CREDIT RISK MANAGEMENT AND LOAN PERFORMANCE IN COMMERCIAL BANKS IN MOGADISHU SOMALIA

BY

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A THESIS REPORT PRESENTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION BANKING AND FINANCE KAMPALA INTERNATIONAL UNIVERSITY

NOVEMBER, 2019

DECLARATION

I declare that this is my own original work and has not been submitted by anybody else for the award of a degree to any other institution

Sign: …………………………………………

Date: …………………………………………

APPROVAL

This is to certify that the thesis report under the topic "Risk management and Loan performance in commercial banks of Mogadishu Somalia" has been under my supervision and is now ready for submission to the college of economics and management and research for award of master's degree in business administration of Banking and finance of Kampala International University.

Sign:…………………………………**Date :**…………………………………

Dr. Kayongo N Isaack
Academic Supervisor

DEDICATION

I dedicated my research report to my parents especially my father and mother whose effort towards my academic life has been enormous, may the almighty God bless you.

ACKNOWLEDGEMENTS

I wish to thank the almighty God for keeping me alive and providing me with the capacity and courage to go through the three-year course successfully.

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ABSTRACT

The purpose of the study was to establish the effect of risk management on Loan performance in commercial banks in Mogadishu Somalia. The objectives were to assess the effect of risk identification on Loan performance of commercial banks in Mogadishu Somalia, to determine the effect of risk assessment on Loan performance of commercial banks and to assess how risk monitoring affect Loan performance commercial banks in Mogadishu Somalia. The study was conducted in selected banks of Mogadishu Somalia, the data was collected from 131 respondents using closed ended questionnaires. The data collected reveal that risk identification had a significant effect on loan performance (Sig=0.000) while risk assessment also had significant effect on loan performance (0.008) and risk monitoring had an insignificant effect on loan performance (0.087). The study findings imply that credit risk management has an effect that is paramount on loan performance in Mogadishu Somalia.

The study results regarding the first objective, the study conclude that risk analysis is fundamental in enhancing Loan performance. The study conclude that effective risk identification is necessary for Loan performance indicating that utmost work performance is fundamental for loan portfolio response. The study on the second research objective concludes that risk assessment in the banks in Mogadishu Somalia had a significant effect on Loan performance. The study concludes further that managing the state of risks concerning loans can generate the Reponses in payment for loans. The study finally on the third objective conclude that risk monitoring though occurred in the commercial banks of Mogadishu Somalia did not generate high Loan performance. The result indicates that risk monitoring didn't lead to resonate loans recovery.

The study recommend that there is need for strong cost reduction by management through credit risk analysis so as to save on the finances lost through operations for recovery of the none responding or performing Loans. There is need for the banks to conduct analysis in clear form and develop the mode for tracking risks before their actual occurrence to curb insurgencies. The management needs to institute management teams for enhancing direct operations for the organizational establishments. Thirdly, on there is need for detailed information on integrated risk management at their company and weigh these risks against those of new investments.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents and describes the background of the study, problem of the research, purpose and objectives of this study, research question, scope of the study, significance of the study and the operational definition of key terms.

1.1 Background of the study

The background of the study is presented on four perspectives namely historical, theoretical, conceptual and contextual perspective.

1.1.1 Historical Perspective

Risk management is an important function of financial institutions in creating value for shareholders and customers (Pagano, 2001). By recognizing, understanding and managing risks, more risks can be assumed and performance increased. Enterprise risk management applies organizational knowledge to make better decisions about risk and reward through market pricing and capital charges (Ciborra, 2006). The concept of credit risk emerged as a risk category that describes residual risk not captured in market and credit risk management practices (Basel Committee, 2001). Credit management practices is important as MFI's reduce their exposure to non-repayment of loans and enhance their ability to compete in the market with other well established financial institutions like banks. Therefore it's important for micro finance institutions to adopt credit management practices such as credit standards, credit policies, credit terms and collection efforts (Ciborra, 2006).

Currently banks have witnessed rising non-performing credit portfolios and these significantly contributed to financial distress in the banking sector. As with any financial institution, the biggest risk in microfinance is lending money and failing to recover it. Credit risk is a particular concern for Microfinance Institutions (MFIs) because most micro lending is unsecured (Chege, 2010). The clients concerned are majorly those who cannot avail credit from banks and such other financial institutions due to the lack of ability to provide guarantee or security against the money borrowed. Many credit unions do not extend credit to these kinds of clients due to the high default risk for repayment of interest and in some cases the principal amount itself. Deposit

Taking Microfinance Institutions are required to design sound credit management practices that entail the identification of existing and potential risks inherent in lending activities to improve on financial performance.

In today's business environment, risk management and improvement of cash flows are very challenging. With the rise in bankruptcy rates, the probability of incurring losses has risen. Credits policies, standards and appraisal procedures enable the firm to earn financial returns. Credit management provides a leading indicator of the quality of deposit MFIs credit portfolio. In the United States, the Circuit Court has found considerable actuarial evidence that credit scores are a good predictor of risk of loss(Djankov, McLiesh & Shleifer, 2007). Credit scoring has many benefits that accrue not only to the lenders but also to the borrowers. For example, credit scores help to reduce discrimination because credit scoring models provide an objective analysis of a consumer's creditworthiness. Wendel & Harvey (2003) in their study on credit risk management strategies of selected financial institutions in Malaysia, observed that the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions.

In Africa among other developing economies, microfinance institutions are the main source of funding for microenterprises and thus credit policies play an important role in risks management of most financial institutions. Omara (2007) in Uganda to investigate on the credit assessment process and repayment of bank loans; a case study of Barclays was done. A of 73 respondents were interviewed and the results of the study showed that there was delay by Barclays bank in scoring loans, the bank charged commitment fee to both new and existing customers. This negatively impacted on loan repayment. Glen (2012) investigated effects of credit policy on bank performance in selected Rwandan commercial banks and revealed that credit policies, credit responsibility, collection policy and credit evaluation policies ranging from car loans, personal loans, overdraft and mortgage at interest led to increase in customer base and existence of bad debts. In Ghana, Ntiamoah, Egyiri, Diana Fiaklou, Kwamega, (2014) asserted that there existed a significant relationship between credit management practices and loan performance using some selected microfinance in the Greater Accra region of Ghana as a case study. Results of the study

indicated that there was high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

In Somalia commercial banks have established mechanisms for the requirements in effective risk management through providing the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns (Mwithi,2002). In Somalia, commercial banks have faced increasing default rates of loans in the last decade that have triggered the need to develop and implement credit policies in an attempt to mitigate the risks of default by microfinance banks in Kenya. A report by CBK, (2012) indicated that a large portion of Kenyan financial institutions' revenue is generated from credit extended to various individuals and organizations. This revenue is in the form of interest earned and charges on the preparation and management of the credit process. Simiyu, (2008) studied the techniques used by micro finance institutions in the management of credit risk in Kenya. The findings of this study concluded that microfinance institutions that implemented credit management practices reported the highest amount of revenue in form of interest from extended credit to customers and firms.

1.1.2 Theoretical Perspective

The study employed the capital Asset pricing model (CAPM) developed by Sharpe (1964) and Lintner (1965) and later refined by Black (1972). The capital Asset pricing model (CAPM) developed by Sharpe (1964) and Lintner (1965) and later refined by Black (1972).The most important paradigm of risk is part of a set of results known in the financial economics literature as the Capital Asset Pricing Model (CAPM) developed by Sharpe (1964) and Lintner (1965) and later refined by Black (1972). It represents an extension and simplification of the model by Markowitz (1952). The Markowitz model was the first theorizing a relationship between risk and return. In his model, there are as many efficient loan portfolios are there are investor risk preferences. All efficient portfolios must lie on the mean-variance investment frontiers where investors can get a higher return only by accepting a higher level of risk (Gossy, 2008). The CAPM extends this theory to a situation of equilibrium. The CAPM argues that all investors will

hold the same efficient portfolio (the market portfolio) regardless of their individual risk preferences.

1.1.3 Conceptual Perspective

Risk Management is defined as the process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO, 2004). There are a number of risks that financial firms deal with. These are credit risks, market risks, liquidity risks and operational risks (Nocco and Stulz, 2006).

According to Greuning and Bratanovic (2003) the basis of a sound credit risk management system include guidelines that clearly outline the scope and allocation of bank credit facilities and the manner in which the credit portfolio is managed that is how loans are originated, appraised, supervised and collected. In this study risk management is based on the works of Nocco and Stulz (2006) were the focus will be on assessing the risk management in forms of risk identification, risk monitoring and risk control.

Loan performance refers to rate of profitability or rate of return of an investment in various loan products .thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain.

Loan performance refers to the response in paying back the total amount of money given out as loans in different loan products, to the different types of borrowers. These loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loans Puxty et al., (1991).

Loan portfolio is the Microfinance institutions most important asset hence, portfolio quality reflects the risk of loan delinquency and determines future revenues and an institutions ability to increase outreach and serve existing customers. Portfolio quality is measured as portfolio at risk over 30 days. How best a loan portfolio is performing is looked at in terms of profitability and or rate of return on the different loan products, this is a function of the number of the loans and the cost of administering these loans (Indjeikein, 1997).

1.1.4 Contextual Perspective

Somalia banking sector is among the least developed yet facing numerous challenges especially in the management of the loans in the country's banking systems and sector. Haneefet al (2012) conducted a study in Somalia, and found that performing loans are increasing due to lack of risk management which threatens the profitability of banks. In view of the foregoing, there is therefore a need for banks to adopt appropriate credit risk management techniques to minimize incidences of loan defaults to enhance loan performance as past studies have revealed that loan performance is a critical element for good financial performance of banks.

