

IMPACT OF BANKING REGULATIONS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE STUDY OF TRANS NZOIA COUNTY

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Abstract: Banking regulation is one of the main economic systems that the government uses to shape economic performances. The government through the Central Bank of Kenya uses financial policy protocols like central bank rate, open market operations, and cash reserve ratio for commercial banks with the objective of managing multiple financial targets among them price stability, promotion of growth, achieving full employment, smoothing the business cycle, preventing financial instability, stabilizing long-term profit rates and the real exchange rate. This Study was carried out with the following objectives; to assess the impact of financial policy on financial performance of commercial banks in Trans Nzoia; to examine the effect credit standards on the financial performance of commercial banks in Trans Nzoia; to influence the effect of profit rate capping on the financial performance of commercial banks in Kitale and to evaluate the impact of affirmative lending on the financial performance of commercial banks in Trans Nzoia. The Study adopted survey sampling. The size of the sample for the Study was one hundred and thirty six (136) staff from the first tier commercial banks in Kenya; Kenya Commercial Bank 30 staff, Cooperative Bank 10 staff, Equity bank 23 staff, Standard Chartered bank 9 staff, Barclays bank of Kenya 11 staff and Diamond Trust Bank 10 staff. Questionnaires were used to collect data from the bank employees. Data collected was analyzed using Statistical Package for Social Sciences (SPSS) version 22. Qualitative data was analysed thematically while quantitative data collected was analysed using descriptive statistical techniques which included frequencies, mean and standard deviation. Multiple linear regressions was adopted for the study to test the relationship between the study variables. Based on the study findings the respondents seem to be of the thoughts that the financial performance of a commercial bank is being influenced by the kind of banking regulations the government is implementing at the time. The study also indicated that there exists a negative effect of credit standard on the financial performance of commercial banks in Trans Nzoia County. The monetary policy items revealed a significant value with the relationship between monetary policy and affirmative. To this the findings revealed that the financial performance of banks is negatively caused by the type of credit standards implemented at the time. It was also indicated that the bank's financial performance is as a result of the type of banking protocols. A conclusion was made that a strong relationship exists between banking regulations and financial performance. Also concluded was that the absence of banking regulations in the commercial banks sector, may kill the business vision of the banking sector of Trans Nzoia County.

Keywords: monetary policy, credit standards, interest rate capping and loans affirmative.

1. INTRODUCTION

Background of the study

Banking regulation has been around for a long time. One of Julius Caesar's first demonstrations was to present a general budgetary upgrade for the Roman Domain, explicitly restricting the acts of cash banks when a resident was somewhere down under water. Notwithstanding the liberal measure of time there's been to work out the wrinkles in all dimensions of

guideline (Beattie, 2018). The idea of a national bank in charge of macroeconomic adjustment is a post-World War-II, occasion. The Central Bank of Kenya was established in 1966 with the primary target of the bank being to manage the issuance of cash notes and coins, to aid the improvement and support of a sound fiscal, credit and banking framework in Kenya helpful for the deliberate and adjusted budgetary advancement of the nation and the outer strength of the money and to fill in as financier and budgetary guide to the administration (Sashoo, 2012), while before current macroeconomics, there was no comprehension of the conduct of the economy dictated by the task of the value framework with the genuine expansion balanced loan cost being the key entomb worldly cost of assets.

With no comprehension of the value framework, there could be no understanding that the value framework functioned admirably in the feeling of building up all around characterized estimations of genuine factors that equilibrate markets, specifically, a characteristic rate of premium. Prior to the war, there was then no origination of money related strategy comprehended as the shared association between the settings of an arrangement instrument the loan cost on bank saves or the assets rate and the conduct of the economy. As a result, there could be sense that this mutual interaction was a procedure for letting the price system work by causing the genuine financing cost to follow the regular rate of enthusiasm before the establishing of the Fed; the US was on the best quality level. After the second's end Bank of the US in 1836, the US had no national bank, and the highest quality level worked naturally (Rothbard, 2002). The Bank of Britain, the national bank for the world on the highest quality level, worked with a lot of tenets that required no comprehension of the value framework. Nothing readied the early Bolstered for the obligations of the money related routine that Congress made in 1912. Amount scholars like Irving Fisher needed to change the idea of the fiscal routine by making steadiness in a file number of costs the dollar cost of a crate of products the ostensible grapple. Notwithstanding, that takeoff from fiscal universality for a routine of oversaw cash was viewed as sinful by the set up budgetary and political request, with no comprehension of what it was doing, the early Encouraged made the very routine that the built up request considered unorthodox routine in which a national bank controlled fiat cash creation (Beattie, 2018). The change development that prompted the formation of the Fed focused not on a longing to supplant the highest quality level but instead on the craving to dispense with the budgetary frenzies that upset exchange. The development consolidated two customs: genuine bills and American populism. The two customs accepted that the grouping of stores in New York prompted the theoretical augmentation of credit and resource bubbles, the breakdown of which delivered subsidence and collapse. The inspiring standard behind the government association of the Fed at that point was to wipe out the fixation pyramiding of stores in the substantial New York banks by scattering them among free vaults of starting at 1912, the past involvement with national banks in the US was with the First and Second Banks of the US and the contemporaneous experience was particularly with the Bank of Britain. These national banks had authorized the best quality level. The Bank of Britain forced a typical loan cost in the currency markets dependent on how gold streams, inward and outer disturbed the adequacy of its gold reserve. A kind of control over the banking system from a central location like New York was not acceptable politically (Hetzl, 2017).

