**THE EFFECT OF CREDIT RISK MANAGEMENT ON PROFITABILITY OF COMMERCIAL BANKS IN MOGADISHU SOMALIA**

**BY**

**Name: Abdulkadir Abdi Aziz Hassan ID: B119042**

**Name: Ahmed Omar Hassan ID: B119055**

**TABLE OF CONTACTS**

[CHAPTER ONE 1](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941108)

[INTRODUCTION](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941109) 1

[1.0 Introduction 1](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941110)

[1.1 Background of the study 1](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941112)

[1.2 STATEMENT OF PROBLEM 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941113)

[1.3 Purpose of the study 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941113)

[1.4 Objectives of the Study 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941114)

[1.4.1 General Objective 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941115)

[1.4.2 Specific objectives 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941116)

[1.5 Research questions 7](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941117)

[1.6 Scope of the Study 8](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941119)

[1.6.1: Geophysical area 8](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941120)

[1.6.2: Content scope 8](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941121)

[1.6.3: Time scope 8](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941122)

[1.7 Significance of the Study 8](file:///E:\All%20Chapters%20in%20Book%20Thesis%20Nasteexo%20VIP.comled-1%20(2).docx#_Toc10941118)

1.8: Organizational of the study 9

[CHAPTER TWO; 10](#_Toc10941125)

[LITERATURE REVIEW 10](#_Toc10941126)

[2.0Introduction 10](#_Toc10941127)

[2.1 Conceptual Review 10](#_Toc10941128)

[2.1.1Credit risk 10](#_Toc10941129)

[2.1.1.1 Capital Adequacy: 11](#_Toc10941130)

[2.1.1.2 Loan Loss Provisions 11](#_Toc10941131)

[2.1.1.3 Non-Performing Loans 12](#_Toc10941132)

[2.2 Theoretical Review 13](#_Toc10941133)

[2.2.1 The Financial Economic Theory 13](#_Toc10941134)

[2.2.2 New Institutional Economists Theory 14](#_Toc10941135)

[2.2.3 Agency Theory 14](#_Toc10941136)

[2.2.4 Stakeholder Theory 14](#_Toc10941137)

[2.2.5 Portfolio Theory 15](#_Toc10941138)

[2.3Empirical Review: 16](#_Toc10941139)

[2.3.1 Credit Risk 16](#_Toc10941140)

[2.3.1.1Capital Adequacy 19](#_Toc10941141)

[2.3.1.2 Loan Loss Provisions 20](#_Toc10941142)

[2.3.1.3Non-Performing Loans 21](#_Toc10941143)

[2.3.2: Profitability of commercial bank 23](#_Toc10941144)

[2.4Summary of Literature and Research Gaps 25](#_Toc10941145)

[2.5 Conceptual framework 25](#_Toc10941145)

[CHAPTER THREE 26](#_Toc10941146)

[METHODOLOGY 26](#_Toc10941147)

[3.0 INTRODUCTION 26](#_Toc10941148)

[3.1 RESEARCH DESIGN 26](#_Toc10941149)

[3.2 RESEARCH POPULATION 26](#_Toc10941150)

[3.3 SAMPLE SIZE 26](#_Toc10941151)

[3.4 SAMPLE PROCEDURE 27](#_Toc10941152)

[3.5 RESEARCH INSTRUMENT 27](#_Toc10941153)

[3.6 VALIDITY AND RELIABILITY 27](#_Toc10941154)

[3.6.1 Reliability 28](#_Toc10941155)

[3.7 DATA GATHERING PROCEDURES 28](#_Toc10941156)

[3.8 DATA ANALYSIS 28](#_Toc10941157)

[3.9 ETHICAL CONSIDERATION 29](#_Toc10941158)

[3.10 limitation and solutions of the study 29](#_Toc10941159)

[CHAPTER FOUR 30](#_Toc10941160)

[DATA PRESENTATION, ANALYSIS AND INTERPRETATION 30](#_Toc10941161)

[4.0 Introduction 30](#_Toc10941162)

[4.1Demographic characteristics of the respondents 30](#_Toc10941163)

[CHAPTERFIVE 37](#_Toc10941164)

[MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS 37](#_Toc10941165)

[5.0 Introduction 37](#_Toc10941166)

[5.1 Major Findings 37](#_Toc10941167)

[5.2 Conclusion 38](#_Toc10941168)

[5.3 Recommendations 39](#_Toc10941169)

[5.4 Recommendation for further research 39](#_Toc10941170)

# 

# CHAPTER ONE

# INTRODUCTION

## **1.0 Introduction**

# In this chapter, the researcher will be discussing the background of study, problem statement, and objectives of the study, research questions, the significance of the study, scope of the study, and organizational of the study.

## **Background of the study**

The risk focused examination process has been adopted to direct the inspection process to the more risk areas of both operations and business. Skills in risk-focused supervision are continually being developed by exposing examiners to relevant training. By adopting this approach, the banking industry, and specifically the small banks are sensitized on the need to have formal and documented risk management frameworks (MWANGI, NOVEMBER 2012) Risk management is defined as the process that a bank puts in place to control its financial exposures. The process of risk management comprises the fundamental steps of risk identification, risk analysis and assessment, risk audit monitoring, and risk treatment or control (Gakure, 2005) Whereas a risk in simple terms can be measured using standard deviation, some risks may be difficult to measure requiring more complex methods of risk measurement. Good risk management is not only a defensive mechanism, but also an offensive weapon for commercial banks and this is heavily dependent on the quality of leadership and governance. According to (Jorion, 2009) notes that a recognized risk is less “risky” than the unidentified risk. Risk is highly multifaceted, complex and often interlinked making it necessary to manage, rather than fear. While not avoidable, risk is manageable – as a matter of fact most banks live reasonably well by incurring risks, especially “intelligent risks” (1997 & Greuning and Bratanovic, 1999) Financial institutions are exposed to a variety of risks among them; interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk and credit risk. In some instances, commercial banks and other financial institutions have approved decisions that are not vetted, there has been cases of loan defaults and nonperforming loans, massive extension of credit and directed lending. Policies to minimize on the negative effects have focused on mergers in banks and NBFIs, better banking practices but stringent lending, review of laws to be in line with the global standards, well capitalized banks which are expected to be profitable, liquid banks that are able to meet the demands of their depositors, and maintenance of required cash levels with the central bank which 2 means less cash is available for lending. This has led to reduced interest income for the commercial banks and other financial institutions and by extension reduction in profits (Serwadda1, Number 6, 2018)

