EVALUATION OF THE EFFECT OF CREDIT EVALUATION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KISII COUNTY, KENYA

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ABSTRACT

The purpose of this study was to establish the effect of credit evaluation on financial performance of commercial banks in Kisii County, Kenya. The study was anchored on adverse Selection theory, Modern Portfolio theory, Transaction Cost theory, and Moral Hazard Theory. Descriptive research design was adopted. The study targeted 122 respondents who were commercial bank employees from the 15 commercial banks in Kisii County and this formed the unit of analysis from bank managers and credit officers. The study sample size was 92 respondents. The study used primary data collection through closed ended questionnaire. A pilot test was done with 9 respondents who represent 10% of the sample size. The study adopted descriptive statistics (means, standard deviations) and Inferential statistical analysis (multiple regressions and correlation analysis) to analyze data. The study found out that Loan supervision had a statistically significant effects on financial performance of commercial banks in Kisii. r= .154, t=3.386 P=.020<05.This indicated that Loan supervision led to significant direct impact on financial performance of commercial banks in Kisii. The null hypothesis was rejected .The study concluded that loan supervision had positive and correlation with financial performance of commercial banks in Kisii. Further, the study concluded that loan supervision had a statistically significant effects on financial performance of commercial banks in Kisii. The study recommended that commercial banks should put in place proper credit risk assessment tools to accurately assess risks. This would reduce the losses they make as result of poor risk assessment. The study further recommended that commercial banks should put in place stringent collection policies for effective loans repayments to reduce chances of default. The study further recommended that banks should conducted frequent reviews of loan utilization. This would ensure loans are invested into profitable projects where they can generate steady income to service themselves Further, the study recommended that banks should reduce credit monitoring since it reduced financial performance of commercial banks in Kisii insignificantly.

INTRODUCTION

Credit can be traced back over 4000 years where exactly comes from and its tenets events changed in the course of credit management history by Aaron Brown in Mesopotamia. He was one of the Innovators of credit management from the ancient origins of rating credit agencies to modern understanding of defaults and rules of borrowing in commercial banks. The basic concepts addressed include; interest rates, collateral, and default which has been well known to emphasize failure to pay a debt is crime treated as fraud and theft identically by financial institution of today. The history of credit management was modified back in 1883 by southern California merchants managed Los Angeles Board of Trade. This was used to solve problems of debt distress of the business in order to improve performance through expansion. Angeles board of trade management manages debtor to creditor risk through

credit control agreements, settlements of credit assignment for the benefit of creditors in 1900. This helped creditors during bankruptcies by use of insurances educated on exchange concerning credit extensions to customers and increase safety (Weber, & Michalik, 2010).

Loan supervision affects profitability and decreasing loan losses and delinquencies. The bank asset size threshold at which these discontinuities occur changes over time, providing important variations both across banks and across time for identification. In particular, the time-varying threshold allows us to remove confounding factors that may be present at certain asset sizes. More frequent examinations increase profits and decrease loan losses and delinquencies. This is consistent with the hypothesis that regulators limit the risks that banks are exposed to and, consequently, limit their losses on risky assets (Rezende and Wu, 2014).

Loan supervision proves that close and informal relationship between commercial banks and borrowers help in loan supervision and early detection of problems that may arise in non-repayment of loans that finally lead to credit risk. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them succeed in risk management in their business (Shanmugan and Bourke, 2012).

Loan supervision relates to the development of modern reliable systems of risk supervision can enhance even more those management capabilities. This means that credit institutions should invest significant resources in projects aimed at correctly implementing rating systems and risk models, and highlights once more the importance of these tools well beyond the scope of regulatory compliance (Laurentis and Mattei, 2009).

Loan supervision causes an impact nonperforming loans, the actions that financial institution's managers have taken to mitigate that problem and the level of success of such actions. The national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process and lack of proper loan supervision processes by banks were the main customer-specific factor. Lack of an aggressive debt supervision policy was perceived as the main bank specific factor, contributing to the non-performing debt problem in Kenya (Waweru and Kalani, 2009).

