments. It's necessary to make sure that the banks have spare capital. Capital rules square measure thus place in situ to make sure that the banks meet the minimum capital necessities expected of them. Further Caprio and Levine (2006) states that the goal of economic regulation is to change banks to enhance liquidity and financial condition.

4.4.2.3 Regression analysis between Management policies and financial performance

From the study multivariate regression model was used to find out the determinants of loan policy and also measure the association between the dependent variable (financial performance) and independent variable (management policies). The results are shown in the section that follows.

Table 4.24Model Summary of Management policies and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788[a]	.622	.618	.42228

a. Predictors: (Constant), Management..policies

Table 4.24 illustrates the model summary used in this study, R squared is coefficient of determination which tells us about the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of R squared was 0.622 an indication that there was variation of 62.2% on financial performance of commercial banks in Eldoret due to changes in Management policies , This show that 62.2% changes in financial performance of commercial banks in Eldoret could be accounted for by Management policies . R squared is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above, thus there was a strong positive relationship between Management policies and financial performance of commercial banks in Eldoret town as shown by 0.622.

Table 4.25ANOVAof Management policies and financial performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.457	1	30.457	170.797	.000[b]
	Residual	18.546	104	.178		
	Total	49.003	105			

a. Dependent Variable: financial...performance

b. Predictors: (Constant), Management..policies

Table 4.25 illustrates the Analysis of Variance (ANOVA) which assesses the overall significance of the model. According to the table $p < 0.05$, (0.000), indicating that there was sufficient evidence that the model is useful in explaining the financial performance of commercial banks in Eldoret town.

Table 4.26 Coefficients of Management policies and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.064	.239		4.444	.000
	Management..policies	.754	.058	.788	13.069	.000

a. Dependent Variable: financial...performance

From the data in the above table 4.26, it is established that the regression equation is;

$$\mathbf{Y = 1.064 + 0.754X_3}$$

From the above regression equation it was revealed that management policies to a constant zero, financial performance of commercial banks in Eldoret town would be 0.754, such that a unit increase in Management policies would lead to increase in performance of commercial banks in Eldoret town by a factor of 0.754. The study also found that all the p-value=0.000 was less than 0.05, an indication that capital adequacy is statistically significant in influencing financial performance of commercial banks in Eldoret town.

This is consistent to Gompers et al. 2003) who stated that management policies is a key issue for the development of economic process and potency. Prime level management thought-about the company governance as a tool to cut back the direction or misconduct in structure processes, and for the social control of regulation and management policies and selections for cover of the rights of stakeholders in the industry. Bolton (2008) found that perfect company management rules results in high company performance and defend interests of shareholders.

4.4.2.4 Regression analysis between shares savings and deposits on financial performance

From the study multivariate regression model was used to find out the determinants of loan policy and also measure the relationship between the dependent variable financial performance and independent variable Shares savings and deposits. The results are shown in the section that follows

Table 4.27Model Summary between shares savings and deposits on financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.894[a]	.799	.797	.30812

a. Predictors: (Constant), share savings

Table 4.27 illustrates the model summary used in this study, R squared is coefficient of determination which tells us about the variation in the dependent variable caused by changes in the independent variable, from the findings in the above table the value of R squared was 0.799 an indication that there was variation of 79.9% on financial performance of commercial banks in Eldoret due to changes in shares savings and deposits, This show that 79.9% changes in financial performance of commercial banks in Eldoret could be accounted for by shares savings and deposits. R squared is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above, thus there was a strong positive relationship between shares savings and deposits and financial performance of commercial banks in Eldoret town as shown by 0.799.

Table 4.28ANOVAof shares savings and deposits on financial performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	39.129	1	39.129	412.160	.000[b]
	Residual	9.873	104	.095		
	Total	49.003	105			

a. Dependent Variable: financial...performance

b. Predictors: (Constant), share savings

Table 4.28 illustrates the Analysis of Variance (ANOVA) which assesses the overall significance of the model. According to the table $p < 0.05$, (0.000), indicating that the model is useful in explaining the financial performance of commercial banks in Eldoret town.