Somalia faces serious banking challenges in credit risk management for investors coming from the western world. Problems exist in the establishment of regular banking protocols along the lines of those that Western investors typically use. Beyond security concerns, a major factor in the dearth of brick-and-mortar banks is the lack of a fully functioning central bank. In the absence of a central bank, an international acceptable Bill of Exchange Act that codifies the law in relation to bank transfers, automatic teller machine, check payments and other financial instruments, cannot exist. A review of these protocols could shed further light on the Somalia/Somaliland scenario. Some banks record considerably low performance in their operations with high deficits in the loans that are given to the people. The loans account for a high determination and influence for the performance of the commercial banks in Somalia (Berg, Guhild and Jan Scrader, 2012).

In general, how easily and at what costs firms commercial bank loans are operating in this jurisdiction receive access to finance depends on a wide range of factors both internal and external to the given firm. External factors are mainly connected to the institutional and regulatory environment. Regulations include those of the banking system. Other equally important aspects are then force ability of contracts, the protection of property rights, and the availability of recognized banks (Kungpisdan, Supakorn, 2010).Commercial banks are in their most basic sense agents between the capital deficient and those with a capital surplus. The context of the performance for the loans in Somalia needs a consideration especially in determining the degree and rate of responses needed. It is based on these that the researcher set to conduct this study.

1.2 Problem Statement

The banking sector is grapling with the high degree of losses resulting from the poor loan performance that has taken face in most of the commerical banks especially in Somalia. The loan performance constraints are a result of the bank's inability to collect anticipated interest earnings as well as loss of principal resulting from loan default (World bank Somalia, 2014). Commercial banks carry out risk management as a measure of administering credit to bellowers Hainz and Kleimeier (2012). The commercial banks in Mogadishu therfore are faced with a series of performance constraints that have injured their stay and affected the performance. Despite the efforts made to address the poor risk management, commercial banks in Somalia still have difficulties resulting from the loan management and changes in customer base leading to decreasing loan performance (Karugu and Ntoiti, 2015). To most banks, their credit risk management goal is to arrange the bank's financial affairs in such a way that however much borrowers fail to pay back the loan in the future, the effect on their return is diminished.The study was intened to determine the role of risk management on Loan perfoamance in Mogadishu Somalia.

1.3 Purpose of the study

The purpose of the study was to establish the effect of risk management on loan performance in commercial banks in Mogadishu Somalia.

1.4 Objectives of the study

1) To assess the effect of risk identification on loan performance of commercial banks in Mogadishu Somalia.
2) To determine the effect of risk assessment on loan performance of commercial banks in Mogadishu Somalia.
3) To analyze how risk monitoring affect loan performance commercial banks in Mogadishu Somalia.

1.5 Research Questions

1) What is the effect of risk identification on loan performance of commercial banks in Mogadishu Somalia?
2) What is the effect of risk assessment on loan performance of commercial banks in Mogadishu Somalia?

3) How risk monitoring affects loan performance commercial banks in Mogadishu Somalia?

1.6 Hypothesis

H01: There is no significant effect of risk identification on loan performance of commercial banks in Mogadishu Somalia.

H02: There is no significant effect of risk assessment on loan performance of commercial banks in Mogadishu Somalia.

H03: There is there is no significant risk monitoring affects loan performance commercial banks in Mogadishu Somalia.

1.7 Scope of the Study

1.7.1 Geographical Scope

The research was conducted in Mogadishu Somalia in the three big commercial banks. The three commercial banks located in Mogadishu capital city of federal republic of Somalia. These are Amal Bank, Salama Bank and Dahabshil Bank these institutions are biggest commercial banks in Mogadishu Somalia. In Mogadishu City is situated in Banaadir, an administrative region (*gobolka*) in south-eastern Somalia. Mogadishu is officially divided into several administrative districts such as; Abdiaziz District, Bondhere District, Daynile District, Dharkenley District, Hamar-Jajab District, Hamar-Weyne District, Heliwa District, Hodan District, Howl-Wadag District, Kaaraan District, Shangaani District, Shibis District, Waabari District, Wadajir District, Warta Nabada District, and Yaaqshiid District (Statoids, 2003).

1.7.2 Content Scope

The study focused on risk management as independent variable and loan performance as dependent variable. The focused on assessing the effect of risk identification, risk monitoring and risk assessment on loan performance.

1.7.3 Time Scope

The study covered the years 2014–2018, but the researcher was base the findings of the study in the 4 years period. The time chosen is appropriate since it provides avenues for assessing the study provisions for a quite long period of time that enabled an assessment of the work requirements.

1.8 Significance of the study

The study will provide an insight on the best credit risk management approaches banking institutions should adopt in order to effectively manage and enhance port folio quality. Managers in banking industry will find this study significant as it will provide an insight on the best credit risk management practices that should be taken to lower the credit risk and hence improve on the firm's performance.

It is expected that the current study will contribute to the government in so far as coming up with policies that deals with the loan requirements and also for the supervision of banking institution. The policy makers will obtain knowledge on the best mechanisms that should be adopted to improve loan portfolio quality. This study will therefore act as a guide in adopting effective credit risk management practices by banks in improving performance in banking institutions.

This study will contribute to academia by showing how risk management practices can affect the loan portfolio quality of banking Institutions. It will add to the body of literature on CRM practices that has shown the effects of risk management of the loan portfolio quality of banking institutions. The study will also be significant to research who may find this study valuable to form a foundation to identify research gap and carry further research.

The policy makers can obtain knowledge of the pension fund management sector dynamics as regarding risk management in commercial banks. They can therefore obtain guidance from this study in designing appropriate enterprise risk management requirements and policies that may regulate the sector.

1.9 Operation Definitions of Key Terms

Credit risk management system include guidelines that clearly outline the scope and allocation of bank credit facilities and the manner in which the credit portfolio is managed that is how loans are originated, appraised, supervised and collected.

Loan performance refers to rate of profitability or rate of return of an investment in various loan products .thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter covers the review of related theories and literature in reference to stated objectives of the study; it also presents the theoretical review, conceptual framework, related literature, related studies and research gaps.

2.1 Theoretical Review

This study is based on the Capital Asset Pricing Model (CAPM) developed by Sharpe (1964) and Lintner (1965) and later refined by Black (1972). It represents an extension and simplification of the model by Markowitz (1952). The Markowitz model was the first theorizing a relationship between risk and return. In his model, there are as many efficient portfolios are there are investor risk preferences. All efficient portfolios must lie on the mean-variance investment frontiers where investors can get a higher return only by accepting a higher level of risk (Gossy, 2008). The CAPM extends this theory to a situation of equilibrium. The CAPM argues that all investors will hold the same efficient portfolio (the market portfolio) regardless of their individual risk preferences. Thereby, the CAPM is capable of determining the market price for risk and an appropriate risk measure for a single asset (Gossy, 2008).

There have been numerous anomalies of the CAPM that have been discovered by finance researchers. This has initiated a discussion of the usefulness of the CAPM for the field of strategic management starting with the contribution. He detects a conundrum regarding the role of risk in strategic management context and states the main points of controversy between finance and strategy (Vicente-Lorente, 2001). In particular, he seriously questions the implications of the CAPM on strategic management but especially corporate risk management. He identifies an implied recommendation in the CAPM to corporate management not to be concerned at all about firm-specific risks. Bettis (1983) argued that business risks are associated with firm specific resources and competencies and are strongly related to the firm-environment interface. This theory implies that for ERM, firms should institute efficient portfolios that offer maximum returns and minimum risks.

2.2 Conceptual Framework

Independent Variable **Dependent Variable**

Credit Risk Management (IV)

- Risk identification
- Risk assessment
- Risk monitoring

→

Loan performance (DV)

- Payment Period
- Loan collection efforts
- Loan Regulations

Source: Developed from Literature review

The study has two three variables, the independent variable and the dependent variable. The independent variable is credit risk management which of risk identification, risk monitoring and risk assessment while the dependent variable was Loan performance is measured through payment period, loan collection efforts and Loan regulations. The presence of positive credit risk management transform into loan performance improvement and the reverse is true, the state of the credit risk management can hence with lead to change in the loan performance.

2.3 Review of Literature

The review of literature here has been done under the guidance of the research objectives presented in the determination below.

2.3.1 Risk Identification and Loan Performance

A study by Onzere (2012) was done on the risk identification strategies adopted by Barclays Bank of Kenya to attain optimal performance. However, these studies mainly focused on the financial performance of the firms. Secondly, these studies were mainly surveys. While these studies are of importance to the researcher, none of them was done on the effect of risk management practices on performance of firms in the hospitality industry as they were either in the NGO or commercial banks hence a knowledge gap. It is therefore this gap which the researcher seeks to fill by providing answer to the question: what effect does risk management practices have on the performance of hospitality industry in Kenya.

Yusuwan et al., (2008) focused on identifying the level of awareness of risk management in their study on the risk management practices on construction project companies in Klang Valley, Malaysia. They undertook to examine the policies undertaken when dealing with risks in a construction project and identifying the problems and challenges in risk management. For this study, they employed questionnaire survey and interviews to study 27 public and private companies operating in Klang Valley. The study found out that 44.4%, 29.6%, 14.8% and 11.1% had occasionally heard, heard and attended training, practiced risk management and never heard about risk management respectively. Their studies concluded that risk management positively contributes to the productivity and financial performance.

Jacob and Kwak (2003) highlight the positive contribution of risk management to improve project selection, review and resource allocation of NPD projects. In their investigation of over 100 technology-related projects, risk management practices contribute to project success.

Muchiti (2009) conducted an investigative study on the management of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. The study found that although risk management is consciously present in Kenyan insurance business, there still lacks a clear understanding of the discipline in the industry. The study recommended computerization and general improvement of their information systems.