Global Perspective of Banking Regulations

The current global banking environment cannot be told better without mentioning the global financial crisis of 2008 in which the world's most developed economy in terms of financial transactions and over view, it is seen that the emergency of 2007 to 2008 unfurled in a few phases (Roubini and Mihm 2010). It started in the US with the blasting of lodging bubble and the development in home loan defaults, especially those including subprime contracts that had been reached out in developing numbers at the stature of the rise to less trustworthy borrowers. These defaults progressively influenced the strength of business keeps money with introduction to these home loans just as budgetary items attached to these home loans, a few flexible investments were the first to crumple in mid 2007, and later on genuine concerns broke out in currency advertises about the presentation of a wide scope of business banks in the US and Europe that had put vigorously in home loan related budgetary items. By mid September, alarm even broke out at the retail level, with England encountering its first bank keep running since the nineteenth century (Allen and Carletti, 2009).

Roubini and Mihm (2010) sees that in spite of authority endeavours to quiet the business sectors with huge dosages of liquidity, the emergency just extended in mid 2008, when the major U.S. venture bank Bear Sterns must be safeguarded by U.S. experts. Three advancements in September 2008 at that point set off an all out breakdown of market certainty. From the get-go in the year, the U.S. government set the two monster government supported home loan loaning organizations under a type of open conservatorship as a result of the tremendous misfortunes they were encountering, in which the venture bank Lehman Siblings was constrained into liquidation. Presently, the world's biggest insurance

agency, American worldwide gathering, was protected and nationalized by the U.S. government. It was now that the seriousness of the emergency started to be felt substantially more unequivocally past the north Atlantic locale. In view of their challenges, U.S. furthermore, European banks pulled back their universal credits, activating serious money related issues and obligation emergencies in nations that had been acquiring intensely from abroad. Universal exchange credits likewise evaporated, conveying fares and imports to a halt in numerous areas and nations. Ramadhan and Naseeb (2015) underlines that budgetary infection was felt especially firmly in nations whose money related frameworks were at that point defenceless on account of home-developed lodging bubbles, budgetary abundances, and extensive current record shortfalls. The effect of the budgetary emergency likewise spread all around through different overflows working through the genuine economy, for example, crumbling trades, ware costs, and settlement instalments. The disappointment was especially striking since this was a time in which controllers worked seriously to assemble and fortify universally planned prudential benchmarks that were intended to make more stun evidence worldwide money related markets. These endeavours had started with the production of the 1988 Basel Accord, which set out basic capital principles for universal banks which was refreshed somewhere in the range of 1998 and 2004 into Basel II (Roubini and Mihm, 2010). Verick and Islam (2010) stress that strategy creators from the G7 nations began to advance the worldwide selection of global best practice norms. These gauges connected to a wide scope of prudential issues identifying with bank supervision, securities guideline, protection, bookkeeping, evaluating, instalments frameworks, and corporate administration. What's more, the institutional condition in which worldwide administrative and budgetary soundness issues were examined was reinforced. This body united in one spot out of the blue the key universal standard setting substances and other national and global authorities worried about money related dependability, and it was entrusted with foreseeing and counteracting the gathering of framework wide hazard. Regardless of these activities, the substance of the rising worldwide budgetary norms routine had critical restrictions. Albeit basic global capital models were created for banks, those gauges did not have any significant bearing to the foundations that were ending up increasingly more foundationally essential in view of securitization patterns, for example, venture banks, insurance agencies, and speculative stock investments.