Table 4.29Coefficientsof between shares savings and deposits on financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.814	.167		4.877	.000
	Share savings	.822	.041	.894	20.302	.000

a. Dependent Variable: financial...performance

From the data in the above table the established regression equation was $Y = 0.814 + 0.822X_4$

From the above regression equation it was revealed that shares savings and deposit to a constant zero, financial performance of commercial banks in Eldoret town would be 0.822, such that a unit increase in shares savings and deposit would lead to increase in performance of commercial banks in Eldoret town by a factor of 0.822. The study also found that all the p-value=0.000 was less than 0.05, an indication that shares savings and deposit is statistically significant in influencing financial performance of commercial banks in Eldoret town.

These findings concur to that of Demirguc-Kunt and Huzinga(2008) who stated that that banks that rely largely on deposits for their funding were less profitable, since deposits require more branching and other expenses, further Dietrich and Wanzeried (2009) stipulated that the yearly growth in deposits did not have any significant effect on organizational profitability. They found no empirical evidence that commercial banks in Switzerland were able to convert at an increasing size of liabilities in terms of deposits to incomes earning assets. Lastly Grigorian and Manole (2002) suggested that well capitalized banks ranked higher in terms of their ability to collect loan repayment. This they attributed to the possibility of implicit deposit insurance which

in turn encourages more deposits. They however, observed less evidence linking capitalization to revenues. Alternatively, their investigations located a few evidence that foreign banks have been capable of attract more deposits with the aid of paying lower rates. This they attributed to implicit deposit insurance .The ability to attract deposits at lower rates would mean higher net interest margins and hence higher profitability

4.4.2.5 Overall Regression Analysis

From the study multivariate regression model was used to find out the determinants of loan policy and also measure the relationship between the dependent variable of the study financial performance and independent variable: liquidity management, capital adequacy, Management policies and shares savings and deposits. The results are shown in the section that follows

Table 4.30 Model Summary of the dependent and dependent variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.903[a]	.815	.808	.29961

a. Predictors: (Constant), share...sav, liquidity..mngt, Management..policies, capital...adequacy

Table 4.30 illustrates the model summary used in this study, R squared is coefficient of determination which tells us about the version in the dependent variable due to changes in the independent variable, from the findings in the above table the value of R squared was 0.815 an indication that there was variation of 81.5% on financial performance of commercial banks in Eldoret due to changes in the independent variables liquidity management, capital adequacy, Management policies and shares savings and deposits, This show that 81.5% changes in financial performance of commercial banks in Eldoret could be accounted for by liquidity management, capital adequacy, Management policies and shares savings and deposits. R squared is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above, thus there was a strong positive relationship between liquidity management, capital adequacy, Management policies and hares savings and deposits and financial performance of commercial banks in Eldoret town as shown by 0.815.

Table 4.31 ANOVAof the dependent and dependent variables

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	39.936	4	9.984	111.223	.000[b]
	Residual	9.066	101	.090		
	Total	49.003	105			

a. Dependent Variable: financial...performance
b. Predictors: (Constant), share save, liquidity, management, Management policies, capita .adequacy

Table 4.31 illustrates the Analysis of Variance (ANOVA) which assesses the overall significance of the model. According to the table $p < 0.05$, (0.000), indicating that the regression model was useful in explaining the financial performance of commercial banks in Eldoret town.

Table 4.32Coefficientsof the dependent and dependent variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.537	.192		2.799	.006
	Liquidity management	.171	.079	.164	2.164	.033
	Management policies	.066	.080	.069	.826	.411
	Capital adequacy	.053	.081	.062	.653	.515
	Share savings	.599	.096	.651	6.221	.000

a. Dependent Variable: financial...performance

From the data in the above table the established regression equation was

$$\mathbf{Y = 0.537+0.171X_1+0.066X_2+0.053X_3+0.599X_4}$$

From the above regression equation it was revealed that the regression weights of all of the independent variables were significant with liquidity management p=0.033, capital adequacy p=0.411, Management policies p=0.515and shares savings and deposits p=0.000. This means that all the postulated hypotheses were not supported. Thus all the variables, liquidity management, capital adequacy, Management policies and shares savings and deposits are predictor variables for financial performance of commercial banks in Eldoret town. Wei, (2007) stated collection policies are very important part of the general credit risk management method among commercial banks. a good collection of policies is essential in dominant the investments in debtors and additionally reducing the dangers of monetary loss and illiquidity through slow payment. Additionally, Kabiru, (2002) stated that if the collection policy is incredibly demanding, it's going to create customers get different suppliers and this could need putting a balance thus on guarantee business continuity. It’s a reality that there'll be late payers in client base. Once payments square measure thought to be late varying of procedures and ways is also adopted to get payments.