Kithinji (2010) studied credit risk management and profitability of commercial banks in Kenya to assess the degree to which the credit risk identification in practice had significantly contribute to high profits in commercial banks of Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period2004 to 2008. The results of the study showed that, there was no relationship between profits, amount of credit and the level of nonperforming loans. A regression model was used to elaborate the results which showed that there was no significance relationship between the banks profit and credit risk management proxied by level of Nonperforming Loans and Loans and Advances/Total assets.

Kinyua (2010) conducted a study on risk identification as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process.

Berger & Udell (2013) contend that risk analysis is consistent with the level of organizational control; classifies these as business (external) risks and operational (internal) risks. Risk identification on this parameter is influenced by the need have prior knowledge of the possible knowledge that could cause harm to the operations of business. The state of work environment provides for tools to use under evaluation of the risks of the projects. The presentation did provide an aspect of risk prior knowledge that seem to be right though difficult in assessing for risk contingency.

Kromschroder & Luck (2008) argued that risk identification is vital for effective mitigation of credit risk. In order to manage credit risks effectively, management of bank have to know what risks face the bank. The important thing during risk identification is not to miss any risks out and this can be done through establishing an appropriate credit risk environment. This is the responsibility of the board of directors who should approve and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank.

According to Bofondi (2013) argued that risk identification has been heavily influenced by known problems or prior incidents. This reactionary mode typically limits the amount of creative thought that is invested in identifying all potential scenarios of what could go wrong. Fortunately, many organizations are evolving towards a more proactive approach by assembling organizational teams and utilizing outside expertise to recognize risks to the enterprise. One popular approach is to identify risks through compartmentalization that is focusing on each process, department or organizational group as a unique entity.

Gates (2006) argued that risk analysis by the bank reflect the tolerance for risk and the level of profitability the bank expects to achieve for incurring credit risk. Inspection by branch managers and financial statement analysis are the main methods used in risk identification. The main techniques used in risk management are establishing standards, credit worthiness analysis, risk rating and collateral. Senior management of a bank is responsible for implementing the credit risk strategy approved by the board of directors. This includes ensuring that the bank's credit-granting activities conform to the established strategy, that written procedures are developed and implemented, and that loan approval and review responsibilities are clearly and properly assigned. Senior management must also ensure that there is a periodic independent internal assessment of the banks credit-granting and management functions.

Kalluci (2011) made an investigation by analyzing the Albanian banking system in a risk performance environment with an aim of suggesting some indicators and a risk index that can be helpful to supervisors of banks when executing their duties. The findings in this study are that high risk index is attributed by high returns on assets (ROA) and a well-capitalized banking system, as well as by low ROA volatility. The return on equity changes significantly owing to a change in equity multiplier and the return on assets ratio. ROA changes proportionally to the change in net interest margin and earning assets ratio, as well as a consequence of the banks being unable to cover non-interest expenses by non-interest income but is negatively correlated to the rise in the loan loss provisions to total assets ratio. Net interest margin falls as a result of the increase in the cost of borrowed funds and earning assets financed by paying liabilities. In insurance industry, net interest margin falls when risk tolerance is low which can be mitigated by using premiums collected from policy owners to buy various low-risk investments, charging reasonable fees on both the policies bought and management of clients' capital

2.3.2 Risk Assessment and Loan Performance of Organizations

Pagach and Warr (2010) studied the effect of adoption of risk assessment principles on firms' long-term performance by examining how financial, asset and market characteristics change around the time of ERM adoption. Using a sample of 106 firms that announced the hiring of a CRO, they found that firms adopting ERM experience a reduction in stock price volatility. Similarly, firms hiring CROs when compared to similar, non-CRO appointing firms in their

industry group, exhibit increased asset opacity, a decreased market-to-book ratio and decreased earnings volatility. In addition, these researchers found a negative relationship between the change in firms' market-to-book ratio and earnings volatility. However, Pagach and Warr (2010) overall results fail to find support for the proposition that ERM is value creating

Hameeda and Al Ajmi (2012) carried out a study on conventional and Islamic banks in Bahrain. The objective of the study was to find out the risk assessment of these banks. Their study found out that banks in Bahrain had a clear understanding of risk and risk management and also had efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. In addition, they established that credit, liquidity and operational risk were the most important risks facing both conventional and Islamic banks in Bahrain. The risk assessment were determined by the extent to which managers understood risk and risk management, efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis. From the study, Islamic banks were found to be significantly different from their conventional counterparts in understanding risk and risk management. Islamic banks were found to have significantly higher risks than conventional banks.

Muli (2003) conducted an investigative study on the assessment of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. Data from questionnaires and interviews was coded and frequency tables in simple percentages used to analyze responses to each question. A descriptive approach was then adopted in communicating the results. In summary, the study found that although risk management is consciously present in Kenyan insurance business, there still lacks a clear understanding of the discipline in the industry. Where they were available, the involvement of risk surveyors/managers by insurers was found not comprehensive enough. They were not involved in risk control and evaluation even after they had recommended appropriate risk control measures. It was found that although insurers have adequate information for any risk management activity, there lacks an efficient means of storage and retrieval of the same. The study recommended computerization and general improvement of their information systems.

Ogilo (2012) carried out a study that sought to establish the impact of credit risk assessment on financial performance of commercial banks in Kenya and to find out if there exists a relationship between the credit risk management determinants by use of CAMEL indicators and financial performance of these banks. The study used secondary data from the CBK publications. Multiple regression analysis was used for data analysis. The study found a strong impact between the CAMEL components on the financial performance of commercial banks. The study also established that capital adequacy, asset quality, management efficiency and liquidity had a weak relationship with financial performance whereas earnings had a strong relationship with financial performance. The study concluded that CAMEL model can be used as a proxy for.

Siba (2012) carried out a study on the relationship between financial risk assessment and financial performance of commercial banks in Kenya. The objective of the study was to find out if there was any relationship between financial risk management practices and financial performance of commercial banks in Kenya performance. The subject of the study were 40 commercial banks operating in Kenya and the study employed questionnaire method for the primary data collection, while secondary data was obtained from the CBK annual supervision reports. The findings showed that all banks had a formal risk management system in place and that all the banks had similar risk management environment, policies and procedures. Similarly, the banks used very efficient levels of risk monitoring and management information systems and internal controls. They, however, had various mixes of risk monitoring schedules and there was a disparity between the various banks in the responsibility for identifying, managing and controlling risks as well as back up of system and data files. The overall finding was that banks have highly effective risk management practices and there was a strong relationship between bank performance and efficiency of the bank's risk management practices.

Wanjohi (2012) analyzed the effect of financial risk assessment on the financial performance of commercial banks in Kenya. The study found out that majority of the Kenyan banks were practicing good financial risk management and as a result the financial risk management practices had a positive correlation to the financial performance of commercial banks in Kenya. The study recommended that banks should devise modern risk measurement techniques such as value at risk, simulation techniques and Risk-Adjusted Return on Capital. The study also

recommended use of derivatives to mitigate financial risk as well as develop training courses tailored to the needs of banking personnel in risk management.

2.3.3 Risk monitoring on Loan performance of organizations

Risk Monitoring is the process for tracking identified risks, monitoring residual risks, identifying new risks, executing risk response plans, and evaluating their effectiveness throughout the project life cycle. The "planned risk responses" which are integrated into the project management plan by the process integrated change control are therefore executed if the risk triggers fire. But the result of these risk responses must be evaluated too. In addition the process Risk Monitoring and control has to evaluate whether on the "project assumptions are still valid, risk has changed from its prior state, proper risk management policies and procedures are being followed and contingency reserve should be modified in line with the risk of the project (Akkizidis & Khandelwal, 2008).

Musyoki (2011) argued that risk monitoring is the main function of the risk manager is to monitor; measure and control credit risk. The Risk Manager's duty includes identification of possible events or future changes that could have a negative impact on the institution's credit portfolio and the bank's ability to withstand the changes. Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place.

Mwisho (2011) argue that in many firms, fancy value-risk models, are up and running. But, in many more cases, they are still in the implementation phase. In the interim, simple ad hoc limits and close monitoring substitute for elaborate real time systems. While this may be completely satisfactory for institutions that have little trading activity and work primarily on behalf of clients, the absence of adequate trading systems elsewhere in the industry is a bit distressing. There are three stages in the credit risk monitoring process, namely; the simple risk control of the business avoiding being over concentrated in any one sector, estimating the probability of defaulting and assessing recovery, the link between economic capital and return.

Kithinji (2010) argued that risk monitoring in particular enables the venturing, what rate of return they require to make a particular investment and how to mitigate an activity's potential losses. There are many conceptual studies made on risk analysis in reference to measurement and

mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause. This classification enables the management to divide risks that are threatening the existence of the corporation from those which can cause slight damages. Frequently, there is an inverse relationship between the expected amount of loss and its corresponding likelihood, i.e. risks that will cause a high damage to corporation, like earthquakes or fire, occur seldom, while risks that occur daily, like interest rate or foreign exchange risks, often cause only relatively minor losses, although these risks can sometimes harm the corporations seriously.

According to Soyemi*et al*. (2014), risk managers should put in place a working management information system to help monitor levels of risk and facilitate timely review of positions of risk plus their exceptions. After risk monitoring, control should be done through setting standards, policies and procedures that define both authority and responsibility. This ensures that exposure to risks is minimized.

Risk monitoring is the last step in the process of risk management and is the most important duty done by risk managers as it involves frequent contact with clients who see managers as problem solvers and trusted advisors (Ndwiga, *et al*., 2012). It is the process that helps managers discover problems which have occurred in systems early in time though the last step in risk management process. When an appropriate risk monitoring strategy is adopted, it means that appropriate product pricing in line with estimated risk is achieved which in turn affects profitability.