The financial performance attracts commercial banks financial risk management and financial performance. Therefore, CBs are required by CBK to submit audited annual reports, which include their financial performance and in addition disclose various financial risks in the reports including liquidity risk, credit risk and so on, as well as management of credit risk. In Kisii for instance, there are a total of 15 commercial bank branches as of 2018 that are crucial for extension of loans to individual and businesses in the region. This study sought to examine the effect of credit management practices on financial performance of the commercial banks in Kisii County, Kenya (CBK, 2015).

Financial performance as the ability to operate efficiently, profitably, survives, grow and react to environmental opportunities and threats. Performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Commercial banks earn

financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions (Turyahebya, 2013).

Financial performance includes income from other financial assets, such as investment income. A commercial bank's financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable commercial banks, therefore, earn a positive net income i.e., operating income exceeds total expenses (Kimoi et al., 2016).

Commercial banks are financial institutions created to offer services related to financial management and other non-financial services (Jha, &Hui, 2012). Financial services offered by the commercial banks include loaning of funds, receiving of cash for deposits from customers, trading in foreign exchange and facilitating investment in financial instruments like shares (Nazir, 2010). Nonfinancial services offered by banks include acting as custodians for valuable documents in the safes on behalf of the customers. Banks offer these crucial services under strict laws in the respective countries meant to maintain sanity in the industry and protect the interest of the general public (Said & Tumin, 2011).

STATEMENT OF THE PROBLEM

Proper loan supervision improves financial performance of commercial banks and therefore, credit management practices is a pillar to financial performance. Kimathi and Mungai (2018) observe that Commercial Banks play a significant role of the banking sector to the economy. Despite these contributions, statistics point to declining performance of the commercial banks. Central Bank of Kenya reports indicates that in the financial years 2015 and 2016 for instance, five commercial banks were either closed or put under receivership including First Community bank, Dubai Bank, Imperial Bank, Chase bank and Jamii Bora Bank.

Sacerdoti (2005) argues that inability of borrowers to provide accurate information, weak claim recovery and collateral realization, high cost of credit, absence of reliable and updated company and land registries, long physical distance to banks all of which points to nature of credit management practices employed by the banks. Though a number of interventions have been put in place by the CBK to improve financial performance of commercial banks, little progress has been achieved, CBK (2017). Therefore, there is a possibility of CBs internal credit management practices to turnaround the fortunes of credit management. This provides the impetus to examine the significance of credit management practices on financial performance of commercial banks in Kisii County, Kenya.

GENERAL OBJECTIVE OF THE STUDY

The general objective of the study to establish the effect of loan supervision on financial performance of commercial banks in Kisii County, Kenya.

Specific Objectives of the Study
The specific objectives of the study were:

   i)   Examine the effect of loan supervision on financial performance of commercial banks in Kisii county, Kenya

Research Hypotheses

    $H0_1$:   Loan supervision has no significant effect on financial performance of Commercial banks in Kisii County, Kenya.

THEORETICAL REVIEW

Modern Portfolio Theory

The modern portfolio theory was propped by Markowitz in 1952. It states that it is possible to construct an efficient frontier of optimal portfolios offering the maximum possible expected return for any given level of risk. According to portfolios is an effective way of increasing returns while decreasing risk in investment. For this reason, portfolio selection strategies have received quite some attention in financial literature. The modern portfolio theory introduces the approximate "mean-variance" analysis to simplify the portfolio selection problem. Markowitz attempted to quantify risk and quantitatively demonstrate why and how portfolio diversification works to reduce risk for investors. The "risk" of a portfolio is quantified as a standard deviation of return from period to period, and the portfolio selection problem is reduced to computing an "efficient" portfolio, that is, one that minimizes the risk for a fixed level of return in a single period (Reilly and Brown, 2011).