(Young, 2001) Credit risk is one of significant risks of banks by the nature of their activities. Through effective management of credit risk exposure banks not only support the viability and profitability of their own business but also contribute to systemic stability and to an efficient allocation of capital in the economy (Margaritis, 2010)“The default of a small number of customers may result in a very large loss for the bank” (Gestel, 2008) It has been identified by Basel Committee as a main source of risk in the early stage of Basel Accord. Credit risk is a risk of borrower default, which happens when the counterpart fails to pay on time. There can be many reasons for default. One of the most common ones is the obligor is in a financially stressed situation. Besides, if a borrower with high credit quality has deteriorated profile, it can also cause credit risk loss to the banks (Musyoki, September 7, 2011) Although the regulations have been evolutionarily developed, the three Basel Accords all have placed explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirement. (Zou, 27 September 2021)

1.**2 Statement of problem**

Weaknesses in the Kenya banking system became apparent in the late 1980s and were manifest in the relatively controlled and fragmented financial system. Differences in regulations governing banking and non-bank financial intermediaries, lack of autonomy and weak supervisory capacities to carry out the Central Bank’s surveillance role and enforce banking regulations, inappropriate government policies which contributed to an accumulation of nonperforming loans, and non-compliance by financial institutions to regulatory requirements of the 1989 Banking Act among others posed a challenge to the Kenya banking system. Many banks that collapsed in the late 1990’s was as a result of the poor management of credit risks which was portrayed in the high levels of nonperforming loans (Onuko, 2005). The liberalization of the Kenya banking industry in 1992 marked the beginning of intense competition among the commercial banks, which saw banks extend huge amounts of credit with the main objective of increasing profitability. Some of the loans were “political loans” granted with little or no credit assessment; other loans were made to insiders, all of which subsequently became non-performing. According to (Rogoff, 2019) 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 outrightly political. Commercial banks adopt different credit risk management policies majorly determined by; ownership of the banks (privately owned, foreign owned, government influenced and locally owned), credit policies of banks, credit scoring systems, banks regulatory environment and the caliber of management of the banks. Banks may however have the best credit management policies but may not necessarily record high profits. In additional although there are industry standards on what is a good credit policy and what is not and further banks have different characteristics. The market may thus be seen to regard an individual banks’ poor performance more lenient when the entire banking sector has been hit by an adverse shock such as a financial crisis. Banks may be forced to adjust their credit policy in line with other banks in the market where a herding behavior is practiced by banks. Looking at the emphasis that is l (Onuko, 2005)aid on credit risk management by commercial banks the level of contribution of this factor to profits has not 12 been analyzed. (KOLAPO, May-2012 ) notes that expanding lending in the short-term boosts earnings, thus the banks have an incentive to ease their credit standards in times of rapid credit growth, and likewise to tighten standards when credit growth is slowing. Does credit risk management in practice really matter to commercial banks. If it does then, it should significantly contribute to profits as high profits are expected to enhance shareholder value.

* 1. The **Purpose of the study**

main purpose of this study will be to analyze the effect of credit Risk Management on profitability in commercial banks in Mogadishu Somalia. The study is limited to identifying the relationship of credit risk management and profitability of commercial banks in Mogadishu Somalia.

**1.4 Objectives of the Study**

### **1.4.1 General Objective**

the study will be to determine the effect of credit risk management on profitability of commercial banks.

### **1.4.2 Specific objectives**

The study specific objectives were;

1. Determine the effect of the Capital Adequacy on profitability by commercial banks

2. To examine the effect Loan Loss Provisions on profitability by commercial banks

3. Investigate the effect of Non-Performing Loans on profitability by commercial banks.

## **1.5 Research questions**

i. How does credit risk management affect the profitability of commercial banks in Somalia?

ii. How does the capital adequacy influence on the profitability of commercial banks in Somalia?

iii. What is the relationship between liquidity and the profitability of commercial banks in Somalia?

**1.6 Scope of the Study**

This study investigates the credit risk management on the profitability of commercial Banks in Mogadishu Somalia using Premier Bank as a case study.

**1.6.1: Contact scope**

### The study we will scope the effect of credit risk management on profitability of commercial banks

### **1.6.2: Geographical area**

This study we will make in Mogadishu - Somalia

### **1.6.3: Time scope**

The study will be undertaken during the period between April 2022- July, 2022.

## **1.7 Significance of the Study**

* The study is useful as a base or reference in order to make further research on the topic
* The research is helpful for bank employees especially managers in enabling them on which variables to focus to improve the profitability of their bank.
* Depending up on the research results, a new regulation may be established by the regulatory body and the bank managers may revise the credit policy and procedures of their bank (Nwude, 2018)

**1.8: Organizational of the study**

The research study was organized in to five chapters; Chapter one will contain the introduction part dealing with research problems, objective, research questions of the study. The second chapter focuses the review of related literature about the subject matter. The third chapter focuses on research design and methodology. Chapters four will discuss on analysis of the subject matter to investigate and evaluate the problems, chapter five will cover the conclusions of the findings and forwards recommendations

**Definition Terms**

**Risk** is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, it refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection. Excess cash flows may be written to provide additional cover for credit risk. When a lender faces heightened credit risk, it can be mitigated via a higher coupon rate, which provides for greater cash flows (Mwangi, March 2017)

**Capital adequacy** is the amount of capital a deposit-taking institution would retain to ensure that customer deposits are protected. Its degree, in other words, influences the amount of money that stakeholders are willing to invest in such an entity.” (KITHINJI, OCTOBER, 2010) According to (Ahmadyan, 2018)“one of the variables that might contribute to a bank's profitability is its level of core capital because it is this capital that allows the bank to collect more deposits and lend more to the public, allowing it to earn more revenues and hence better profits. Financial profitability refers to the overall success of the company (Kaplan & Norton, 1996) Capital adequacy is a measure of a bank's or other financial institution's ability to pay its debts if 6 individuals or organizations are unable to repay the money borrowed from the bank.” (Cipovová, 2016)

**Liquidity** refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself (Yeasin, 2022).

**A commercial bank** is a type of financial organization that accepts deposits, provides checking account services, makes various loans, and provides people and small companies with basic financial products such as current accounts and savings accounts. In contrast to an investment bank, most people do their banking with a commercial bank. A commercial bank is a financial institution that accepts deposits from the general public and makes loans for investment with the goal of profit.” (Adamgbo, July,2019).