2.4 Risk Management and Loan Performance

Kimotho and Gekara (2017) conducted a study on the effect of credit risk management and financial performance of commercial banks in Kenya. The purpose of study was to examine effect of credit risk management practices on financial performance of commercial Bank in Kenya. The study adopted descriptive research design and target population consisted of credit risk managers, credit analyst and debt recovery managers. The study revealed that credit risk management procedures are used to influence profitability of the bank positively and also recommends the management of the banks to oversee facilitation of credit risk management as a substantial degree of standardisation of process and documentation. The study recommended that

the bank should consider risk identification as a process in credit risk management and focus on interest risks and foreign exchange risks to great extent in the risk identification map.

Alshatti (2018) examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005 to 2013. Thirteen commercial banks were chosen to express on the whole Jordanian commercial banks. The research revealed that the credit risk management affects financial performance of the Jordanian commercial banks as measured by ROA and ROE. Based on findings, the researcher recommends amongst others that banks should improve their credit risk management to achieve more profits, banks should take into consideration the indicators of non-performing loans/gross loans, and that banks should establish adequate credit risk management policies by imposing strict credit estimation before granting loans to customers.

Justus *et al.* (2017) assessed the influence of credit risk management practices on loan delinquency in SACCOS in Meru County, Kenya. The study adopted a descriptive research design and the population consisted of all the 44 credit officers of SACCOs in Meru County. Questionnaire was used to collect data. Multiple linear regressions were used in data analysis. Analyzed data was presented in percentages and frequency tables. The study revealed that there exist a strong relationship between credit risk controls, collection policy and loan delinquency in SACCOs. Thus the study concludes that credit risk management practices significantly influenced loan delinquency in SACCOs in Meru County. The study recommends adoption of a more stringent policy on credit risk management practices in SACCOs for effective debt recovery.

Aboagye and Otieku, (2016) conducted a study on Credit Risk Management and Profitability in financial institutions in Sweden. The main objective was to find out if the management of the risk related to that credit affects the profitability of the financial institutions. They found that credit risk management in financial institutions has become more important not only because of the financial crisis that the world is experiencing nowadays but also the introduction of Basel II. They concluded that since granting credit is one of the main sources of income in financial

institutions, the management of the risk related to that credit affects the profitability of the financial institutions.

Negera (2012) assessed the determinants of non-performing loans. The mixed research approach was adopted for the study. Survey was conducted with professionals engaged in both private and state owned Banks in Ethiopia holding different positions using a self- administered questionnaire. In addition, the study used structured review of documents and records of banks and in-depth interview of senior bank officials in the Ethiopian banking industry. The findings of the study shows that poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful default by borrowers and their knowledge limitation, fund diversion for unintended purpose, over/under financing by banks ascribe to the causes of loan default.

A study was conducted by Ahmed and Malik (2015) on credit risk management and loan performance. They examined credit risk management and loan performance with credit terms, client appraisal, collection policy, credit risk control as independent variables and loan performance as dependent variable. The results of the analysis showed that the credit terms and client appraisal have positive and significant impact on the loan performance, while the collection policy and credit risk control have positive but insignificant impact on loan performance. Gladys (2012) did a study to establish the effect of credit risk management techniques used to evaluate SMEs on the level of Nonperforming loans by Commercial banks in Kenya. A descriptive study of credit risk management techniques was used by commercial banks in Kenya was carried out on all the banks. A regression analysis was developed in order to examine the relationship credit risk management and SME Nonperforming loans in Banks in Kenya. The study established that there is a negative relationship between Credit Risk management and nonperforming loans.

Muasya (2013) investigated the relationship between credit risk management practices and loans losses - a study on commercial banks in Kenya. Descriptive research design was utilized in this study as it aimed to see if there is a relationship between credit risk management practices and loan portfolio losses in commercial banks in Kenya. Research findings indicated that a

significant number of commercial banks in Kenya had not put in place credit risk management information systems to effectively measure, monitor, control and identify risk, and that majority of management of commercial banks in Kenya recognized the need for information sharing among players within the industry in order to mitigate the risk. It was concluded that credit risk management practices are common among most of the commercial banks in Kenya and that management of these commercial banks appreciated government legislation relating to credit risk management through the introduction of the credit sharing information Act, and that there is a significant negative relationship between credit risk management practices and loan losses in commercial banks in Kenya.

Mutua (2016) did a study on the impact of credit risk management on financial performance of savings and credit co-operative societies in Kitui County. The research design used in this study was a descriptive research design. The data collection instruments in this case included self-administered questionnaires which were used to extract valuable primary data from the SACCOs' management. The study used quantitative method to analyze the data and examine the simultaneous impact of the independent variables on the dependent variable. The findings indicated that there was a very strong positive relationship between credit monitoring and financial performance of SACCOs, a very strong positive relationship between loan policy in mitigation of risk and financial performance of SACCOs and that there was a very strong positive relationship between loan defaulters and financial performance of SACCOs.

Mutua (2014) evaluated the effect of credit risk management on the financial performance of commercial banks in Kenya. The study targeted auditors of all commercial banks in Kenya; the population of the study were the credit controllers of all the 43 commercial banks in Kenya. Primary data was collected using questionnaires which were administered using drop and pick method by the researcher. The data was then analyzed using quantitative techniques. 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 concluded that in view of risk analysis as accredit 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 analysis

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.

In a study conducted by Nyong'o (2014) on the relationship between credit risk management and non-performing loans in commercial banks in Kenya. It was found that credit risk management practices adopted by the banks influences the level of non-performing loans to great extent and that risk identification, risk monitoring and risk analysis and appraisal would lead to decrease in non-performing loans while bank size and interest rates would lead to increase in non-performing loans. The study further recommended that the boards of commercial banks should outline risk management strategy and formulate well-defined policies and procedures. That Risk management department should be made on portfolio or business line basis, to adopt a holistic approach judging the overall risk exposure in assessing and managing risk profile of the bank.

Mwithi (2012) conducted a study to determine the relationship between credit risk management practices and the level of non-performing loans of microfinance institutions in Nyeri County, Kenya. The study found out that the level of credit risk assessment and management was high in the MFIs. It was also found out that effective management of their institutions was affected by liquidity and profitability, and that asymmetric information in loan market affects the effective management of NPLs in MFIs in Nyeri County. The study found that inability to enforce covenants leads to NPLs among MFIs in Nyeri County to a very large extent. The study concluded that the relationship between credit risk management approaches employed by Micro Finance Institutions in Nyeri County and the level of Non-Performing Loans was a negative correlation i.e. the higher the level of credit risk management, the lower the level of NPLs.

Haneef*et al.*, (2012) did a study to investigate the impact of risk management on nonperforming loan and profitability of banking sector of Pakistan. Five banks were selected for data collection and the data was secondary in nature. The result of this study revealed that there was no proper mechanism for risk management in banking sector of Pakistan. Study also concluded that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks. They further concluded that risk management encompasses risk identification, assessment, measurement, monitoring and controlling all risks inherent in the business of

banking; the basic principles relating to risk management that are applicable to every financial institution, irrespective of its size and complexity.

Kaggwa (2013) looked the influence that interest rates had on asset quality performance of Ugandan commercial banks. The study findings indicated even though credit procedures and regulations were being followed there was still some loan repayments defaults that affected credit risk and hence profitability. The study however adopted one policy of credit risk management practices and ignored the rest.

Karugu & Ntoiti (2015) carried out a study that study sought to analyze the influence of credit risk management practices on profitability of listed commercial banks at Nairobi Security Exchange in Kenya. The study findings were that credit appraisal, debt collection and credit risk management had a major direct influence on returns. The study however did not address the issue of loan portfolio quality and if it was affected by credit risk management practices.

Kipchumba (2015), evaluated the influence of assessment of credit on repayments of loans in Kenya's micro-finance institutions. The study found out that credit assessment to a large extent influenced loan repayment and hence the institutions profitability. It was not clear however if the findings were applicable to commercial banks and in particular Barclays bank of Kenya.

Mohammad (2018) did a study on risk management in Bangladesh Banking Sector. His main objective was to investigate the contribution of credit risk on non-performing loans. He found that, the crux of the problem lies in the accumulation of high percentage of non-performing loans over a long period of time. As per him unless NPL ratio of the country can be lowered substantially they will lose competitive edge in the wave of globalization of the banking service that is taking place throughout the world. Since they have had a two-decade long experience in dealing with the NPLs problem and much is known about the causes and remedies of the problem, he concluded that it is very important for the lenders, borrowers and policy makers to learn from the past experience and act accordingly.

Haron and Hin (2007) did a study on credit risks experienced by commercial banks. His objective was to find out the complexities of a number of their products, as well as their relative novelty in the contemporary financial services market, combined with the fiduciary obligations of the bank when it acts as a custodian, imply that for Banks, credit risk is very important for consideration. He found that Investment Account Holders may be considered in the absence of misconduct and negligence by the bank to bear credit and market risks of assets if their funds have been invested by the bank, the latter must be considered as being exposed to the credit risk arising from its management of those funds. He concluded that that Banks are exposed to a number of credit risks that differ from those that are faced by conventional banks.

Khan and Ahmad (2001) carried a study on risks arising from profit-sharing investment deposits. The objective of the study was to find out whether bankers considered these unique risks more serious than conventional risks faced by financial institutions. The results of survey of risk perception in different modes of financing showed that risk level is considered elevated. They concluded that the high perception of risks may be an indication of the low degree of active risk management due to the absent of risk control through internal processes and control, especially in the case of credit risk.

Ngugi (2001) postulates that in order to determine the needs of the local banking sector with regard to risk management, the central bank of Kenya conducted a survey in September 2004 that would provide a status position on the extent to which risk management is practiced in the financial institutions operating in Kenya. The survey revealed that there is a high level of awareness in banking institutions on the importance of employing systematic methods of identifying, analyzing and controlling or mitigating risks.