Helleiner (2011) sees that controllers in the US and Europe likewise did not get control over banks' making of organized venture vehicles, despite the fact that these elements empowered avoidance of the Basel capital prerequisites. In certain areas, for example, OTC subsidiaries, bookkeeping, and speculative stock investments the executives, models created by independent bodies were supported by strategy creators. In other key zones, for example, FICO assessment, global standard setters grew just wilful principles for the business. Indeed, even the universal measures that energized obligatory guideline by national open experts, for example, bank capital tenets, progressively moved a similar way. In 1996, Basel I was altered to enable extensive banks to utilize their inward esteem in danger models to compute capital charges for market hazard. It is additionally seen that this specific change encouraged the more prominent investment of business banks in the securitization slants and heightened aggressive weights among firms. Afterwards the Congress secured a free enterprise administrative condition for OTC subordinates. In 2004, the U.S. Securities and Trade Commission lifted credit to capital proportion for venture banks, a move that empowered them to participate in more serious hazard taking. At last, in the years paving the way to the emergency, U.S. experts did not do what's necessary to stop the development of poor home loan loaning rehearses in the independent division particularly of subprime advances. The deregulatory slants in the US have been resounded in numerous different nations, most quite the Assembled Kingdom, which trumpeted its light touch administrative condition (Helleiner, 2011).

Regional Perspective of Banking Regulations

ICPAK (2017) watches the vital pretended by commercial banks in the financial security of a nation which isn't in uncertainty and the feelings of dread of auxiliary shortcoming in the East African People group EAC provincial commercial banks had reemerged following the ongoing bank runs emergency saw in five banks including Pursue bank, Majestic and Dubai banks in Kenya, Twiga bank in Tanzania just as crane bank in Uganda with experts indicating frail supervision, the National Bank of Kenya-CBK has since put two banks under receivership and one into liquidation while its partners in the east Africa area; Tanzania and Uganda have put no less than one bank each into receivership. Cytonn (2017) underscores that the circumstance is like the theory that won amid real bank disappointments brought about by efficient shortcomings in 1988, 1993 and 1998 that guaranteed in excess of 50 business banks. The business banking area in EAC district is an aggressive part and its future is brilliant. It is exceptionally focused as far as market division with the heaviest challenge being found in the Little and Medium Endeavors SME banking which is a genuinely energetic piece of the EAC economy and a great deal of banks; Kenya-42, Uganda-25, Tanzania-41 each having incentives focusing on that

specific fragment. The provincial business banks area is likewise profoundly incorporated with cash exchanges so it is extremely aggressive on what sort of offers banks can offer for shared cash exchanges and business to client and client to business installments; generally riding off the M-pesa, Airtel cash, MTN, ZantelEzy cash developments which have now coordinated once more into the financial framework (ICPAK, 2018).

Faure (2015) asserts that business banks are essentially in charge of the supply of cash to the market through the exchange of assets. Commercial banks in Kenya are regulated by CBK, which primarily control the supply of money in the market and protect consumers through avenues of budgetary and fiscal policies. In Kenya the performance of the Banking Act amendment Bill 2016 was a watershed in the evolution of the banking industry in which it observed that September 2016 to be the effective date for the usage of the financing cost top, the banks must choose the option to re-create the intermediation plan of action (Njoroge, 2016).

Local Perspective of Banking Regulations

In any economy, business banks do act in intermediation through which individuals store reserves and get advances (Lodewijks and Monadjemi, 2015). Quintessentially commercial banks profit from the contrasts between the rate which they pay contributors and the rate which the charge borrowers eluded as the net premium edge NIM. These rates are dictated by market powers, of profit and supply, chance remuneration among moneylenders, however likewise a few different variables become possibly the most important factor. Cytonn (2017) stresses that with the presentation of topping of loan fee banking guideline pertinent, this will affect the financials business (Njoroge, 2016) and productivity as it won't represent other a few factors that may influence the bank's choice to settle on specific spreads, all the more so pegging it to the national bank rate will depend to a great extent on the transmission instrument of a money related arrangement choice into the economy and the adequacy of the quarterly fiscal approach board of trustees appraisal of the economy. In spite of the fact that the money related approach was picking up significance (Ireland, 2005), we are yet to consider it to be a genuine valuing player for speculators and business banks. Central bank report is on record recognizing the excessively high however it doesn't advocate for a financing cost tops as it will achieve inflexibility in the money related framework which may finish up presenting shadow banking and shylocks as individuals who can't get to credit from regular organizations because of their low credit capabilities will be evaluated out of the market (Cytonn, 2017). Putting ceilings can and could have been utilized by different economies however not for the control of spreads rather for outrageous loaning and getting conduct. In numerous economies such tops is generally route higher than the common loaning rates (Cytonn, 2017), business banks working in Kenya are the second most gainful universally after those in Latin America as seen by the consultancy firm McKinsey and presentation of financing cost chargeable is required to unfavorably influence the moneylenders edges and give a sample of the effect expanding buyer assurance, in the examination it was noticed that Kenyan and other African business banks are doing great due to being inventive on how they are living up to their clients' needs and desires (ICPAK, 2017).