# CHAPTER TWO

# LITERATURE REVIEW

## **2.0Introduction**

This chapter explores the literature review based on the variables under study. The literature is divided into two main parts - theoretical and empirical literature review on various aspects of risk management and bank profitability.

## **2.1 Conceptual Review**

### **2.1.1Credit risk**

Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (N, 2012).

The process of risk management is a two-step process. The first is to identify the source of the risk, which is to identify the leading variables causing the risk. The second is to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument. Once a general framework of risk identification and management is developed, the techniques can be applied to different situations, products, instruments and institutions. It is crucial for banks to have comprehensive risk management framework as there is a growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework (Ngugi et al., 2012).

**Element of credit risk**

### **2.1.1.1 Capital Adequacy:**

A strong banking infrastructure plays a major role in supporting economic activity and meeting the financial needs of all the sections of society and thus contributed in the overall growth of the country. For the smooth flow of credit in an economy, it is essential that banks should be financially sound so as to meet the various requirements of other fields. Capital adequacy ratio (CAR) is one of the measures which ensure the financial soundness of banks in absorbing a reasonable amount of loss. Capital adequacy measures a bank’s financial strength expressed by the ratio of its capital (net worth and subordinated debt) to it weighted credit exposure in terms of loans (Adamgbo et al., 2019). Some scholars defined capital adequacy as capital risk-weighted asset ratio and it is used to assure depositors’ confidence in the banking system and by extension the financial system stability.

According to Odongo (2013) past studies have found out that the announcement of regulatory change is viewed by market participants as generally unfavorable. found out that capital adequacy announcement leads to underperformance of stocks in the market as they had negative cumulative abnormal return values especially in the post announcement dates.

In the study done by Dean, Frapping, Beulah (, Halide and Keitel (2015)) covering default rate, cost per loan assets and capital adequacy, it was found that all these parameters have an inverse impact on banks ‘performance; however, the default rate is the most predictor of bank financial performance.

### **2.1.1.2 Loan Loss Provisions**

Research on Loan Loss Provisioning (LLP) used to focus narrowly from an accounting perspective on whether provisions were used by banks to smooth earnings ((Greenawalt and Sin key, 1988)). The researcher further notes that more recently, work has focused on how provisions contribute to the pricy locality of financial systems by being lower when output and credit are expanding and higher in periods of contraction. Researchers use regression analysis to explain annual provisioning expenses, usually scaled by the total stock of loans or assets of the bank (ibid).

(Anandarajan and McCarthy (2006) )examined whether and to what extent Australian banks use loan loss provisions (LLPs) for capital management, earnings management and signaling. They examined if there were changes in the use of LLPs due to the implementation of banking regulations consistent with the Basel Accord of 1988 which made loan loss reserves no longer part of Tier I capital in the numerator of the capital adequacy ratio. They found some evidence to indicate that Australian banks use LLPs for capital management, but no evidence of a change in this behavior after the implementation of the Basel Accord. Their results indicated that banks in Australia use LLPs to manage earnings. Further, they noted that listed commercial banks engaged more aggressively in earnings management using LLPs than unlisted commercial banks.

### **2.1.1.3 Non-Performing Loans**

Non-performing loans ratio (NPLR) reflects the bank's credit quality and is considered as an indicator of credit risk management. NPLR, in particular, indicates how banks manage their credit risk because it defines the proportion of loan losses amount in relation to total loan amount (Bhattarai, 2016). Poor credit risk management and plain bad luck in form of external independent factors are the main reason for NPL. The inflation, deregulation and special market conditions can lead to poor credit lending decision which in turn leads to NPLs. NPLs are important because they affect the financial intermediation role of commercial banks which constitutes the banks’ main source of their income, an d u ultimately, the financial stability of an economy (Reveley & Down, n.d.). Th e immediate consequence of large amount of NPLs in the banking system is bank failure as well as economic slowdown.

**2.1.2 Profitability of Banking**

May also show managers attitude toward risk. Banks that make huge profits are not scared when venturing into risky activities. In a similar fashion, banks that are not effective in their management encounter higher bad debt. Profitability measure is important to the investors. The level of profitability is very significant for shareholders of a bank because it shows how effective management has utilized their investments ( (Devinaga, 2010). )In determining the financial strength of a deposit money bank, the level of profitability is predominant. ROA and ROE are used as main profitability measures in most of the organizations including banks and financial institutions. The ROA demonstrates the level of net income produced by the bank and also determines how the assets utilized by banks generate profit over the years. On the other hand, the return on equity (ROE) is the ratio of net income to total equity indicating returns to shareholders on the book value of their investment. It measures the rate of return for ownership interest (shareholders)‟ equity of common stock owner, it tells how efficient a firm/bank is at generating profits from each unit of shareholder equity, also known as net assets or assets minus liabilities

Profitability is an indicator of banks‟ capacity to carry risk and/or increase their capital. It indicates banks‟ competitiveness and measures the quality of management ((Adinde, 2014). )Profitability is one of the key concepts in our research. This is due to the topic of this research is about the relationship between the profitability and credit management. Clear explanation to the profitability of deposit money banks is crucial for readers to understand the research procedure and meaning.

## **2.2 Theoretical Review**

Credit risk management may be defined as the combination of coordinated tasks and activities for controlling and directing risks confronted by an organization through the incorporation of key risk management tactics and processes in relation to the organization ‘s objectives

((Nikolaidou&Vogiazas, 2014)). The available literature provides many theoretical considerations to justify the adoption of risk management in banks including financial economics theory, new institutional economics theory, agency theory, stakeholder theory and Portfolio theory.