The standardized coefficients indicate the corresponding change in the dependent variable when a change of one unit is effected in the independent variable. Thus, a unit change in liquidity management will lead to a 0.171 unit change in financial performance of commercial banks in Eldoret town. A unit change in capital adequacy would lead to a 0.066 unit change in financial performance of commercial banks in Eldoret town. Also a unit change in Management policies will lead to a 0.053 unit change in financial performance of commercial banks in Eldoret town, and a unit change in the shares savings and deposit would result in a 0.599 unit change in financial performance of commercial banks in Eldoret town.

Besides, the magnitude of the t values indicates Shares savings and deposits (t= 6.221) is the main predictor variable for financial performance of commercial banks this is followed by liquidity management (t= 2.164) then Management policies (t= 0.826) and capital adequacy (t= 0.653).

Table 4.33: Summary of Results for Hypotheses Testing

Hypotheses	Results	Effect of Test
H_{01}: There is no significant relationship between liquidity management and financial performance of commercial banks in Eldoret town.	P=0.000.	$H_{01:}$ Rejected
H_{02}: There is no significant relationship between capital adequacy requirements and financial performance in commercial banks in Eldoret town.	P=0.000	$H_{02:}$ Rejected
H_{03}: There is no significant relationship between Management policies and financial performance of commercial banks in Eldoret town.	P=0.000	$H_{03:}$ Rejected
H_{04} There is no significant relationship between shares savings and deposits and financial performance of commercial banks in Eldoret town	P=0.000	$H_{04:}$ Rejected

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

5.1.1 Liquidity management and financial performance

The study's research findings indicated that there is a significant statistical relationship between liquidity management and financial performance of commercial banks in Eldoret town. The study further indicated that ; Loan applications were taken by individual lenders or assigned by the Chief Lending Officer, each lender in commercial banks is responsible for recommending an increase or decrease of a customer's loan portfolio, further it changed into indicated that mortgage policy have to sincerely talk the strategic goals and targets of the and ultimately liquidity control coverage should set up the desired blend of the mortgage portfolio and bounds on man or woman loan sorts. These findings concur to that of Mwaura, (2005) who stated that lack of credit analysis, credit follow-ups moreover as hostile disposition square measure the key factors that contribute to poor performance in loan disposition by nihilist societies in Kenya. Additionally Mwangi (2010) discerned that there exist a relationship between finance performance and management of credit risk. Monetary performance measures square measure driven by three important problems gain, size of the business, and also the growth of business overtime.

This is further supported by transactions cost theory developed by Schwartz (1974) which concludes that financial institutions may have an advantage over traditional lenders in checking the actual financial situation or the creditworthiness of their customers. Financial institutions even have a higher capacity to reveal and compel repayment of the credit.

5.1.2 Capital adequacy requirements and financial performance

The study further indicated that there is a strong significant relationship between capital adequacy and financial performance of commercial banks in Eldoret town; the study further indicated that capital adequacy provide an organizational framework monitor as well control

credit risk, it provides guidance and timely information on organizational regulatory concerns that need to be incorporated into the loan policy, further capital adequacy requirements ensures the institution's stability and soundness, it establishes authority, rules and framework to operate and administer the loan portfolio effectively and lastly capital adequacy requirements controls lending risk. This implies that capital adequacy is a critical factor for financial performance of commercial banks.

These findings are consistent to that of Johnson, (2007) who stated that the effects of Capital Adequacy necessities on money Performance of economic banks Capital provides buffer against losses and so it ensures safety and soundness of the money establishments. He further states that it's necessary to make sure that the banks have spare capital. Estrada and Osorio (2004) asserts that capital rules ensures that the banks meet the minimum capital necessities expected of them. It seems that capital adequacy necessities might have an effect on the extent of potency as a result of they act as mounted inputs within the production method. Caprio and Levine (2006) states that the goal of economic regulation is to change banks to enhance liquidity and financial condition. Stricter regulation could also be sensible for bank stability, however not for bank potency, this concurs with group lending theory that allows a group of individuals often called solidarity to provide collateral and loan guarantee, therefore the repayments are made daily, weekly, monthly, or after four weeks.