Modern portfolio theory, therefore, seeks to explain how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. The theory also asserts that the concept of credit risk management is built on the principle of management of working capital. Sound policy on the management of working capital is essential in business and therefore the company must have adequate working capital at all times, funds tied up in working capital should be collected as quickly as possible so as to enhance the company's profitability (Nzuve, 2013). According to Bai, Liu and Wong (2009), the essence of the modern portfolio theory was to validate the construction of an efficient portfolio that optimizes returns of a particular investment. In this explanation, interest rates charged by a credit institution are seen as having a dual role of sorting potential borrowers and affecting the actions of borrowers. Interest rates thus affect the nature of the transaction and do not necessarily clear the market. Both effects are seen as a result of the imperfect information inherent in credit markets (Woodford, 2011).

Adverse selection assumes that because lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns depend on the probability of repayment. In an attempt to identify borrowers with a high probability of repayment, banks are likely to use the interest rates that an individual is willing to pay as a screening device (Freixas, & Rochet, 2008). Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low-risk borrowers. The result is an equilibrium rate of interests at which the demand for credit exceeds the supply. Other terms of the contract, like the amount of the loan and the amount of collateral, will also

affect the behavior of borrowers and their distribution, as well as the return to banks (Moti et al., 2012).

The theory thus is limited to the allocation role of equating demand and supply for loan funds, and will also affect the average quality of lenders' loan portfolios. Lenders will fix the interest rates at a lower level and ration access to credit. Imperfect information is therefore important in explaining the projects have identical mean returns but different degrees of risk, and lenders are unable to discern the borrowers' actions (Shipway, 2009). An increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. This will lead to the possibility of credit rationing (Boland, 2012).

In relation to the current study, the theory informs on approaches of leveraging on bank credit portfolio by obtaining relevant borrowers information, determining the appropriate interest rate s for credit, determining credit risk so as to provide mutual benefits to both parties.

Loan Supervision and financial performance

To examine the role of loan supervision on the financial performance of CBs, Rezende and Wu (2014) studied the effects of supervision on bank performance through evidence from discontinuous examination frequencies. The study sought to establish how frequent examinations affect profitability and decreasing loan losses and delinquencies. To achieve the objective, the study examined bank asset size threshold at which these discontinuities occur changes over time, providing important variations both across banks and across time for identification. In particular, the time-varying threshold allows us to remove confounding factors that may be present at certain asset sizes. The results indicated that more frequent examinations increase profits and decrease loan losses and delinquencies. This is consistent with the hypothesis that regulators limit the risks that banks are exposed to and, consequently, limit their losses on risky assets.

Waweru and Kalani (2009) conducted a study on financial institution crises in Kenya. The focus of the study was to investigate the causes of nonperforming loans, the actions that financial institution's managers have taken to mitigate that problem and the level of success of such actions. Using a sample of 30 managers selected from the ten largest financial institutions, the study found that the national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process and lack of proper loan supervision processes by banks were the main customer-specific factor. The study further found that lack of an aggressive debt supervision policy was perceived as the main bank specific factor, contributing to the non-performing debt problem in Kenya.

Shanmugan and Bourke (2012), in their study, found that close and informal relationship between commercial banks and borrowers help in loan supervision and early detection of problems that may arise in non-repayment of loans that finally lead to credit risk. In addition, cooperation and coordination among various agencies that provide additional support to

borrowers may help them succeed in risk management in their business. The study made use quantitative research method. Laurentis and Mattei (2009) conducted research on recovery risk management capability and found that the development of modern reliable systems of risk supervision can enhance even more those management capabilities. This means that credit institutions should invest significant resources in projects aimed at correctly implementing rating systems and risk models, and highlights once more the importance of these tools well beyond the scope of regulatory compliance. The research method used is that mixed research method.

Financial performance is often perceived as a subjective measure on how banks utilize assets from its primary mode of business and generate revenues. It is also a general measure of banks overall financial health which is used to compare similar banks across the same industry or to compare industries. Factors that determine the financial performance of banks, in general, have been extensively studied. Performance of the banking industry is often affected by global, regional or national economic conditions as observed by Jean (2016). A report on trends in financial inclusion in sub-Saharan Africa reveals a slowing economic activity within the region has led to the weakening of the CBs performance including increased non-performing loans (NPLs), high portfolio concentration risks and subsequent focus on a few key sectors of the economy, banking in sub-Saharan Africa (2016). Amongst the specific approaches, financial performance is commonly measured through profits, return on assets, return on investment, Richard et al. (2009).