### **2.2.1 The Financial Economic Theory**

Financial economics approach to corporate risk management builds on the Modigliani-

Miller paradigm and has so far been the most prolific in terms of both theoretical model extensions and empirical research ( (Klimczak, 2007)). This theory stipulates that hedging leads to lower volatility of cash flow and therefore lower volatility of firm value. The theory argues that the ultimate result of hedging, if it indeed is beneficial to the firm, should be higher value – a hedging premium. Jin and Jorion (2006) criticize this theory by posting that ―although risk management does lead to lower variability of corporate value which is the main prerequisite for all other effects, there seems to be little proof of this being linked with benefits specified by the theory.

### **2.2.2 New Institutional Economists Theory**

The new institutional economists’ shift their focus is to governance processes and socio-economic institutions that guide these processes (Williamson (1998). Klimczak (2007)) notes that there are no empirical studies of new institutional economics approach to risk management that have been carried out so far but the theory offers an alternative explanation of corporate behavior (Klimczak (2007)) points out that the theory predicts that risk management practices may be determined by institutions or accepted practice within a market or industry. According to Williamson (1987) adds that the theory links security with specific assets purchase which implies that risk management can be important in contracts which bind two sides without allowing diversification, such as large financing contract or close cooperation within a supply chain.

### **2.2.3 Agency Theory**

The agency theory explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects ((Mayers and Smith, 1987)). The Agency theory was first postulated by Jensen and Meckling in the 1976 article ―Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure‖ and it helped establish agency theory as the dominant theoretical framework of the corporate governance literature and position shareholders as the main stakeholder ( (LAN and Heracleous, 2010)). Smith and Stulz (1985) posit that agency issues have been shown to influence managerial attitudes toward risk taking and hedging in the field of corporate risk management. Consequently, agency theory implies that defined hedging policies can have important influence on firm value ((Fite and Pfleiderer, 1995) )

### **2.2.4 Stakeholder Theory**

The stakeholder theory was initially developed by Freeman in 18984 as a managerial instrument and as since evolved into a theory of the firm with high explanatory potential (Klimczak, 2007). According to (Klimczak (2007)) the stakeholder theory focuses explicitly on equilibrium of stakeholder interests as the main determinant of corporate policy and that it‘s most promising contribution to risk management is the extension of implicit contracts theory from employment to other contracts. (Omasete (2014) )posits that the stakeholder theory helps to address the importance ((Klimczak, 2007) of customer trust and financial distress costs to companies. Finally, the theory suggests that smaller firms are more prone to financial problems, which should increase their interest in risk management practices ((Omasete, 2014). )

### **2.2.5 Portfolio Theory**

Since the 1980s, banks have successfully applied modem portfolio theory (MPT) to market risk. Many banks are now using earnings at risk (EAR) and value at risk (VAR) models to manage their interest rate and market risk exposures. Unfortunately, however, even though default risk remains the largest risk facing most banks, the practical of MPT to default risk has lagged (N, 2012)

Under the portfolio theory, traditionally banks have taken an asset-by-asset approach to credit risk management. While each bank‘s method varies, in general this approach involves periodically evaluating the credit quality of loans and other credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio‘s expected losses (Gakure, Ngugi, Ndwiga and Waithaka, 2012). According to Gakure et al (2012) the foundation of the asset-by-asset approach is a sound loan review and internal credit risk rating system. In this approach a loan review and credit risk rating system enable management to identify changes in individual credits, or portfolio trends in a timely manner (Gakure et al, 2012). Based on the results of its problem loan identification, loan review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner (ibid). While the asset-by-asset approach is a critical component to managing credit risk, it does not provide a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore, to gain greater insight into credit risk, banks increasingly look to complement the asset-by-asset approach with a quantitative portfolio review using a credit model. Banks increasingly attempt to address the inability of the asset-by-asset approach to measure unexpected losses sufficiently by pursuing a portfolio approach. According to Essendi (2013) the portfolio has a basic assumption that investors often want to maximize returns from their investments for a given level of risk and provides a framework for specifying and measuring investment risk and to develop relationships between risk and expected returns. One weakness with the asset-by-asset approach is that it has difficulty identifying and measuring concentration. Concentration risk refers to additional portfolio risk resulting from increased exposure to a borrower, or to a group of correlated borrowers.

The traditional portfolio approach uses two methods, namely the expert method and the credit scoring models in the expert system; the credit decision is left in the hands of the branch lending officer. His expertise, judgment, and weighting of certain factors are the most important determinants in the decision to grant loans. The traditional approach to the assessment of credit proposition of borrowers is based on the heuristics or intuition of the loan officer. Heuristic decision-making is, however, not necessarily arbitrary or irrational because it is based on years of experience that enable individuals to identify solution quickly without going through an analytical process (Rosli, 2000). The 5Cs of credit are always used by banks to assess the creditworthiness of the potential borrower. The 5Cs of credit refer to Character, Capacity, Conditions, Collateral and Capital (Dev, 2009).

Character assessment is performed to determine the willingness and desire of borrowers to repay debt. Capacity is described as the borrower‘s capacity to borrower and also his repayment capacity. Economic conditions will also affect the borrower‘s ability to repay the loan. A bank will normally ask for collateral as security against the loan. Capital requirement of the business indicates the financial net worth of the borrower. The loan officer can examine as many points as possible but must include these five Cs in addition to interest rate. In order to estimate default probability credit scoring models, use statistical and mathematical methods (Togtokh, 2012). Some writers note that the reason for this increased use of the scoring methods is that the methods are relatively cheap, bases on historical data and simple compared to modern approaches. For example, Master (cited in Togtokh, 2012) revealed widespread use of credit scoring models showing that 97 percent of the banks use credit scoring to approve credit card application, whereas 70 percent of the banks use credit scoring in their small business lending.

## **2.3Empirical Review:**

### **2.3.1 Credit Risk**

Financial institutions through their role as a financial intermediary help circulate funds deposited by the various surplus units to the deficit units. In the course of performing this role, they are confronted with risk which remains one of the topical issues of current financial studies that had attracted special attention from both scholars and professionals. One key factor that determines the success of any banking institution is sound credit management. According to Mohammad &Garba (2014) credit risk is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). Credit events usually include events such as bankruptcy, failure to pay a due obligation, repudiation/moratorium or credit rating change and restructure.

