

Effect of non-performing loans on financial performance of commercial banks in Kenya:
A case of selected commercial banks listed in the Nairobi securities exchange

by

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APPROVAL

EFFECT OF NON-PERFORMING LOANS ON FINANCIAL PERFORMANCE OF
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A CASE OF SELECTED COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES
EXCHANGE

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In accordance with Daystar University policies, this thesis is accepted in partial fulfillment of requirements for the Master of Business Administration degree

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DECLARATION

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I declare that this thesis is all my original work and has not been submitted to any other college or university for academic credit.

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LIST OF ABBREVIATIONS

BBK	Barclays Bank of Kenya
CBK	Central Bank of Kenya
Co-op	Co-operative Bank of Kenya
CRB	Credit Reference Bureau
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPO	Initial Public Offer
LLP	Loan Loss Provision
NACOSTI	National Commission for Science, Technology and Innovation
NBK	National Bank of Kenya
NFBI's	Non-bank financial institutions
NIC	National Industrial Credit
NIM	Net Interest Margin
NPLs	Non-Performing Loans
NSE	Nairobi Securities Exchange
OD	Over Draft
PLs	Performing Loans
ROA	Return on Assets
ROE	Return on Equity

ABSTRACT

The study examined the effect on Non-Performing Loans (NPLs) on the financial performance of selected commercial banks listed with the Nairobi Securities Exchange (NSE). The study's objectives were: to identify causes of NPLs within NSE listed selected commercial banks in Kenya; to establish the level of NPLs among the NSE listed selected commercial banks; to identify measures of financial performance among the NSE listed selected commercial banks; and to determine the effect of NPLs on the NSE listed selected commercial banks' financial performance. Descriptive research design guided the study. The study's target population was the 11 NSE listed commercial banks out of which a sample size of four banks was drawn. Data was collected by use of questionnaire and through a review of the sampled annual financial statements for the period 2011 to 2015. The collected data was analyzed using Stata software and was presented in form of tables and figures. Some findings of the study were: that inflation, interest rates, weak credit appraisal, and insider lending were some of the probable causes of NPLs; that the levels of NPLs in Tier 1 banks were far much less than those in in Tier 2 banks. Among the study's recommendations were: that internal factors that cause NPLs in commercial banks should be controlled; and that Tier 2 banks need to be strict with the loans they issue and should have more controls on their bad and doubtful loans. The study concluded that there is a direct relationship between NPLs and the financial performance of commercial banks listed in the NSE.

DEDICATION

I dedicate this thesis to my family members who stood with me and offered me moral support throughout the research process.

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