A plethora of studies have been conducted on factors that determine financial performance of CBs across the world. Heffernan & Fu (2010) for example examined different types of Chinese banks using secondary data between 1999 and 2006. The authors a compared Economic Value Added (EVA), Net Interest Margin (NIM), Return on Average Equity (ROAE) and Return On Average Assets (ROAA). The study concluded that the ratios indicated a significant relationship to financial performance of the banks. As opposed to the current study that adopts primary data, Heffernan used secondary study to obtain data in measuring financial performance. In Greece, Kosmidou (2008) applied a linear regression model to determine the performance of 23 commercial banks. Secondary data was collected between 1990 to 2002 to analyze Return on assets and the ratio of loan loss reserve to gross credit and asset quality respectively. The results showed a negative significant impact of asset quality on bank performance.

In Kenya, Olweny & Shipho (2011) examined the role of banking industry factors on the profitability of commercial banks. The study sought to determine the role of bank-specific factors such as asset quality, capital adequacy, liquidity, operational cost efficiency and income diversification on the profitability of CBs. Through an explanatory approach by using panel data research design, annual financial statements of 38 Kenyan commercial banks from 2002 to 2008 were examined. The data obtained was analyzed using multiple linear regressions method. The study established that all the bank-specific factors statistically influenced profitability. Whereas the study considered bank-specific variable of performance, the current study shall consider financial rations in determining financial performance.

Conceptual framework

The study seeks to determine the relationship between loan supervisor independent variable and financial performance of commercial banks in Kenya. The dependent variable is the CBs s financial performance which attempts to depict the likely outcome on the application or use of the above independent variables in the operation of the banks. It is expected that the performance of CBs was affected by the use and application of the above mentioned independent variables (credit management practices). Banks performance as the dependent variable was measured by financial performance (ROA)

Independent variable   **Dependent variable**

Loan Supervision	Financial Performance
• Written loan collection policies • Stringent collection policies • CBK guidelines	• Return on Asset
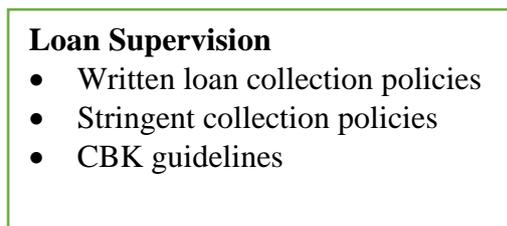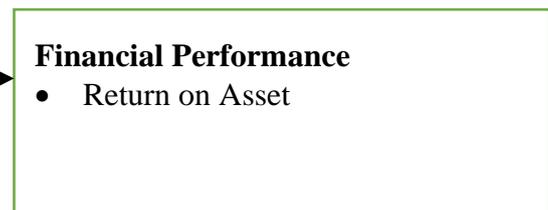
Figure 2.1 conceptual framework

RESEARCH AND METHODOLOGY

Research Design

According to Mugenda, and Mugenda(2003), a research design can be construed as the detailed outline of the specific methods and tools used to collect information, assess it, in an attempt to find answers to the research questions. It therefore presents an informed guide on how to go about collecting data and assessing if in order to address the research questions. In order to formulate a good research design, there is need for presentation of vividly explained purpose with a satisfactory degree of reliability in the formulation of the study questions as well as the projected research method (Moser & Kalton, 2017). A descriptive research design was adopted by this particular study to gather data in addition to drawing useful inferences about the study's target population within a specified time frame. Descriptive research design ensures that there is minimum bias and maximized reliability when collecting data by determining and reporting the way things are (Mugenda & Mugenda, 2003).

Study Area

The study was carried out in Kisii Town of Kisii County headquarters. Kisii County is located about 320 KM to the Western part of the Kenyan Headquarters, Nairobi. The economic activity of the residents of the area is both Agriculture and Business. This County borders Bomet, Homa Bay, Narok, Migori and Nyamira Counties.