Lending involves a number of risks. Among these risks, credit risk plays the major role since by far the largest asset item for banks is loans, which generally account for half to almost three-quarters of the total value of all bank assets. Credit risk comes up from uncertainty in a given counterparty to meet up with the obligation of honoring the terms and conditions of the credit arrangement (Fatima &Fooled, 2006). In essence, credit risk arises from uncertainty in counterparty’s ability or willingness to meet his/her contractual obligations. In the same vein, Naomi (2011) argued that credit risk represents the potential variation in the net income from non-payment or delayed payment of credit facility granted to customers. According to Basel committee on Banking Supervision, 1999, credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. From the above definitions and meanings given by these researchers, they bore down to the fact that, credit risk is a cancer which causes serious financial problems when it is not properly managed.

### **2.3.1.1Capital Adequacy**

A strong banking infrastructure plays a major role in supporting economic activity and meeting the financial needs of all the sections of society and thus contributed in the overall growth of the country. For the smooth flow of credit in an economy, it is essential that banks should be financially sound so as to meet the various requirements of other fields. Capital adequacy ratio (CAR) is one of the measures which ensure the financial soundness of banks in absorbing a reasonable amount of loss. Capital adequacy measures a bank’s financial strength expressed by the ratio of its capital (net worth and subordinated debt) to it weighted credit exposure in terms of loans (Adamgbo et al., 2019). Some scholars defined capital adequacy as capital risk-weighted asset ratio and it is used to assure depositors’ confidence in the banking system and by extension the financial system stability.

According to Odongo (2013) past studies have found out that the announcement of regulatory change is viewed by market participants as generally unfavorable. found out that capital adequacy announcement leads to underperformance of stocks in the market as they had negative cumulative abnormal return values especially in the post announcement dates.

In the study done by Dean, Frapping, Beulah (, Halide and Keitel (2015)) covering default rate, cost per loan assets and capital adequacy, it was found that all these parameters have an inverse impact on banks ‘performance; however, the default rate is the most predictor of bank financial performance.

Some scholars defined capital adequacy as capital risk-weighted asset ratio and it is used to assure depositors’ confidence in the banking system and by extension the financial system stability. Without any prejudice banks need to hold substantial amount of owner’s capital in relation to the amount of loan involve as well as the riskiness.

### **2.3.1.2 Loan Loss Provisions**

Research on Loan Loss Provisioning (LLP) used to focus narrowly from an accounting perspective on whether provisions were used by banks to smooth earnings ((Greenawalt and Sin key, 1988)). The researcher further notes that more recently, work has focused on how provisions contribute to the pricy locality of financial systems by being lower when output and credit are expanding and higher in periods of contraction. Researchers use regression analysis to explain annual provisioning expenses, usually scaled by the total stock of loans or assets of the bank (ibid).

(Anandarajan and McCarthy (2006) )examined whether and to what extent Australian banks use loan loss provisions (LLPs) for capital management, earnings management and signaling. They examined if there were changes in the use of LLPs due to the implementation of banking regulations consistent with the Basel Accord of 1988 which made loan loss reserves no longer part of Tier I capital in the numerator of the capital adequacy ratio. They found some evidence to indicate that Australian banks use LLPs for capital management, but no evidence of a change in this behavior after the implementation of the Basel Accord. Their results indicated that banks in Australia use LLPs to manage earnings. Further, they noted that listed commercial banks engaged more aggressively in earnings management using LLPs than unlisted commercial banks.

### **2.3.1.3Non-Performing Loans**

Non-performing loans ratio (NPLR) reflects the bank's credit quality and is considered as an indicator of credit risk management. NPLR, in particular, indicates how banks manage their credit risk because it defines the proportion of loan losses amount in relation to total loan amount (Bhattarai, 2016). Poor credit risk management and plain bad luck in form of external independent factors are the main reason for NPL. The inflation, deregulation and special market conditions can lead to poor credit lending decision which in turn leads to NPLs. NPLs are important because they affect the financial intermediation role of commercial banks which constitutes the banks’ main source of their income, an d u ultimately, the financial stability of an economy (Reveley & Down, n.d.). Th e immediate consequence of large amount of NPLs in the banking system is bank failure as well as economic slowdown.

Non-performing loans are increasing due to lack of risk management, which threatens the profitability of banks. This study provides suggestion that banking sector can avoid their non-performing loans by adopting methods suggested by the central bank of perspective country (Akter & Roy, 2017)

**2.3.2: Profitability of commercial bank**

May also show managers attitude toward risk. Banks that make huge profits are not scared when venturing into risky activities. In a similar fashion, banks that are not effective in their management encounter higher bad debt. Profitability measure is important to the investors. The level of profitability is very significant for shareholders of a bank because it shows how effective management has utilized their investments ( (Devinaga, 2010). )In determining the financial strength of a deposit money bank, the level of profitability is predominant. ROA and ROE are used as main profitability measures in most of the organizations including banks and financial institutions. The ROA demonstrates the level of net income produced by the bank and also determines how the assets utilized by banks generate profit over the years. On the other hand, the return on equity (ROE) is the ratio of net income to total equity indicating returns to shareholders on the book value of their investment. It measures the rate of return for ownership interest (shareholders)‟ equity of common stock owner, it tells how efficient a firm/bank is at generating profits from each unit of shareholder equity, also known as net assets or assets minus liabilities

Profitability is an indicator of banks‟ capacity to carry risk and/or increase their capital. It indicates banks‟ competitiveness and measures the quality of management ((Adinde, 2014). )Profitability is one of the key concepts in our research. This is due to the topic of this research is about the relationship between the profitability and credit management. Clear explanation to the profitability of deposit money banks is crucial for readers to understand the research procedure and meaning.