2.5 Research Gaps

Several studies were conducted on credit risk management and loan performance. These include Aboagye and Otieku, (2016) conducted a study on Credit Risk Management and Profitability in financial institutions in Sweden. Negera (2012) assessed the determinants of non-performing loans. The mixed research approach was adopted for the study. Ahmed and Malik (2015) on credit risk management and loan performance. They examined credit risk management and loan performance with credit terms, client appraisal, collection policy, credit risk control as

independent variables and loan performance as dependent variable. Muasya (2013) investigated the relationship between credit risk management practices and loans losses - a study on commercial banks in Kenya. Descriptive research design was utilized in this study as it aimed to see if there is a relationship between credit risk management practices and loan portfolio losses in commercial banks in Kenya. Mutua (2016) did a study on the impact of credit risk management on financial performance of savings and credit co-operative societies in Kitui County. Mutua (2014) evaluated the effect of credit risk management on the financial performance of commercial banks in Kenya and Mwithi (2012) conducted a study to determine the relationship between credit risk management practices and the level of non-performing loans of microfinance institutions in Nyeri County. Kaggwa (2013) looked the influence that interest rates had on asset quality performance of Ugandan commercial banks. Kipchumba (2015), evaluated the influence of assessment of credit on repayments of loans in Kenya's micro-finance institutions. Mohammad (2018) did a study on risk management in Bangladesh Banking Sector. His main objective was to investigate the contribution of credit risk on non-performing loans and Haron and Hin (2007) did a study on credit risks experienced by commercial banks. His objective was to find out the complexities of a number of their products, as well as their relative novelty in the contemporary financial services market, combined with the fiduciary obligations of the bank when it acts as a custodian, imply that for Banks, credit risk is very important for consideration. The studies conducted were conducted in the environment that is not Somalia, the studies were also conducted before 2017 presenting a conceptual and geographical gaps that these studies set to fill.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter discusses the methods that was used in this study and provides a general framework for this research. The chapter presents research design, target population, sample and sampling procedures, sources of data, research instruments, validity and reliability of instruments, data collection procedures, data analysis techniques and ethical considerations.

3.1 Research Design

The study adopted descriptive research design, A descriptive design was used because it can enable the researcher interpret, understand facts regarding risk management and Loan performance, both quantitative and qualitative approaches were used in this study. The choice of the descriptive design is because it provides more detailed information for the study. The descriptive research design developed to attain the casual effect between risk management and Loan performance. The design included the individual analysis of the mean and standard deviations on the individual constructs of the Independent variable and dependent variables, these expressions entailed the quantitative research design (means and standard deviations). The qualitative design was used to provide an explanation on the quantitative values to attach meaning and value to the study.

3.2 Research Population

According to Saunders (2005) a population refers to any group of institutions, people or objects that have common characteristics. The target population for this study involved all staff in the three commercial banks in Mogadishu Somalia. The selected commercial banks were investigated, for the purpose of this study, the researcher contacted the employees of the headquarters located in Mogadishu, and these were operational and managerial staff of the banks. The banks have the populations Salama bank (72) Dahabshil Bank (69) and Amal bank (76), Extracts from the HR manual of the three banks reveal the above population. The population of the study is therefore 217 staff of the banks who were deemed as potential respondents.

3.3 Sample Size

The study used Sloven's formula to determine the sample size of the actual respondents. Sloven's formula states: $n = \frac{N}{1+N(\alpha)^2}$

Where; $\mathbf{n}$ = sample size; $\mathbf{N}$ = target population; and $\boldsymbol{\alpha}$ = 0.05 level of significance

$$n = \frac{217}{1 + 217(0.05)^2}$$

$$n = \frac{217}{1 + 217(0.0025)}$$

$$\frac{217}{1.542}$$

$$\mathbf{n = 141 respondents for questionnires}$$

Therefore a sample of 141 respondents was selected to participate in the study.

Category		Population	Sample
Salama bank	Operational staff	62	40
	Managerial staff	10	7
		72	**47**
Dahabshil Bank	Operational staff	60	39
	Managerial staff	9	6
		69	**45**
Amal bank	Operational staff	64	41
	Managerial staff	12	8
		76	**49**
Total		**217**	**141**

Source: Human resource Manual, 2018

3.3.2 Response Rate

The study targeted a sample population of 141 respondents from the questionnaires that were dispatched from the field. The research achieved a response rate of 92.9 percent from the 141 respondents out of the 131 questionnaires that were administered and distributed to the selected respondents of the study. Therefore with this response rate, there is high confidence that the responses received on the study are reliable. Mugenda (1999) as well as Saunders (2007) suggests that a response rate of 50% is adequate when quantitative data is manually collected.

Table 3.3.2: Response Rate

Respondents Category	Sample Size	Actual returned	Percentage
All respondents	141	131	92.9

Source: Primary Data, 2019

Table above presents the response rate of the responses to which the research instruments were administered. The findings presented show that out of 142 respondents targeted 131 responded giving a response rate of 92.9%. This implies that the response rate was high regarding the state of the responses is deemed high.

3.4 Sampling Procedure

The respondents were selected using stratified and simple random sampling procedure to select the sample population and the respective people for data collection. After stratifying the population, the researcher used simple random sampling method to select the respondents from the respective departments. This was done to give opportunity to all respondents without bias to participate in the study. Convenience sampling was used in the selection of managerial staff of the banks.

3.5 Sources of Data

Data was used primary data collection techniques.

3.5.1 Primary Data

Primary data was gathered basically through structured questionnaires and interviews with informant members. This is aim at first-hand information from the staff of the commercial banks.

3.6 Research Instruments

The researcher obtained data from the field using the following important instruments:

3.6.1 Questionnaires

These are inter-related questions designed by the researcher and given to the respondents in order to fill in data/information. The researcher used a self-administered questionnaire (See Appendix I) to collect primary data from the respondents, which created secrecy leading to more valid responses as well as allowing respondents to fill them at their convenience. The questionnaire was designed according to the objectives and study variables, and responses to the questions were anchored on a five-point Likert's scale of ; Strongly agree – Agree – Not sure – Disagree – Strongly disagree. It takes into consideration the position of respondents who are not sure of their opinion or decision. The questionnaire consisted of two sections; A, B and C; "Section A" questions were about demographic background of the respondents, "Section B" questions focused on the research variables and "Section C" was about respondent suggestion. The instrument was both closed and open ended questions. The questionnaire is used because it attains more information necessary and required by the researcher to attain data that can be easily quantifiable. The questionnaire was used because it can enable data collection at a close and wider range for the researcher.

3.7 Validity and Reliability

3.7.2 Validity

Validity refers to the degree to which evidence and theory support the interpretation of test scores entailed by use of tests. The validity of instrument is the extent to which it does measure what it is supposed to measure. According to Mugenda and Mugenda (1999), Validity is the accuracy and meaningfulness of inferences, which are based on the research results.

Tool validity was checked and confirmed using the retest method for content validity index (CVI.) judges were used to establish validity for each item. Where by judges will be selected to judge each item. The inter judge coefficient validity was computed to be CVI= (number of judges declared item valid) (total no of judges to arrive at an average acceptable for the study using the research instrument.

According to Amin (2005) validity of instrument is determined by the formula:

$$\text{CVI} = \frac{RQ}{\text{TQ}}$$

Legends: CVI = Content Validity Index

RQ = Relevant Questions

TQ = Total number of Questions

Table 3.7.1: Determination of the validity of the instrument

	Relevant items	**Not relevant**	**Total**
Rater 1	24	6	30
Rater 2	25	5	30
	26	4	30
Total	**75**	**15**	**90**

$$\text{CVI} = \frac{75}{90} = 0.83$$

The above demonstrate that the CVI is 0.83 and this is greater than the minimum value of valid instrument which is 0.7 implying that the instrument is valid.

3.7.2 Reliability

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials. If a researcher administers a test to a subject twice and gets the same score on the second administration as the first test, then there is reliability of the instrument (Mugenda and Mugenda, 1999). Reliability is concerned with consistency, dependability or stability of a test (Nachmias and Nachmias, 1996). The researcher measured the reliability of the questionnaire to determine its consistency in testing what they are intended to measure. The test re-test technique was used to estimate the reliability of the instruments. This involved administering the same test twice to the same group of respondents who have been identified for this purpose.

A single statement (item) was presented to each student and then this same statement was presented to the student 3 weeks later. A test-retest reliability coefficient was calculated on this individual statement (item) since individual items cannot have a Cronbach's alpha internal consistency reliability calculated. The respondents were asked to respond to the statement using a five-point Likert scale ranging from 1 (Strongly Disagree) to 4 (Strongly Agree). The Cronbach's alpha value of 0.7 on the pretest instrument was attained for the instrument to be reliable.

Table 3.7.2: Reliability of the research Instrument

Construct Variable	Cronbach's Alpha	Number of items
Risk identification	0.75	7
Risk assessment	0.87	7
Risk monitoring	0.92	6
Loan performance	0.75	10
Mean	**0.822**	

The mean of the reliability is established at 0.822 therefore the internal consistency (Reliability) of the instrument was confirmed

3.8 Data Gathering Procedures

Prior to the commencement of data collection, the researcher obtained all the necessary documents, including an introduction letter from the University. Audience with the sampled local authorities in the area were sought to clarify the purpose of the study. Upon getting clearance, the researcher in person to distribute the questionnaires to the sampled individuals holds focus group discussions. Assistance from the local authorities was sought. Use of questionnaires is expected to ease the process of data collection as all the selected respondents were reached in time. During the distribution of the instruments, the purpose of the research was explained.