Target Population

According to Mugenda, and Mugenda(2003), the study target population can be defined as an entirety of items in a specified area of inquiry that have mutually noticeable features otherwise construed as the universe. The study will therefore target 122 bank employees' from15 commercial banks within Kisii County. The target population will comprise of the 51

bank managers and 71 credit officers of the commercial banks as shown on table 3.1 below. Each bank will have three managers comprised of the branch manager, operations manager and the credit manager.

Table 3.1 Target population

Bank	Branches	Managers	Credit Officers	Total
Barclays Bank	1	3	12	15
Kenya Commercial Bank	2	6	20	26
Cooperative Bank	3	9	9	18
Equity Bank	1	3	6	9
Bank of Africa	1	3	2	5
Diamond Trust Bank	1	3	2	5
Eco. Bank	1	3	2	5
National Bank	1	3	4	7
I & M Bank	1	3	2	5
Family Bank	1	3	4	7
Credit Bank	1	3	2	5
Sidian Bank	1	3	2	5
Kenya Women Finance Trust	1	3	2	5
SBM Bank	1	3	2	5
Total	**17**	**51**	**71**	**122**

Source: Individual Commercial Banks, Kisii (2020)

Sample and Sampling Technique

Sampling is the process that is employed to select the desirable samples size from the entire population (Upagade & Shende, 2012). Sample size is the subset of the population that has been carefully selected to represent the entire population (Kothari, 2004). The sample size of the study was 92 bank employees according to Crejie and Morgan table of 1970 as shown in appendix V. The study collected information from all the 92 respondents. The study adopted the stratified sampling technique where the sample size was chosen from all 15 branches. To determine the samples size for each bank branch, the study used proportional allocation method proposed by Kothari (2004).

Table 3.2 Sample size

Bank	Branches	Managers	Credit Managers	Total
Barclays Bank	1	2	9	11
Kenya Commercial Bank	2	5	15	20
Cooperative Bank	2	5	5	10
Equity Bank	1	3	5	8
Bank of Africa	1	2	2	4
Diamond Trust Bank	1	2	1	3
Eco. Bank	1	2	2	4
National Bank	1	2	3	6
I & M Bank	1	2	1	3
Family Bank	1	2	3	5
Credit Bank	1	2	2	4
Sidian Bank	1	2	1	3

Jamii Bora Bank	1	2	1	3
Kenya Women Finance Trust	1	2	2	4
SBM Bank	1	2	2	4
Total	**17**	**38**	**54**	**92**

Data Collection Procedure
Research Instruments

Data collection can be construed as the exact, methodical collection of information pertinent to the specific sub-problems of the study, by applying such methods as interviews, member observations, focus group discussion, narratives in addition to case accounts (Azlawn, 2013). For the purpose of obtaining primary data for this study, structured questionnaires were adopted with close-ended questions. According to Mugenda, and Mugenda(2003), a structured questionnaire can be construed as a collection of questions presented alongside a detailed list of the entirety of feasible options form which the study respondents are expected to draw the answers that provide the best conceivable account of their position. The questionnaires were structured in sections with each section covering each specific objective. The study will use 5-point Likert scale in measuring the respondent opinion.

The secondary data regarding financial performance from the period of 2010 to 2019 was collected from published financial statements of commercial banks using the data collection sheet as shown in appendix VI.

Testing for Reliability

Reliability can be defined as a measure of internal consistency of the research instruments. It measures the level of correlation between statements measuring the same variable. A pilot study was undertaken before actual data collection to ensure that its meet the reliability and validity requirement before it is adopted for data collection. This pilot study was done on 9 bank employees of Cooperative bank in Bomet.The data collection was analyzed using Cronbach's Alpha coefficient to measure internal consistency. In this method a Cronbach's Alpha for all the variables was computed using SPSS software and compared to the threshold level of 0.7 recommended by Cronbach. The variables that had a Cronbach's Alpha of greater than 0.7 was considered reliable while those with Coefficient of less than 0.7 was considered unreliable (Castillio, 2009). The questionnaires items were reviewed in case the scale were not reliable by deleting irrelevant questions.