## **2.4 Research Gaps**

Astute credit risk management strategies are critical for commercial banks in Somalia they try to expand their customer base because an immeasurable number of financial decisions tend to hang critically in a bank‘s ability to manage its own exposure. Research on credit risk has blossomed in the last five years (and in the new millennium) with several scholars researching and writing on various aspects of risk management Most studies on credit risk management have been carried outside in Somalia and are in the distance past. The research on Somalia commercial banks’ credit risk management strategies and its effect on their performance is rather limited and this study attempts to fill this research gap by examining how credit risk management strategies affects a bank‘s profitability, non-performance loan and Capital Adequacy. This study expected to contribute to the support of innovations in credit risk management strategies that might increase bank credit/loans portfolio and hence improve on their profit

**2.5 Conceptual Framework.**

**Independent variables dependent variable**

Loan loss provision ratio

Credit risk management

Profitability

Capital adequacy ratio

Loss Provision Ratio (LLPR)

Nonperformance loan ratio

# CHAPTER THREE

**METHODOLOGY**

## **3.1 Research Design**

This study will be use analytical design. Therefore, the analytical design enables the researcher to determine the picture or document current conditions or attitudes to describe the effect of credit risk management on profitability of commercial banks.

## **3.2 Target population**

The researchers will be target **(2)** Somali commercial banks. After that, hundred ten employees **(110)** have chosen from those banks management and credit risk manager as the population number for this study.

However, this mathematically accumulates **110** employees which was the initial target population number. The researcher will be distributing the questionnaires to the selected individuals. Given the time and financial constraint of the researcher, the target population was appropriate for the case under study(Onuko et al., 2015)

## **3.3 Sample size**

The entire number of the target population of Somali commercial banks will be, Dahabshiil and Premier Bank. The researchers used solvent’s formula to determine the sample size, with maximum acceptable error of 5% **n stands** for the sample size N stands target population E stands marginal error which constant =0.05

**( =**

## **3.4 Sample procedure**

The data will collect from the employees of Somali commercial banks using purposive sampling to select the respondents based on their experience and knowledge in credit risk. From the list of qualified respondents has chosen based on the inclusion criteria and finally the selected respondents with the consideration to the computed minimum sample size.

## **3.5 Data instrument**

## Questionnaire will be suitable instrument to obtain information needed can easily described in writing. Since the sample size is fairly large and there is limited time, questionnaire will be considered ideal for collecting such data, is suitable tool for collecting lot information over short period of time. Self-developed questionnaire and close end questions were used in the study(ABDULLE, 2021).

## **3.6 Validity and Reliability**

### The reliability and validity of the questionnaires were analyzed so as to acquire significant outcome. Reliability Testing of reliability of the scale is very important as it shows the extent to which a scale produces consistent results if measures are made repeatedly.

### Validity is the degree to which results obtained for the analyses of the data actually represent the phenomena under study(Bayyoud, 2015)**.**

### **3.7 Data analysis**

The data has collected and used both quantitative and qualitative analysis and the data will be analyzing tables and charts then researcher will be use **SPSS** “Statistical Package for Social Science” as the main tool for data analysis. After that, the analyzing data will be interpreter into a meaningful and systematic manner.

In this study, the researcher will use descriptive design technique as data analysis, to summarize the data simple and complex frequencies, percentages in tables.

## **3.8 Ethical Issue**

In doing so, the researchers will be use code numbers on the questionnaire letters in order to provide secrecy of the respondents.

The researcher will mention any author from whose ideas will be used in order not to steal someone’s knowledge. The respondents have been given a freedom of weather to fill the questionnaire or not. The researcher will care for the respondents equally

## **3.9 limitation of the study**

Limitations the study may face include the following ones:

1-The major limitation is the people fear to answer the questionnaire and the researcher tried to solve this challenge by convincing or telling the respondents that this research is only for academic purpose

2- The second challenge is financial problem and the researcher solved this problem by borrowing money from his closest friends.

3-The last challenge that the researcher faced is analyzing data and the researcher solved this problem by consulting statistical experienced

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**4.0 Introduction**

This study investigated the effect of credit risk management on profitability (at-Dahabshiil Bank and Primer Bank) in Mogadishu-Somalia. The data has been analyzed by using statistical package for social science SPSS version 20 as data analyzing tool. This chapter presented the results of the analysis tables that contained the type of responded, it was frequencies, percentages and it was demonstrated by tables to elaborate the percentage reacted of respondents in the study to statements given in the questionnaire. This chapter highlighted on data analysis, presentation and interpretation. The data analyzed and interpreted based on research questions as well as research objectives. Then data represented and analyzed under this heading was presented using the complete research data found from the target population. Major findings were presented in chapter five.

**4.1 Demographic characteristics of the respondents**

This part presented the background information of the respondents who participated in this study. The purpose of this background was to find out the characteristics of the respondents. Furthermore, the respondents have also given the promise that all data they provided will be used only for academic purpose and identities of the respondents were confidential.

**Table 4.1.1 gender for respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| Category | | Frequency | Percent |
|  | Male | 55 | 64.0 |
| Female | 31 | 36.0 |
| ***Total*** | **86** | **100.0** |

***Source: primary data, 2022***

**According to table 4.1.1%:** Shows that 55 (64.0%) of the respondents are male and 31 (36.0%) of the respondents are female. So, most of the respondents are male in the study, this indicate that Male were dominated by the female studying monetary policy due to the Somali culture.

**Table 4.1.2 age for respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| Category | | Frequency | Percent |
|  | 25-30 | 25 | 29.1 |
| 30-35 | 30 | 34.9 |
| 35-40 | 15 | 17.4 |
| 40-50 | 12 | 14.0 |
| over-51 | 4 | 4.7 |
| ***Total*** | **86** | **100.0** |

***Source: primary data, 2022.***

**According to table 4.1.2** shows the respondents were asked questions to indicate their Ages in the questionnaire and the offered choices classified the age into four parts. Part one was intended for those whose 30-35years age is between, they were 30 which means (34.9%), the second part was for those who are in between 25-30years, they were 25 which means (29.1%), third part whose35-40 years, they were 15 which means (17.4%), fourth part whose 40-50years they were 12 which means (14.0%), fifth part whose over-51years they were 4 which means (4.7%), therefore implies, that majority of the respondents were 30-35years age is between, they were 30 which means (34.9%).

**Table 4.1.3 marital status for respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| Category | | Frequency | Percent |
|  | Single | 62 | 72.1 |
| Married | 20 | 23.3 |
| Divorced | 4 | 4.7 |
| ***Total*** | **86** | **100.0** |

***Source: primary data, 2022.***

**According to table 4.1.3** shows that respondents consisted of single, married and divorced.62 ware single which means (72.1%) of respondents, 20 were married which means (23.3%) of respondents, 4 are divorced which means (4.7%) of the respondents, based on the data gathered, the majority of the respondents were single.