3.9 Data Analysis

Data from the field were edited and coded according to themes which emanated from the research objectives and questions. Qualitative data were derived from open-ended questions in the questionnaires while the qualitative data were derived from closed ended questions. The

demographic characteristics were analyzed based on frequency and percentages in frequency tables. The first, second and third objectives were analyzed using SPPS version 22 to generate descriptive statistics of means and standard deviations, there after simple linear regression and multiple regression was used to determine the effect of risk management on Loan performance at 95%

3.9 Ethical Considerations

The researcher sought clearance from the University to be able to collect data in the targeted area. The researcher ensured and assured the respondents that all their responses were treated in strict confidentiality

The researcher obtained informed consent from authorities to interview their citizens and also interviewed the care takers. The researcher explained to the people in the study area the objectives of the study, introduced him he explained why the particular respondents were chosen, the benefits, discomforts and harms of the study, and requested to also ask questions in relation to the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter discusses the presentation of data, analysis and interpretation. The study was conducted on the topic "To establish the effect of risk management on Loan performance in commercial banks in Mogadishu Somalia. The objectives were to assess the effect of risk identification on Loan performance of commercial banks in Mogadishu Somalia. To determine the effect of risk assessment on Loan performance and to analyze how risk monitoring affect Loan performance commercial banks in Mogadishu Somalia. The data analysis and interpretation was based on the research questions as well as research objectives, the presentation is divided into two dimensions. The first part presents the respondents profile or demographic information, while the second part deals with presentation, interpretation, and analysis of the research objectives. Below are the data presentations and analysis of research findings.

4.1 Demographic Information

These presentations provide the characters of demographics of the respondents who participated in the study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of respondents in the study.

4.1.1 Gender of respondents

Table 4.1: Gender of the respondents

Gender

Response	Frequency	Valid Percent
Male	101	77.1
Female	30	22.9
Total	**131**	**100.0**

Source: Primary Data, 2019

The study findings regarding the gender of respondents reveal that, majority of the respondents were male who constituted 77.1% of the total respondents while the female were 22.9%. The findings imply that the both the female and male gender are prevailing in cost management with the males though being majority. It further implies that male dominate in the study organizations, otherwise the study cannot be doubted on gender grounds.

4.1.2 Age of the Respondents

Table 4.2: Age of Respondents

Response	Frequency	Valid Percent
18-27	28	21.3
28-37	21	16
38-47	37	28
48-57	40	31
58 above	5	3.7
Total	**131**	**100.0**

Source: Primary Data, 2019

The findings on the age categorization of respondents present show that the majority age category was 48-57 with 31% of the respondents, 38-47 category had 28% of respondents recorded, 18-27 category had the 21% of the respondents, 28-37 category had 16% of the respondents while 58+ had 3.8 % of the respondents. The findings imply that the study was taken from educated respondents therefore information attained can be based on for decision making.

4.1.3 Education of Respondents

Table 4.3: Education of respondents

Education

	Frequency	Valid Percent
Certificate	16	12.2
Diploma	19	14.5
Degree	65	49.6
others	31	23.7
Total	131	100.0

Source: Primary Data, 2019

Finally the education characteristics of respondents were majority of the respondents were for degree holders who constituted 49.6% of the respondents, others had 23.7% of the respondents, diploma had 14.5% and certificate had 12.2% of the respondents. The findings on this imply that

majority of the respondents were educated, it is of no doubt that researcher attained data from the educated people.

4.1.4 Marital Status of Respondents

Table 4.4: Showing Marital Status of Respondents

Marital status

Response	Frequency	Valid Percent
Single	29	22.1
Married	95	72.5
Divorced/Separated	7	5.3
Total	131	100.0

Source: Primary Data, 2019

On the marital status of the respondents, the findings were that majority of the respondents were 73% who were married, Single respondents were 22% of the respondents, those divorced were 5% of the respondents. The findings imply that results were taken from responsible people; it is prudent to argue that information can be relied upon for decision making.

4.2 Effect of Risk Identification on Loan Performance of Commercial Banks in Mogadishu Somalia

The first research objective was to determine the to assess the effect of risk identification on Loan performance of commercial banks in Mogadishu Somalia. Before establishing the effect, the researcher first thought to establish the level of risk identification, their after determine the level of loan portfolio and then run simple linear regression to determine the effect of risk identification on Loan performance. The determination of the level of risk identification, it was based on the 7 questions that are based a five liket scale measure to provide an interpretation for the mean and standard deviations.

4.2.1 Risk Identification in Commercial Banks in Mogadishu Somalia

Table 4.5 Descriptive Statistics on the Risk Identification in Mogadishu Somalia

Risk identification	**Mean**	**Std. Dev**	**Interpretation**
The risk department identifies core credit risks over time in the bank	2.900	1.466	Fair
There is estimating of the credit risk time by the bank	2.877	1.430	Fair
The risk identification department is highly staffed and trained	2.732	1.391	Fair
There is early risk identification by the experts in the loans	3.786	1.419	Good
The bank conducts regular risk identifications on non performing Loans	3.855	1.414	Good
The bank management funds credit risk identification in the bank	3.755	1.324	Good
Credit approvals identify the would be risk on the Loans	3.931	1.089	Good
Average	**3.405**	**1.361**	**Good**

Source: Primary Data, 2019

The risk identification in commercial banks in Mogadishu Somalia had the mean of 3.405, SD=1.361 interpreted as good. The risk department identifies core credit risks over time in the bank had the mean of 2.900 interpreted as fairly Good. There is estimating of the credit risk time by the bank had the mean of 2.877 interpreted as fair meaning a fair budgetary control as being fairly good.

Concerning the findings on the risk identification department is highly staffed and trained had the mean of 2.732, SD=1.391 interpreted as fair. The results further revealed that there is early risk identification by the experts in the loans had the mean of 3.876 interpreted as good.

The study results concerning the issue of the bank conducts regular risk identifications on non performing Loans had the 3.855 interpreted as good. The results concerning the issue that the bank management funds credit risk identification in the bank had the mean 3.755 had the standard deviation

The study results concerning the Credit approvals identify the would be risk on the Loans had the mean of 3.931 interpreted as good meaning that he management teams provide an avenue for accessing the budgetary avenues and process.

4.2.2 Loan Performance of Commercial Banks in Mogadishu Somalia.

Table 4.6: Show results Loan Performance of Commercial Banks in Mogadishu Somalia.

Loan performance	Mean	Std. Dev	Interpretation
The loans are paid in the stipulated time of the loans agreement	2.549	1.376	Poor
The loans are always fully paid with the loan interest	2.465	1.421	Poor
The borrowers are always in closer contact with the bank	3.099	1.357	Fairly Good
There are always reminders sent to borrowers that make them pay in time	2.771	1.395	Fair Good
The sureties always play a role in reminding the borrowers in paying back the loans	2.946	1.248	Fair Good
The loans payment are done willingly without force by the bank	2.916	1.353	Fair Good
Nonperforming loans are always summoned to the bank	3.748	1.377	Good
There are attempts that make the non functioning loans to function.	3.709	1.361	Good
The Management undertake to use the law in recovering non performing loans	3.687	1.190	Good
There are staff assigned to oversee and peruse the non functioning loans	3.923	1.034	Good

Average	3.181	1.311	Fairly Good

Source: Primary Data, 2019

The study findings in table 4.5 on the Loan performance of commercial banks in Mogadishu Somalia. The results reveal that the overall Loan performance was 3.181 interpreted as fairy good. Concerning the state of the loans are paid in the stipulated time of the loans agreement had the mean of 2.549 interpreted as poor while the loans are always fully paid with the loan interest had the mean 2.465, SD= 1.421 interpreted as good.

The study results concerning the borrowers are always in closer contact with the bank had the mean of 3.099, SD=1.357 interpreted as fairly good. There are always reminders sent to borrowers that make them pay in time had the mean of 2.771 interpreted as good in the mode of assessment for the profitability.

The sureties always play a role in reminding the borrowers in paying back the loans had the mean of 2.946, SD=1.248 interpreted as fairly good while the loans payment are done willingly without force by the bank had the mean 2.916 interpreted as fairly good.

The Nonperforming loans are always summoned to the bank had the mean of 3.748 interpreted as good while there are attempts that make the non functioning loans to function had the mean of 3.709 interpreted as good.

The study results concerning the Management undertake to use the law in recovering non performing loans had the mean of 3.687, SD= 1.190 interpreted as good and There are staff assigned to oversee and peruse the non functioning loans with the mean of 3.923 interpreted as good.

4.2.3 Effect of Risk Identification on Loan Performance of Commercial banks in Mogadishu Somalia.

Regarding the effect of risk identification on Loan performance of commercial banks in Mogadishu Somalia, suggested a positive effect as tabulated in the table below. The summarized regression results are clearly indicative of the fact that risk identification has an effect on Loan performance in Mogadishu Somalia.

Table 4.7: Regression Test Results (Risk Identification on Loan Performance)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.456[a]	.208	.202	.38245
a. Predictors: (Constant), Risk identification				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.947	1	4.947	33.824	.000[b]
	Residual	18.869	129	.146		
	Total	23.816	130			
a. Dependent Variable: Loan performance						
b. Predictors: (Constant), Risk identification						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.934	.217		8.905	.000
	Risk identification	.366	.063	.456	5.816	.000
a. Dependent Variable: Loan performance						

Source: Primary Data, (2019).

The R-Squared coefficient was computed to be at .208. This figure indicates that risk identification alone has a 20.8% effect on Loan performance of commercial banks in Mogadishu Somalia. This also means that the rest of the 79.2% is influenced by other factors other than risk identification. The R-Squared coefficient denotes a considerably low amount of influence that risk identification has on Loan performance.

