

**Effect of Credit Risk Management Practices on Financial Performance of Commercial Banks in Kenya**

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**ABSTRACT**

The main objective of the study was to carry out a survey of credit risk management practices on the performance of commercial banks in Kenya. This paper sought to contribute to the literature by broadening the understanding of the concept of credit risk beyond the technical considerations in the accounting, banking and finance literature. The objectives of this study was to identify the types of credit risks that Commercial Banks in Kenya face, to establish the impact of credit risk management practice on performance of commercial banks in Kenya. This study used a descriptive research design to enable the researcher to generalize the findings to a larger

population. The study targeted auditors of all commercial banks in Kenya; the population of the study were the internal auditors of all the 42 commercial banks in Kenya as at 30th June 2013. Primary data was collected using questionnaires which were administered using drop and pick method by the researcher. The data was then analyzed using data analysis. The study concluded that bank considers risk identification as a process in credit risk management, that the bank focuses in interest rate risks in the risk identification map and that the bank focuses in foreign exchange risks. The study also concludes that in view of risk analysis and assessment as a credit risk management practice in the bank the application of modern approaches to risk measurement, particularly for credit and overall risks is important for commercial banks and that risk monitoring helps the bank management to discover mistake at early stages and that risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring. The study recommended that commercial banks management should understand how they can edge themselves against the eminent dangers of over exposure to credit risk whose importance cannot be understated as can be realized from the findings that can impact negatively on their profitability

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