Further Lee and Stowe (2003) in asymmetric information theory states that that small companies generally tend to offer more credit than big companies, due to the fact that small firms nevertheless ought to establish their popularity about product quality. Firms with longer production cycles extend their collection duration, when you consider that they produce high-quality items.

5.1.3 Management policies and financial performance

Regarding the effects of corporate governance on financial performance, the study indicated that there exists a significant relationship between Management policies and financial performance of commercial banks in Eldoret town, the study further revealed that loan policy increase earnings per share, Change in loan policy change earnings per share, the bank's earnings per share improve with improved Loan policy, additionally, the policies ensure that the bank doesn't go under receivership and the adoption of the policies leads to conductions of healthy transactions in the bank.

These results are consistent to World Bank, (2009) Which states that effective company governance structures encourage corporations to form price and supply responsibility and management systems commensurable with the risks involved.

Milstein, (2003) who asserts that the principal characteristics of effective company governance are transparency disclosure of relevant monetary and operational info and internal processes of management oversight and management. Milstein, (2003) further states that protection and enforceability of the rights of the stakeholders; and administrators capable of severally approving the corporation's strategy and watching management's performance and integrity, and exchange management once necessary

Lastly Gompers et al. (2003) asserts that good company practices because reduced agency prices in companies, and there's a discount in inefficiencies caused by conflict of interest between managers, house owners and stakeholders, companies have improved competitive advantage over different companies, and there's fulfillment of their social responsibilities towards the communities that they operate in. Asymmetric Information Theory in which Smith (2007) states that that, Financial institutions provide change credit score to allow buyers to affirm product high-quality earlier than repayment. The purpose that leads financial establishments to increase this credit is that they have a massive interest in a consumer's achievement, given that they anticipate the client to borrow more from them in the destiny. Even though success of the borrower is essential, the exceptional of service presented is also critical, and will decide new borrowings.

5.1.4 Shares savings and deposits on financial performance

Regarding the effects of share savings and deposits on financial performance the study indicated that there is a significant association between shares savings and deposits and financial Performance of commercial banks in Eldoret town, implying that shares savings and deposits contributes to positive financial Performance of commercial banks. Further the study revealed that shares and deposits provide adequate capital for the bank thus ensuring stability, Customers who are shareholders will be the customers of the bank thus enhancing stability of the bank, Shares savings and deposits ensures the institution's stability and soundness, additionally shares and savings establishes authority, policies and framework to operate and administer the mortgage portfolio efficiently and stocks financial savings and deposits ensures continuity of the financial institution consequently leading to profitability. These findings are supported by Heggested (2007) who believed that banks with a high percentage of time and savings deposits incurred high funding cost and thus had less profit. Manole (2002) suggested that well capitalized banks ranked higher in terms of their ability to collect loan repayment. This they attributed to the possibility of implicit deposit insurance which in turn encourages more deposits. Further Asymmetric Information Theory developed by Smith (2007) supports these findings as it states that financial institutions with longer production cycles prolong their repayment period, since they offer high-quality services. Financial institutions of low quality services may try to pass them off as high-quality services.

5.1.5 Financial performance of commercial banks

From the findings on the effects of loan policy on financial performance of commercial banks in Eldoret town, the study revealed that loan policy leads to improved profitability, it leads to improved organizational image , also it leads to reduced loan defaulters, further, Organizational loan policy leads to improved Earnings per share and lastly loan policy leads to improved organizational dividends. This implies loan policies of commercial banks is a very essential component of the performance as it plays a key role in reducing the danger of monetary loss and illiquidity of banks which later translates to improved performance.

The findings concurs to that of Foluso (2008) who posits that , the role of reporting on loan pattern of reimbursement and performance of market on credit depends on the effort of

relationship integrate banking. Hence, once mutual relationships are not possible, the credit market primarily collapses within the absence of acceptable customer behavior. Further Brown (2006) states that performance is measured by the end result of a firm's policies and operations in financial terms. Lending is risky to most banks as a result of reimbursement of loans will rarely be absolutely secured.