Analysis of variance was also performed where findings suggested that there was some significance in the effect. The p value for the test was computed within an acceptable range since it was at 0.000. This is enough evidence to suggest that risk identification has a significant effect on Loan performance of commercial banks in Mogadishu Somalia.

The t statistics for the variable (risk identification) was also within the acceptable range to support their relevance in the model, Risk identification as the independent variable had a

calculated t value of 5.816. This implies that that it has a high and significant predictive potential on Loan performance. The p value for the beta of this variable also suggests the same as it was found to be below 0.05. Therefore the null hypothesis is rejected and the researcher argues that there was a significant relationship between risk identification on Loan performance of commercial banks in Mogadishu Somalia.

4.3Effect of Risk Assessment on Loan Performance of Commercial Banks in Mogadishu

The second research objective was to examine the effect of risk assessment on Loan performance of commercial banks in Mogadishu Somalia. The results presented are first presented on descriptive of cost monitoring in the company.

4.3.1 Risk Assessment of Commercial Banks in Mogadishu

Table 4.8: Risk Assessment of Commercial Banks in Mogadishu

	Descriptive Statistics		
Item	**Mean**	**Std. Dev**	**Interpretation**
There are quantitative tools for risk assessment in the bank	2.236	1.233	Poor
The management established experts in assessing risks in bank	2.931	1.504	Fairly Good
There is effective mechanisms for quantitative risk determinations in the bank	2.717	1.296	Fairly Good
The management established the assessment tools for the bank	2.786	1.335	Fairly Good
There is sufficient knowledge forecast on risks before their occurrence	2.206	1.250	Fairly Good
The employees of the bank trained in risk assessment by the bank	3.519	1.443	Good
There is timely risk assessment before cause losses to the bank	2.732	1.572	Fairly Good
Average	**2.732**	**1.376**	**Fairly Good**

Source: Primary Data, 2019.

The study findings in Table 4.8 on risk assessment of commercial banks in Mogadishu. The study results on risk assessment are 2.732 interpreted as fairly good in the study. The study findings individually presented on there are quantitative tools for risk assessment in the bank had the mean 2.236 interpreted as poor while the management established experts in assessing risks in bank had the mean of 2.931 interpreted as fairly good.

The study findings concerning the means of effective mechanisms for quantitative risk determinations in the bank had the mean 2.717 while the management established the assessment tools for the bank had the mean of 2.786 interpreted as fairly good.

The study findings concerning there is sufficient knowledge forecast on risks before their occurrence had the mean 2.206 interpreted as fairly good. The results further show the employees of the bank trained in risk assessment by the bank according to 3.519 interpreted as good. There is timely risk assessment before cause losses to the bank had the mean of 2.732, SD=1.572 interpreted as fairly good.

4.3.2 Effect of Risk Assessment on Loan Performance of Commercial Banks in Mogadishu

Regarding the effect of risk assessment on Loan performance of commercial banks in Mogadishu that suggested a positive effect as tabulated in the table below. The summarized regression results are clearly indicative of the fact that risk assessment help in improving portfolio performance.

Table 4.9: Regression Effect of Risk Assessment on Loan Performance of Commercial Banks in Mogadishu

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.232[a]	.054	.046	.41796
a. Predictors: (Constant), Risk assessment				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.281	1	1.281	7.336	.008[b]
	Residual	22.535	129	.175		
	Total	23.816	130			
a. Dependent Variable: Loan performance						

b. Predictors: (Constant), Risk assessment						
Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.732	.170		16.070	.000
	Risk assessment	.165	.061	.232	2.708	.008
a. Dependent Variable: Loan performance						

Source: Primary Data, 2019.

From the 131 observations who were the respondents, the study computed the R Squared Coefficient to stand at 0.293. This figure means that risk assessment had 29.3% effect on Loan performance in commercial banks in Mogadishu Somalia. Because this is the coefficient of determination, it implies that risk assessment has a low, positive, but significant effect on Loan performance.

Looking at the ANOVA test results, findings suggest that the significance level was below the threshold of 0.05. The calculated F-Statistic of 7.336 is high. This fact provides evidence to the fact that risk assessment has a significant effect on Loan performance in Mogadishu Somalia.

Regarding the coefficients, the risk assessment was above the t Statistic was 2.708. Besides both the independent and dependent variables have a significance value of 0.00.This means the variable is very important to the model and cannot be removed. The p value also confirms this fact as it was below 0.05. The researcher therefore rejects the null hypothesis and concludes that there was a significant relationship between risk assessment on Loan performance of commercial banks in Mogadishu.

4.4 Effect of Risk Monitoring affect Loan Performance Commercial Banks

The third objective of the study was to establish the effect of risk monitoring affect Loan performance commercial banks in Mogadishu Somalia. The study findings on the cost evaluation in effect of risk monitoring affect Loan performance commercial banks in Mogadishu Somalia is determined based on the descriptive statistics provided in the table below.

4.4.1 Risk Monitoring in Commercial Banks in Mogadishu Somalia

Table 4.10: Risk Monitoring in Commercial Banks in Mogadishu Somalia

	Descriptive Statistics		
Item	**Mean**	**Std. Dev**	**Interpretation**
There is effective early detection mechanisms for risks	2.969	1.276	Fairly good
The risk department provide utmost solutions to risks that occur	3.305	1.583	Good
There is effective assessment that control that minimizes risks of operations	3.488	1.531	Good
The staff initiated risks are accounted for by the staff	3.419	1.462	Good
There is budget planning for effectively handling the risks in the bank	2.908	1.400	Fairly good
There are supportive trained staff for effective risk monitoring in the bank	2.931	1.216	Fairly good
Average	**3.170**	**1.397**	**Fairly good**

Source: Primary Data, 2019.

The study findings in table 4.10 on risk monitoring in commercial banks in Mogadishu Somalia had with the mean of 3.182, SD=1.397 interpreted as fairly good meaning that risk monitoring was fairly good.

Concerning the issue of the effective early detection mechanisms for risks, the mean was 2.969 interpreted as fairly good while that of the risk department provide utmost solutions to risks that occur had the mean of 3.305 interpreted as good meaning that cost evaluation mechanisms are in place.

Furthermore concerning there is effective assessment that control that minimizes risks of operations the mean responses were 3.488, SD=1.531 interpreted as good. The staff initiated risks are accounted for by the staff had the mean of 3.419 interpreted as good meaning that the determination of the direction for risks.

There is budget planning for effectively handling the risks in the bank had the mean of 2.908, SD=1.400 interpreted as fairly good. There is supportive trained staff for effective risk monitoring in the bank with the mean of 2.931 interpreted as fairly good.

4.4.2 Effect of Risk Monitoring Affect Loan Performance Commercial Banks in Mogadishu Somalia

Regarding the effect that risk monitoring affect Loan performance commercial banks in Mogadishu Somalia, the findings suggested a positive effect as tabulated in the table below. The summarized regression results are clearly indicated in table 4.11 below.

Table 4.11: Regression (Effect that Risk Monitoring Affect Loan Performance Commercial Banks in Mogadishu Somalia.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.150[a]	.023	.015	.42480
a. Predictors: (Constant), Risk monitoring				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.537	1	.537	2.975	.087[b]
	Residual	23.279	129	.180		
	Total	23.816	130			
a. Dependent Variable: Loan performance						
b. Predictors: (Constant), Risk monitoring						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.576	.232		15.433	.000
	Risk monitoring	-.124	.072	-.150	-1.725	.087
a. Dependent Variable: Loan performance						

Source: Primary Data, 2019.

Regarding the effect that risk monitoring affect Loan performance commercial banks in Mogadishu Somalia, findings suggested a positive effect as tabulated in the table above. The R-Squared coefficient was computed to be at 0.023. This table indicates that risk monitoring has a 2.3% effect on Loan performance. This also means that the rest of the 96.7% is influenced by other factors other than risk monitoring. The R-Squared coefficient denotes a low amount of influence that risk monitoring affect Loan performance commercial banks.

Analysis of variance was also performed where findings suggested that there was some significance in the effect due to the significant differences found. The p value for the test was computed not in acceptable range since it was at 0.087. This is enough evidence to suggest that risk monitoring has a low and no significant effect on Loan performance. The t statistics for the x variables were also within the acceptable range to support their relevance in the model since their p values were all below 0.05. The researcher accepts the null hypothesis and concludes that risk monitoring has no significant effect on Loan performance commercial banks in Mogadishu Somalia.

4.5 Effect of Credit Risk Management on Loan Performance

Table 4.12: Effect of Credit Risk Management on Loan Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.452[a]	.204	.154	.49698
a. Predictors: (Constant), risk Monitoring, risk assessment, risk identification				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.599	3	1.200	7.613	.000[b]

	Residual	25.845	164	.158		
	Total	29.445	167			
a. Dependent Variable: Performance						
b. Predictors: (Constant), risk Monitoring, risk assessment, risk identification						

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.185	.328		6.662	.000
	Risk identification	.264	.067	.290	3.916	.000
	Risk assessment	.089	.053	.129	1.664	.048
	Risk monitoring	-.044	.059	-.057	-.753	.372
a. Dependent Variable: Loan Performance						

Source: Primary data, 2018

The effect for all the three independent variables on loan performance was computed to be at an R Squared coefficient of 0.425. It meant that the variables accounted for 42.5% of the variation in loan performance could be explained by the three variables belonging to credit risk management. This denotes a low rate of influence that the variables have on loan performance. The ANOVA section also offers collaborating evidence to support the fact that there is a significant amount 0 influence. The p value for the test was established at 0.000 which is below 0.05. The implication was that all the variables combined had a significant influence on loan performance. The study findings imply that credit risk management affect loan performance to some degree.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This final section of the report deals with the discussion of the findings presented in the preceding chapter. The discussion is made with reference to other similar works done in previous studies. The section then draws conclusions from these discussions after which it offers its recommendations. Finally, it suggests areas that are potential grounds for research that could not be completed in the body of this report.