Testing for Validity

Validity on the other hand refers to the ability of the research instruments to measure what it is intended to measure. To ensure content validity, the study will construct the questionnaires based on concepts obtained from empirical and theoretical knowledge while construct validity was ensured by using expert opinions and reviews of the research instrument (Mugenda and Mugenda.2003).

Data Analysis
Descriptive Statistics

Data analysis can be construed as the adoption of a thorough cognitive process to comprehend the contents of the data collected in an attempt to establish constant patterns as

well as creating a brief account of the pertinent particulars unearthed during examination (Zikmund*et al.,* 2010). Quantitative data was analyzed through descriptive statistics of, means and standard deviations. This was facilitated by use of SPSS version 21.0. The results of the study was presented in bar charts, graphs, pie charts as well as tables. This was accomplished by tallying up responses, computing percentages of variations in responses, describing and interpreting the findings according to the study objectives.

Inferential Statistics

Additionally, inferential statistical analysis was used where multiple regressions was done, correlation analysis and analysis of variance (ANOVA).Multiple regression enables the examination of how multiple independent variables relates to a given dependent variable. Correlation analysis helps to identify whether a relationship exists between two variables, whether it is positive or negative and how strong the relationship is. ANOVA compares the equality of three or more means (Higgins, 2005).The regression equation will take the form of:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

$Y =$ Financial Performance of the commercial banks

$X_1 =$ Credit Evaluation

$X_2 =$ Credit Appraisal

$X_3 =$ Loan Supervision

$X_4 =$ Credit Monitoring

$\beta_1, \beta_2, \beta_3$ and β_4 regression coefficient for independent variables

$\alpha =$ Constant

$\varepsilon =$ errors term that captures unexplained variance

Ethical Considerations

Before data collection the researcher obtained authorization letters from all the relevant authorities from the Kisii University and NACOSTI. Besides the authorization letters, the study made earnest efforts to observe necessary ethical practices during the study. First and foremost, the study clarifies the purpose of the research besides guaranteeing respondents that the study was limited to academic scope and therefore information they provide was not used for different reasons other than academic. The study also provided a statement on the respondents' unrestricted power to respond to the questionnaire. The researcher further gave an allowance to decline or pull out of the study by the respondent without giving any reason for doing so at any time during research. An informed consent of the respondents to participate in the study sought and their decision to participate or otherwise accepted. The study finally ensure that the respondents strictly remain anonymous to guarantee their privacy and protection from unwarranted victimization.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Response Rate

The General Objective of the Study was to establish the effect of loan supervision on financial performance of commercial banks in Kisii County, Kenya.

Loan supervision

The study examined the effect of loan supervision on financial performance of commercial banks in Kisii County. The findings were presented below in table 4.1

Table 4.1 loan supervision

	N	Mean	Std. Deviation
The bank examines written loan collection policies for loan repayment	95	3.91	.826
The bank examines stringent collection policies for effective loans repayments	95	3.85	.978
The bank adheres to CBK guidelines for effective loans repayment	95	4.32	.914
The bank constantly reviews policies and procedures to adjust to the conditions	95	4.07	1.074
Internal audit and internal control units in the bank conduct inspections of each loan	95	4.11	1.086
Valid N (listwise)	95		

Field data 2020

The study found out that the bank examines written loan collection policies for loan repayment had a mean of 3.91with standard deviation of .826, the bank examines stringent collection policies for effective loans repayments had mean of 3.85 with standard deviation of .978, the bank adheres to CBK guidelines for effective loans repayment had a mean of 4.32 with standard deviation of .914, The bank constantly reviews policies and procedures to adjust to the conditions had a mean of 4.07with standard deviation of 1.074, Internal audit and internal control units in the bank conduct inspections of each loan had mean value of 4.11with standard deviation of 1.086.The study found out that banks that adheres to CBK guidelines for effective loans repayment had the highest mean value of 4.32 had while the bank examines stringent collection policies for effective loans repayments had the lowest mean of 3.85.The study concluded that commercial banks ensured that ensure full compliance to CBK guidelines on loan repayment reduce chances of default .This would increase profitability. These findings are similar to (Rezende and Wu, 2014), whose indicated that more frequent examinations increase profits and decrease loan losses and delinquencies. This is consistent with the hypothesis that regulators limit the risks that banks are exposed to and, consequently, limit their losses on risky assets.