This concurs with Asymmetric Information Theory, as Lee and Stowe (2003) stipulates that small financial institutions tend to offer more trade credit than large financial institutions, since small financial institutions still have to establish their reputation about product quality. Financial institutions with longer production cycles extend their collection duration, since they offer excellent services.

5.2 Conclusions

Based on the study findings on the effects of liquidity management on financial performance of commercial banks in Eldoret town, the study concluded that, loan applications are taken by individual lenders or assigned by the chief lending officer. Each lender in the commercial banks is responsible for recommending an improvement or decrease of a mortgage in customers portfolio at the time that pertinent facts is acquired. The mortgage policy ought to honestly speak the strategic desires and goals of the bank, further it was concluded that commercial may choose to enter into participations. And lastly commercial banks loan policy should establish the desired mix of the loan portfolio and limits on individual loan types.

Regarding the effects of capital adequacy requirements on financial performance of commercial banks in Eldoret town, the study concluded that, Capital adequacy provide an effective monitoring and control of credit risk, Further it ensures the institution's stability and soundness, it also establishes authority and lastly controls lending risk.

Further on the effects of Management policies on financial performance of commercial banks in Eldoret town, it was concluded that, loan policy increase earnings per share, Change in loan policy changes the company earnings per share, also the banks earnings per share improve with improved Loan policy, further the policies ensure that the bank doesn't go under receivership and the adoption of the policies leads to conductions of healthy transactions in the bank.

On the effects of effects of shares savings and deposits on financial performance of commercial banks, the study concluded that, Shares and deposits Provide adequate capital for the bank thus

ensuring stability such that Customers who are shareholders will be the customers of the bank thus enhancing stability of the bank, Shares savings and deposits also ensures the institution's stability and soundness, Shares savings and deposits ensures continuity of the bank thus leading to profitability.

Lastly on the financial performance the study concluded that, there exist systems in place and procedures that banks have in place so as to secure payment from their customers once payment becomes due, this systems leads to improved organizational profitability, it leads improved organizational image, reduces loan defaulters, leads to improved Earnings per share and lastly leads to improved organizational dividends, thus reducing the danger of financial loss and illiquidity through slow loan payment.

5.3 Recommendation of the Study

5.3.1 Recommendation with Policy and Practice

Based on the objectives and conclusions this study recommends that;

i. Commercial banks ought to focus its attention on capability building and special training of bank managers and employees whose duties relate to credit and loans to attain knowledge on effective ways to upset credit problems and mitigate credit risks faced by these banks.
ii. Commercial banks should continuously review their credit policies, establish lost loan provision policies, and character of loan candidates, to ensure the reduction of credit risks to its minimum.
iii. Further commercial banks should properly address loan policy challenges; this is because it's become necessary to totally analyze the result of capital rules, particularly the capital adequacy magnitude relation on banks potency.
iv. Since the principal characteristics of effective company governance are transparency disclosure of relevant monetary and operational information, commercial banks should

ensure transparency and efficiency of its internal processes of management coupled with the protection and enforceability of the rights of the stakeholders; this promotes effective loan policy strategies.

v. Commercial banks also should put in place effective governance activities that change rules into specific recommendations, orienting interests with the aim of conserving and enhancing the organization's value, facilitating its access to capital and conducive to its longevity.

vi. The Kenya Government should create clear loan policies on safety procedures in the banking industry and provide allocations of the necessary resources for its implementations.

5.3.2 Suggestion for Further Research

The study suggests that further study should be undertaken in order to investigate the determinants of loan performance in commercial banks in Kenya. Findings from such s study will provide more insight on the relationship between the loan performance, which could be useful in informing risk management strategies and policy in Kenyan commercial banks.

Further research should also consider utilizing both qualitative and quantitative techniques that can be used in assessing the loan policies. Consequently, loan policies could be assessed through qualitative models.

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APPENDIX I: QUESTIONNAIRE

This questionnaire consists of two sections. Please see the instructions at the beginning of each section.

SECTION A: Background Information

Kindly fill in the blank spaces and tick where appropriate.

1. What is your gender?

   Male { }

   Female { }

2. What is your age bracket?

   21-30 years { }

   31-40 years { }

   41-50 years { }

   Over 50 years { }

3. Indicate your educational level

   Diploma { }

   Degree { }

   Any other…………………………..