5.1 Discussion of Findings

This section was further organized into three subsections with respect to the research objectives that guided the study.

5.1.1Effect of Risk Identification on Loan Performance of Commercial Banks in Mogadishu Somalia.

The study reveals that risk identification was quite fairly good; it had a significant effect on Loan performance of commercial banks in Mogadishu Somalia. Though the effect seemed to be low, it was significant indicating that a significant effect existed between risk identification and loan performance, Never the less the results are in agreement with the previous authors such as Kinyua (2010) who conducted a study on risk identification as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation Even Kromschroder & Luck (2008) argued that risk identification is vital for effective mitigation of credit risk. In order to manage credit risks effectively, management of bank have to know what risks face the bank. Even Bofondi (2013) argued that risk identification has been heavily influenced by known problems or prior incidents. This reactionary mode typically limits the amount of creative thought that is invested in identifying all potential scenarios of what could go wrong. Fortunately, many organizations are evolving towards a more proactive approach by assembling organizational teams and utilizing

outside expertise to recognize risks to the enterprise and finally Kalluci (2011) made an investigation by analyzing the Albanian banking system in a risk performance environment with an aim of suggesting some indicators and a risk index that can be helpful to supervisors of banks when executing their duties. The research results from selected banks in Mogadishu are in agreement with the previous studies indicating that risk identification is very fundamental since many studies reveal there effective contribution to Loan performance.

5.1.2 Effect of Risk Assessment on Loan Performance of Commercial Banks in Mogadishu Somalia.

The study reveals that risk assessment was quite fairly good; it had a significant effect on Loan performance of commercial banks in Mogadishu Somalia. Though the effect seemed to be low, it was significant indicating that a significant effect existed between risk assessment and loan performance**.** The results are in line with Muli (2003) who conducted an investigative study on the assessment of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Even Siba (2012) carried out a study on the relationship between financial risk assessment and financial performance of commercial banks in Kenya. The objective of the study was to find out if there was any relationship between financial risk management practices and financial performance of commercial banks in Kenya performance and finally Wanjohi (2012) analyzed the effect of financial risk assessment on the financial performance of commercial banks in Kenya. The study found out that majority of the Kenyan banks were practicing good financial risk management and as a result the financial risk management practices had a positive correlation to the financial performance of commercial banks in Kenya. The results are in disagreement with those of Hameeda and Al Ajmi (2012) carried out a study on conventional and Islamic banks in Bahrain. The objective of the study was to find out the risk assessment of these banks. Their study found out that banks in Bahrain had a clear understanding of risk and risk management and also had efficient risk identification, risk assessment analysis, risk monitoring and credit risk analysis, though the analysis seem to be limited, the effect between the variables is high

5.1.3 Effect of Risk Monitoring affect Loan Performance Commercial Banks in Mogadishu Somalia.

The study reveals that risk monitoring was fair though, it had a non significant effect on Loan performance of commercial banks in Mogadishu Somalia. Though the effect seemed to be low, it was though not significant indicating that a significant effect existed between risk assessment and loan performance. The results are in agreement with those of Musyoki (2011) argued that risk monitoring is the main function of the risk manager is to monitor; measure and control credit risk. The Risk Manager's duty includes identification of possible events or future changes that could have a negative impact on the institution's credit portfolio and the bank's ability to withstand the changes. The results are in agreement with those of Kithinji (2010) argued that risk monitoring in particular enables the venturing, what rate of return they require to make a particular investment and how to mitigate an activity's potential losses. There are many conceptual studies made on risk analysis in reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause and finally Soyemi *et al*. (2014) contend that risk managers should put in place a working management information system to help monitor levels of risk and facilitate timely review of positions of risk plus their exceptions. After risk monitoring, control should be done through setting standards, policies and procedures that define both authority and responsibility. This ensures that exposure to risks is minimized.

5.2 Conclusions

The purpose of the study was to establish the effect of risk management on Loan performance in commercial banks in Mogadishu Somalia. The objectives were to assess the effect of risk identification on Loan performance of commercial banks in Mogadishu Somalia, to determine the effect of risk assessment on Loan performance of commercial banks and to assess how risk monitoring affect Loan performance commercial banks in Mogadishu Somalia.

The study results regarding the first objective, the study conclude that risk analysis is fundamental in enhancing Loan performance. The study conclude that effective risk identification is necessary for Loan performance indicating that utmost work performance is fundamental for loan portfolio response.

The study on the second research objective concludes that risk assessment in the banks in Mogadishu Somalia had a significant effect on Loan performance. The study concludes further that managing the state of risks concerning loans can generate the Reponses in payment for loans.

The study finally on the third objective conclude that risk monitoring though occurred in the commercial banks of Mogadishu Somalia did not generate high Loan performance. The result indicates that risk monitoring didn't lead to resonate loans recovery.

5.3 Recommendations

There is need for strong cost reduction by management through credit risk analysis so as to save on the finances lost through operations for recovery of the none responding or performing Loans. There is need for the banks to conduct analysis in clear form and develop the mode for tracking risks before their actual occurrence to curb insurgencies.

Secondly regarding the risk assessment, the management needs to provide sound internal mechanism through control of expenditures to attain a financial stable business. The management needs to institute management teams for enhancing direct operations for the organizational establishments.

Thirdly, on there is detailed information on integrated risk management at their company and weigh these risks against those of new investments. The board of directors of financial institutions should be made up of individuals who understand the risks of derivatives and structured products. The board of directors of financial institutions should be made up of individuals who understand the risks of derivatives and structured products. The risk management committee must actively monitor the firm's risks. Top executives' risk appetite must be defined, known, and monitored by the board.

5.4 Contributions to knowledge

The study contributes to knowledge through providing an explanation to the degree and effect of credit risk management on loan performance. It is clear to note that the horn of Africa's Capital has been and still leave at war and the banking sector faces challenges, this research therefore tries to explain and suggest that loan performance for the commercial banks is affiliated to credit

risk management by the banks. This is different from the known norms of banking affiliating loan performance highly on lack of credit management efficiency.

5.5 Areas of further study

Because of time and resources, the researcher recommends for the adoption of the following further areas of credit risk management and financial performance of commercial banks.

- Credit policy and performance of commercial banks
- Interest rate and performance of commercial banks
- The role of ICT on performance of commercial banks

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Appendix i: Research Instrument: Questionnaire

Dear Respondents

I, Abdifatah Mohamed Omar a student of Kampala International University, a student of Master of degree in Business administration, conducting a study on "Credit Risk management and performance of loan portfolio in Commercial Banks In Mogadishu Somalia. I am privileged to have you as my respondent and the information given to me is purely academic and will be treated with confidentiality.

Section A: Demographic Characteristics of Respondents

1. Gender

Male ☐

Female ☐

2. Age

18- 27 ☐

28 – 37 ☐

38 – 47 ☐

48 – 57 ☐

58 + ☐

3. Marital status:

Single ☐

Married ☐

Divorced ☐

Widowed ☐

4. Education Level:

1. Certificate ☐

2. Diploma ☐

3. Degree ☐

4. Masters ☐

Section B: Credit Risk management

The use of Likert scale were 1= Strongly disagree, 2= Disagree, 4= Agree, 5= Strongly Agree.

Direction: please tick the column corresponding rating that best describes your response using the guide below

Score mode of response description

5 Strongly agree you agree with no doubt

4 Agree you agree with some doubt

3 Not Sure You are doubtful

2 Disagree you disagree with some doubt

1Strongly disagree you disagree with no doubt

		Rankings				
	Response	**1**	**2**	**3**	**4**	**5**
	Risk identification					
RI_1	The risk department identifies core credit risks over time in the bank					
RI_2	There is estimating of the credit risk time by the bank					
RI_3	The risk identification department is highly staffed and trained					
RI_4	There is early risk identification by the experts in the loans					
RI_5	The bank conducts regular risk identifications on non performing Loanss					
$R1_6$	The bank management funds credit risk identification in the bank					
$R1_7$	Credit approvals identify the would be risk on the Loans					

	Risk assessment					
RA_1	There are quantitative tools for risk assessment in the bank					
RA_2	The management established experts in assessing risks in bank					
RA_3	There is effective mechanisms for quantitative risk determinations in the bank					
RA_4	The management established the assessment tools for the bank					
RA_5	There is sufficient knowledge forecast on risks before their occurrence					
RA_6	The employees of the bank trained in risk assessment by the bank					
RA_7	There is timely risk assessment before cause losses to the bank					
	RISK MONITORING					
RM1	There is effective early detection mechanisms for risks					
RM2	The risk department provide utmost solutions to risks that occur					
RM3	There is effective assessment that control that minimizes risks of operations					
RM4	The staff initiated risks are accounted for by the staff					
RM5	There is budget planning for effectively handling the risks in the bank					
RM6	There are supportive trained staff for effective risk monitoring in the bank					

Section C: **Loan performance**

RANK.**1= Strongly Disagree, 2= Disagree, 3=Not sure 4=Agree, 5= strongly Agree.**

		RANKING				
	Response	**1**	**2**	**3**	**4**	**5**
LP1	The loans are paid in the stipulated time of the loans agreement					
LP2	The loans are always fully paid with the loan interest					
LP3	The borrowers are always in closer contact with the bank					
LP4	There are always reminders sent to borrowers that make them pay in time					
LP5	The sureties always play a role in reminding the borrowers in paying back the loans					
LP6	The loans payment are done willingly without force by the bank					
LP7	Nonperforming loans are always summoned to the bank					
LP8	There are attempts that make the non functioning loans to function.					
LP9	The Management undertake to use the law in recovering non performing loans					
LP10	There are staff assigned to oversee and peruse the non functioning loans					