**Table 4.1.4 education level for respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| Category | | Frequency | Percent |
|  | Secondary level | 20 | 23.3 |
| Diploma | 25 | 29.1 |
| Bachelor degree | 35 | 40.7 |
| Master degree | 6 | 7.0 |
| ***Total*** | **86** | **100.0** |

***Source: primary data, 2022.***

**According the table 4.1.4** the respondents were classified according to the educational level or qualifications and which can be grouped into the four groups, the table revealed that , were Bache

lord degree 35(40.7%), were Diploma 25 (29.1%) , were secondary level20(23.3%) , were master degree holder6(7.0%). This means that the most respondents of the educational level study in were bachelor degree 35(40.7%).

**Table 4.1.5 experience for respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| Category | | Frequency | Percent |
|  | 1-2year | 15 | 17.4 |
| 2-3year | 20 | 23.3 |
| 3-4year | 34 | 39.5 |
| 5 year and above | 17 | 19.8 |
| ***Total*** | **86** | **100.0** |

***Source: primary data, 2022.***

**According to the table 4.1.5** the respondents were classified according to the job experience, the table revealed that 34(39.5%) were 3-4year, 20(23.3%) were 2-3year, 17(19.8%) 5 year and above of the respondents. This means that the most respondents were 34(39.5%) were 3-4year

**Table .4.2.1: Capital adequacy ratio**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **Category** | **Mean** | **Interpretation** | **Std. Deviation** |
| 1 | Your capital adequacy is high to give you enough profitability | 3.36 | Excellence | .839 |
| 2 | Recent decrease in your capital adequacy increased your profitability | 3.27 | Excellence | .789 |
| 3 | Increased capital adequacy can increase bank profitability | 3.41 | Excellence | .845 |
| 4 | well management of capital adequacy can increase profitability | 3.22 | Good | .860 |
| 5 | strong banking capital over growth profitability | 3.06 | Good | .787 |
| ***Total average*** | | **3.26** | **Excellence** | **.824** |

***Source: primary, 2022.***

**The Table 4.2.1** shows the total average **(3.26)** and std. deviation **(0.824)** which indicates that Excellence relationship.

**Table .4.2.2: Loan Loss provision ratio**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **Category** | **Mean** | **Interpretation** | **Std. Deviation** |
| 1 | Your loan loss provision increase profitability can decrease | 3.33 | Excellence | .789 |
| 2 | loan loss provision decrease profitability can increase | 3.08 | Good | .785 |
| 3 | your organization well manage the loan loss provision profitability increase | 3.42 | Excellence | .874 |
| 4 | bad debt increase not exist enough profitability | 3.08 | Good | .739 |
| 5 | loan loss provision is high to bring high profitability | 3.23 | Good | .850 |
| ***Total average*** | | **3.23** | **Good** | **.807** |

***Source: primary, 2022.***

**The Table 4.2.2** shows the total average (3.23**)** and std. deviation (0.807) which indicates that Good relationship.

**Table .4.2.3: Nonperformance loan loan ratio**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **Category** | **Mean** | **Interpretation** | **Std. Deviation** |
| 1 | nonperformance loan can effect on profitability of commercial banks | 3.17 | Good | 1.180 |
| 2 | your organization better manage nonperformance loan profitability is high | 3.31 | Excellence | .756 |
| 3 | nonperformance loan increase profitability can decrease of commercial banks | 3.47 | Excellence | .850 |
| 4 | nonperformance loan can’t affect on profitability of commercial banks | 3.14 | Good | .769 |
| 5 | well control nonperformance loan bank’s profitability with great | 3.45 | Excellence | .777 |
| ***Total average*** | | **3.38** | **Excellence** | **.866** |

***Source: primary, 2022.***

**The Table 4.3** shows the total average **(3.38)** and Std. Deviation **(0.866)** which indicates that Excellence relationship

**Table .4.4: Profitability**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Category** | **Mean** | **Interpretation** | **Std. Deviation** |
| 1 | That make huge profits are not scared when venturing into risky activities. In a similar fashion, banks that are not effective in their management encounter higher bad debt | 3.24 | Good | .750 |
| 2 | The level of profitability is very significant for shareholders of a bank because it shows how effective management has utilized their investments | 3.30 | Excellence | .983 |
| 3 | probability is an indicator of banks capacity to the carry risk and/or increase their capital indicates banks competencies measures the quality of management | 3.19 | Good | .847 |
| 4 | Profitability is one of the key concepts in our research. This is due to the topic of this research is about the relationship between the profitability and credit management | 3.52 | Excellence | .778 |
| 5 | The profitability of deposit money banks is crucial for readers to understand the research procedure and meaning | 3.43 | Excellence | .914 |
| ***Total average*** | | **3.25** | **Good** | **.854** |

***Source: primary, 2022.***

**The Table 4.4** shows the total average **(3.25)** and std. deviation **(0.854**) which indicates that good relationship

# CHAPTERFIVE

# MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

## **5.0 Introduction**

This chapter has the following sections. Section one introduces summary arising from the study. Section two presents the discussion, section three conclusions, section four recommendations of the study and finally suggestions for further study.

## **5.1 Major Findings**

# 5.1.1 The role of capital adequacy ratio at profitability

This objective of this study was to learn “To examine the effect capital adequacy ratio at profitability” Data analysis and results discovered that the effect is high which indicates the scored mean (M=3,26) and standard deviation (SD=0.824) indicates that the capital adequacy ratio has influence at profitability This objective of this study was to ascertain the capital adequacy ratio at profitability Data analysis and results revealed the following findings under these objectives.

# 5.1.2 The role of loan loss provision ratio on profitability

This objective of this study was to learn “To examine the effect loan loss provision ratio on profitability” Data analysis and results discovered that the effect is high which indicates the scored (M=3.23) and standard deviation (SD=0,807) indicates that the loan loss provision ratio has influences on profitability. Data analysis and results revealed the following findings under these objectives.