4. How long have you worked in the Organization?

Less than 3 Years { }

Between 3 – 7 Years { }

Between 7 – 12 Years { }

Over 12 Years { }

5. What position do you hold in the organization?
   Branch manager { }
   Credit officer { }
   Customers { }

SECTION B: SPECIFIC INFORMATION

Kindly rate the extent to which you agree with the following statements by ticking where appropriate.

1. **Effects of liquidity management on financial performance of commercial banks in Eldoret town.**

Kindly rate the extent to which you agree with the following statements on the effects of liquidity management on financial performance of commercial banks in Eldoret town

1. Key - 5- Strongly Agree, 4- Agree, 3 – Undecided, 2- Disagree, 1- Strongly Disagree

	Statement	**5**	**4**	**3**	**2**	**1**
1.	Loan applications will be taken by individual lenders or assigned by the Chief Lending Officer.					
2.	Each lender is responsible for recommending an upgrade or downgrade of a loan in his/her portfolio at the time that pertinent					
3.	The loan policy should clearly communicate the strategic goals and objectives of the bank					

4.	A bank may choose to enter into participations if it is unable to generate sufficient loan demand independently.					
5	The policy should also establish the desired mix of the loan portfolio and limits on individual loan types.					

Any other specify

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

2 Effects of capital adequacy requirements on financial performance of commercial banks in Eldoret town

Kindly rate the extent to which you agree with the following statements on the effects of capital adequacy requirements on financial performance of commercial banks in Eldoret town

Key - 5- Strongly Agree, 4- Agree, 3 – Undecided, 2- Disagree, 1- Strongly Disagree

	Statement	**5**	**4**	**3**	**2**	**1**
1.	Provide an effective framework to measure, monitor, and control credit risk.					
2.	Provide guidance and timely information on emerging issues and regulatory concerns that should be incorporated into the loan policy.					
3.	Ensures the institution’s stability and soundness					
4.	Establishes authority, rules and framework to operate and administer the loan portfolio effectively					

5	Controls lending risk					

Any other specify

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3 Effects of Management policies on financial performance of commercial banks in Eldoret town

Kindly rate the extent to which you agree with the following statements on the effects of loan policy on the earning per share

Key - 5- Strongly Agree, 4- Agree, 3 – Undecided, 2- Disagree, 1- Strongly Disagree

	Statement	**5**	**4**	**3**	**2**	**1**
1.	Management policy increase earnings per share					
2.	Change in loan policy change earnings per share					
3.	The banks earnings per share improve with improved Loan policy					
2	The policies ensure that the bank doesn't go under receivership					

5.	The adoption of the policies leads to conductions of healthy transactions in the bank.					

Any other specify

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………………………………………………………………………………………………
…………………………………………………………………………………….

4 Effects of shares savings and deposits on financial performance of commercial banks in Eldoret town?

Kindly rate the extent to which you agree with the following statements on the shares savings and deposits on financial performance of commercial banks in Eldoret town

Key - 5- Strongly Agree, 4- Agree, 3 – Undecided, 2- Disagree, 1- Strongly Disagree

	Statement	**5**	**4**	**3**	**2**	**1**
1.	Shares and deposits Provide adequate capital for the bank thus ensuring stability.					
2.	Customers who are shareholders will be the customers of the bank thus enhancing stability of the bank					
3.	Shares savings and deposits Ensures the institution's stability and soundness					
4.	Establishes authority, rules and framework to operate and administer the loan portfolio effectively					
5	Shares savings and deposits ensures continuity of the bank thus leading to profitability					

Any other specify

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………

5 Financial performances of commercial banks

Kindly rate the extent to which you agree with the following statements on the financial performance of commercial banks in Eldoret town

Key - 5- Strongly Agree, 4- Agree, 3 – Undecided, 2- Disagree, 1- Strongly Disagree

	Statement	**5**	**4**	**3**	**2**	**1**
1.	Organizational loan policy leads to improved profitability					
2.	Organizational loan policy leadsimproved its organizational image					
3.	Organizational loan policy leads to reduced loan defaulters					
4.	Organizational loan policy leads to improved Earnings per share					
5	Loan policy leads to improved organizational dividends					