Regression analysis between supervision and financial performance

The study conducted multiple regression between independent variables and financial performance of commercial banks in Kisii. The findings were presented in the tables below.

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902(a)	.813	.663	.04533

a Predictors: (Constant), , loan supervision

The study found out that independent variables (, loan supervision) had a correlation value of r=.902 .This indicated that independent variable and financial performance of commercial banks in Kisii were positively correlated. Further, the study noted credit evaluation had R

square of .813 which was adjusted to .663.This indicated that changes in the application of credit monitoring leads to 81.3% change in financial performance of commercial banks in Kisii.

Table 4.3ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.045	4	.011	5.434	.046(a)
	Residual	.010	5	.002		
	Total	.055	9			

a Predictors: (Constant) loan supervision
b Dependent Variable: profitability

The study established that the model had F=.5.434 p=.046< .05.This implied that the model was fit for the study less than its critical F at 5.434. Further, the study noted that independent variables had significant effect on the financial performance of commercial banks in Kisii.

Tables 4.4Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.105	.220		.478	.653
	loan supervision	.154	.046	1.059	3.386	.020

a Dependent Variable: profitability

The findings in the table above, indicated that when independent variables are kept at zero financial performance of commercial banks in Kisii would be .015 .This implied that Changes on the use of independent variable would lead to a variation in financial performance of commercial banks in Kisii 10.5% .The regression model indicated that Taking other factors constant, changes in the application of loan supervision led to a change in profitability by 15.4%

Using regression equation, = .105+.154+Ɛ,

Hypothesis testing

The study tested hypothesis based on table 4.27 above, the findings were summarized as below

H_{01}: Loan supervision has no significant effect on financial performance of Commercial banks in Kisii County, Kenya.

The study found out that Loan supervision had a statistically significant effects on financial performance of commercial banks in Kisii.r= .154,t=3.386 P=.020<05.This indicated that Loan supervision led to significant direct impact on financial performance of commercial banks in Kisii.The null hypothesis was rejected.

SUMMARY OF FINDINGS AND CONCLUSIONS

Findings

The main objective of the study was to examine the effect of loan supervision on financial performance of commercial banks in Kisii County, Kenya. The study noted that banks that adheres to CBK guidelines for effective loans repayment had the highest mean value of 4.32 banks that examines stringent collection policies for effective loans repayments had a lowest mean of 3.85.This meant that commercial banks that ensured that all CBK guidelines on loan repayment were fully followed reduced chances of default. This would increase profitability.

Correlation analysis established that loan supervision had positive but weak relationship with financial performance of commercial banks in Kisii. These findings meant that increased loan supervision increased insignificantly financial performance of commercial banks.
Regression analysis found out that Loan supervision had a statistically significant effects on financial performance of commercial banks in Kisii. This indicated that Loan supervision led to significant direct impact on financial performance of commercial banks in Kisii.

CONCLUSION

The main objective of the study was to examine the effect of loan supervision on financial performance of commercial banks in Kisii County, Kenya. The study concluded that banks which adheres to CBK guidelines for effective loans repayment had the highest mean hence, commercial banks that fully followed CBK guidelines for loan repayment reduced chances of default. This would increase profitability. Also, the study concluded that loan supervision had positive but weak relationship with financial performance of commercial banks in Kisii.This findings meant that increased loan supervision increased insignificantly financial performance of commercial banks. Further, the study concluded that loan supervision had a statistically significant effects on financial performance of commercial banks in Kisii.This indicated that loan supervision led to significant direct impact on financial performance of commercial banks in Kisii.

RECOMMENDATION

The main objective of the study was to examine the effect of loan supervision on financial performance of commercial banks in Kisii County, Kenya. The study noted that the bank examines stringent collection policies for effective loans repayments had the lowest mean.The study recommended that commercial banks should put in place stringent collection policies for effective loans repayments to reduce chances of default. This would increase profitability significantly for commercial banks in Kisii.

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