# 5.1.3 The role of Nonperformance Loan Ratio on Profitability

This objective of this study was to learn “To examine the effect Nonperformance Loan Ratio on Profitability “Data analysis and results discovered that the effect is high which indicates the scored mean (M=3.38) and standard deviation (SD=0.866) indicates that the Nonperformance Loan Ratio has influences on Profitability

**5.2 Conclusio****n**

This study investigated the effect of the effect of credit risk management on the profitability of commercial banks in Mogadishu Somalia

by observing That the overall the effect of the effect of credit risk management on the profitability of commercial banks in Mogadishu Somalia, the target population of this study was employees at case study of Dahabshiil Bank and Premier bank in Mogadishu-Somalia.

The researcher concluded according to finding of the 86 respondents that there is the effect of the effect of credit risk management on the profitability of commercial banks in Mogadishu Somalia, and it’s encouraging with employee satisfaction and employee participation on decision making in the Company which tend to enhance productivity in the employees or case study of Dahabshiil Bank and Premier bank in Mogadishu.

Therefore, the study concludes which makes work easier for better success Also, managers need to allow employees to participate with employees regularly to get feedback and offer suggestions in other to prevent confusion about future job assignments; this will help improve the effect of the effect of credit risk management on the profitability of commercial banks in Mogadishu Somalia

## 5.3 Recommendations

Based on the study findings and the conclusion, the researcher derived the following recommendations

* Establishing a separate entity that regulate and supervise the commercial banks, to be responsible for regulating the banks in terms of capital adequacy ratio compliance principles
* Put clear definitions to prohibited terms in Islam like capital adequacy ratio and loan loss provision ratio etc. to avoid miss conduct of future commercial financial institution
* Trained staff members play a vital role to avoid the credit facing in bank so commercial bank must trained the staffs the of there avoiding the credit.
* Develop a new entity in commercial financial institutions from different type of expertise concerning the analyzing of feasibility studies in public sector banks, private sector banks and foreign banks contract

**5.4 Recommendation for further research**

1. The researcher suggests to investigating the determinants of trade liberalization exports on economic growth.
2. The Dahabshiil Bank and Primer Bank in Mogadishu-Somali and employee should double their participation the accounts of the country. I.e., if they give the employee’s salaries by monthly the account of the country especially in Mogadishu it goes on as well as perfectly.
3. The government should keep away from instability of the political that may cause to decrease the effect of credit risk management on profitability (at- Dahabshiil Bank and Primer Bank) in Mogadishu-Somali

# References

(2009), J. (2009). *the relationship between risk and profitability*.

1997, P., & Greuning and Bratanovic, 1999. (n.d.). *Financial institutions among them interest rate risk*.

Adamgbo, D. S. (July,2019). *International Journal of Contemporary Research and Review*.

Ahmadyan, A. (2018). *Marketing and Branding Research*, 168-183.

Cipovová, E. (2016). *European Research Studies*, pp. 17 - 26.

Gakure, P. R. (2005). *EFFECT OF CREDIT RISK MANAGEMENT TECHNIQUES ON THE PERFORMANCE OF* .

Gestel. (2008). *Journal of Commerce & Accounting Research*.

Jorion. (2009). *The relationship between risk and profitability of commercial banks*.

Kaplan & Norton. (1996). *THE COST AND MANAGEMENT*.

KITHINJI, A. M. (OCTOBER, 2010). CREDIT RISK MANAGEMENT AND PROFITABILITY OF COMMERCIAL BANKS IN KENYA.

KOLAPO, T. F. ( May-2012 ). *Australian Journal of Business and Management Research*, 31-38.

Margaritis. (2010). *European Journal of Business and Management* .

Musyoki, D. (September 7, 2011). *International Journal of Business and Public Management*.

Mwangi. ( March 2017). *Journal of International Business Research and Marketing*.

MWANGI, G. N. (NOVEMBER 2012). *A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI*, 87.

Nwude, E. C. (2018). *International Journal of Economics and Financial Issues*, 287-297.

Onuko, L. K. (2005). *Central Bank Supervision Report, 2005*.

Onuko, L. K. (2005). *Central Bank Supervision Report*.

Report, C. B. (2004).

Rogoff, R. &. (2019). Impact of risk management strategies on the credit risk faced by commercial banks of Balochistan.

Serwadda1, I. (Number 6, 2018). *Impact of Credit Risk Management Systems on the Financial Performance of Commercial Banks in Uganda.*

Yeasin, H. M. (2022). *Impact of credit risk management on financial performance*.

Young, D. (2001). *Effect of Credit Risk on the Performance of Nepalese Commercial Banks*.

Zou, L. a. (27 September 2021). *Effect of credit risk management*.

Adamgbo, D. S. L. C., Toby, P. A. J., Momodu, D. A. A., & Imegi, P. J. C. (2019). The Effect of

Capital Adequacy on Credit Risk Management among Commercial Banks in Nigeria; Within the Basel Capital Adequacy Framework. *International Journal of Contemporary Research and Review*, *10*(07). https://doi.org/10.15520/ijcrr.v10i07.714

Akter, R., & Roy, J. K. (2017). *The Impacts of Non-Performing Loan on Profitability : An Empirical Study on Banking Sector of Dhaka Stock Exchange*. *9*(3), 126–132. https://doi.org/10.5539/ijef.v9n3p126

Bhattarai, Y. R. (2016). The Effect of Credit Risk on Nepalese Commercial Banks. *NRB Economic Review*, *vol28*-*1*(1), 41–64. https://nrb.org.np/ecorev/articles/vol28-1\_art3.pdf

N, M. G. (2012). *THE EFFECT OF CREDIT RISK MANAGEMENT ON THE FINANCIAL BY*. *November*.

Ngugi, J. K., Ndwiga, P. M., & Waithaka, S. M. (2012). Effect 0f Credit Risk Management Techniques 0n The Performance 0f Unsecured Bank Loans Employed Commercial Banks In Kenya. *International Journal of Business and Social Research (IJBSR)*, *2*(4), 221–236.

Reveley, J., & Down, S. (n.d.). *Related papers 'Generat ional encount ers and t he social format ion of ent repreneurial ident it y-"young guns" …*.

ABDULLE, A. F. (2021). *FACTORS INFLUENCING THE PROFITABILITY OF COMMERCIAL BANKS IN SOMALIA.*

Bayyoud, M. (2015). *International Journal of Economics and Finance*.