APPENDIX II: LIST OF BANKS

This is a list of licensed commercial banks in Kenya

1. ABC Bank
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CfCStanbic Holdings
7. Chase Bank Kenya
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Diamond Trust Bank
12. Eco bank Kenya
13. Equatorial Commercial Bank
14. Equity Bank
15. Family Bank
16. Fidelity Commercial Bank Limited
17. First Community Bank
18. Guardian Bank
19. Housing Finance Company of Kenya
20. I&M Bank
21. Imperial Bank Kenya
22. Kenya Commercial Bank
23. Middle East Bank Kenya
24. National Bank of Kenya
25. NIC Bank
26. Oriental Commercial Bank
27. Paramount Universal Bank
28. Sidian Bank
29. Standard Chartered Kenya
30. Trans National Bank Kenya

(Source: Central bank of Kenya 2016)

APPENDIX IV: CYTONN'S BANKING SECTOR REPORT –THE RANKINGS AS AT 14th September, 2015

Bank	Loans / Deposits	Cost to Income Ratio	ROACE	NIM	PEG ratio	Price/ Tangible Book Value	Deposits per branch billions	NPLs/ Loans	Reserve / NPLs	Tangible Common Ratio	Non Interest Income / Revenue	Camel Rating	**Total**	**Rank**
CfCStanbic	1	10	6	11	2	4	1	3	6	8	1	5	**58**	**1**
I&M	8	1	2	7	5	6	4	2	1	10	9	4	**59**	**2**
Standard Chartered	9	3	3	4	8	10	2	7	2	1	10	2	**61**	**3**
Equity	4	7	1	2	6	11	10	5	5	4	2	6	**63**	**4**
KCB	7	6	4	5	1	7	7	8	3	5	3	9	**65**	**5**
DTBK	3	4	7	8	3	5	8	1	10	9	8	1	**67**	**6**
Co-operative bank	6	5	8	3	7	9	6	4	7	7	4	3	**69**	**7**
NIC	10	2	9	9	4	3	3	10	4	3	5	8	**70**	**8**
Barclays	5	8	5	1	9	8	9	6	9	2	6	7	**75**	**9**
National Bank of Kenya	2	11	10	6	10	2	11	11	8	11	7	11	**100**	**10**
Housing Finance	11	9	11	10	11	1	5	9	10	6	11	10	**104**	**11**

The ranks analyzed the health of the listed banks in the Kenyan market

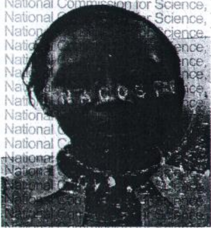
Source: Cytonn Banking Sector Report

THIS IS TO CERTIFY THAT:
MS. DORCAS CHEPKOECH
of KISII UNIVERSITY,
4606-30100 eldoret, has been
permitted to conduct research in
Uasin-Gishu County

on the topic: *AN ASSESSEMENT LOAN POLICY AND ITS INFLUENCE ONFINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ELDORET TOWN*

for the period ending:
26th August,2017

Permit No : NACOSTI/P/16/16179/13026
Date Of Issue : 30th August,2016
Fee Recieved :Ksh 1000



Applicant's Signature

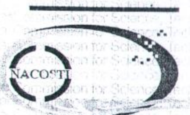
Director General
National Commission for Science, Technology & Innovation

Technology and Innovation National Commission for Science, Technology and Innovation National Commission for Science

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit.
2. Government Officer will not be interviewed without prior appointment.
3. No questionnaire will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two(2) hard copies and one (1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice

REPUBLIC OF KENYA

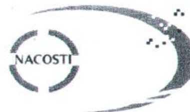


National Commission for Science, Technology and Innovation

RESEACH CLEARANCE PERMIT

Serial No.A 11874

CONDITIONS: see back page



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

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Ref: No.

NACOSTI/P/16/16179/13026

Date

30th August, 2016

Dorcas Chepkoech
Kisii University
P.O. Box 402-40800
KISII.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"An assessment loan policy and its influence on financial performance of Commercial Banks in Eldoret Town,"*** I am pleased to inform you that you have been authorized to undertake research in **Uasin Gishu County** for the period ending **26th August, 2017.**

You are advised to report to **the Branch Managers of selected Banks, the County Commissioner and the County Director of Education, Uasin Gishu County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The Branch Managers
Selected Banks.

The County Commissioner
Uasin Gishu County.