Statement of the Problem

It is always wondered of how in the absence of banking regulations in the commercial banks sector, the abstract thought of how could a common business person without good strategic plans head to in the instance of seeking to borrow money to fulfil his business vision. One key segment to any budgetary market is the financial framework. Business banks encourage money related exchanges by activating and distributing assets to speculation ventures with the best long haul financial advantages. Also, it is broadly recognized that an all around directed financial framework, characterized by its supervisory practices, chance taking, and administration, advances more prominent budgetary execution and financial solidness (Caprio and Levine, 2007).

Lodewijks and Monadjemi (2015) give four noteworthy reasons why business banks ought to be controlled. The first identifies with financial approach the capacity of banks to make cash. Second, as channels of credit or ventures, banks are associated with credit portion. Third, banks are controlled to guarantee solid challenge and development by avoiding the arrangement of cartels. The fourth is for prudential guideline reasons and to relieve the issue of topsy-turvy information. This view is supported by (Howells and Bain, 2004) who opined that the reason for bank regulation originates from the existence of imbalanced information is the fact that customers of the commercial banks are less informed in this way more off guard about the issues of the business banks than the bank itself. As of late with much delay of the president's declaration that he could sign in to law the loan fees topping financial guideline in an increasingly liberal economy of free powers of profit and supply at play and the much hypothesis on the impact that it will have (Ng'ang'a, 2017). The creative

energy of how low salary natives will flood the financial lobbies to get to the much advertised ease credits was baffling. Anyway a hole exists on the effect that this financial guidelines will have on the money related execution of business banks. The budgetary execution of business banks has countless in the economy and the financial guideline will undoubtedly affect each individual with a stake in the business banks activities (Brigham and Daves, 2007). It is against this foundation that this investigation endeavors to see whether the dimension of guideline, as authorized by the exchange based supervision, upgraded the performance of banks. It is therefore important to influence the impact of the banking regulation on the financial performance of commercial banks.

Objective of the Study

General Objective

The general objective of the study was to examine the impact of banking regulations on the financial performance of commercial banks in Trans Nzoia County, Kenya

Specific Objectives

1. To examine the impact of monetary policy on the financial performance of commercial banks in Trans Nzoia County, Kenya.
2. To determine effect credit standard on the financial performance of commercial banks in Trans Nzoia County, Kenya.
3. To assess the effect of profit rate capping on the financial performance of commercial banks in Trans Nzoia County, Kenya.
4. To evaluate the impact of affirmative lending on the financial performance of commercial banks in Trans Nzoia County, Kenya.

Research Questions

1. What is the impact of banking regulations on the financial performance of commercial banks in Trans Nzoia County, Kenya?
2. What is the effect credit standard on the financial performance of commercial banks in Trans Nzoia County, Kenya?
3. What is the impact of profit rates capping on the financial performance of commercial banks in Trans Nzoia County, Kenya?
4. What is the impact of affirmative lending on the financial performance of commercial banks in Trans Nzoia County, Kenya?

Scope of the Study

The Study focused on the first tier banks according to their market share and capitalization as the center of Study. This is due to the fact that very little research has been done on the industry and in relation to its financial performance in the recent years after invasive banking regulation. The 1st tier banks that jointly control 58% of the commercial banks industry in Kenya, making the banks a good representative sample of the entire population which includes Kenya Commercial Bank, Equity Bank, Cooperative Bank, Standard Chartered, Barclays Bank, Diamond Trust Bank (Cyttonn, 2017). It involved all employees from the six commercial banks with the objective of determining the impact of banking regulation on the financial performance of commercial banks in Kitale town.

Justification of the Study

Business Banks part in Kenya is a major budgetary partner in this manner its need to work intensely through a controlled system (ICPAK, 2017). One basic commitment that can be received to accomplish supportable money related execution is influenced conceivable through intercession to appear as credit books by the natives by method for loaning and sound exhortation from the banks, the analyst trusts the business banks industry is exceptionally key. This is a basic subject and along these lines any exertion that will create learning regarding the matter is defended in light of the fact that it very well may be utilized to settle on suitable social and budgetary choices. Information produced from the investigation will be utilized by budgetary market players, governments, macroeconomics approach researchers and other budgetary administrative bodies and for compelling execution of a banking administrative system. At the point when this occurs, it

is trusted that business banks in the part will appreciate more elevated amounts of money related execution. There will be diminished abuse, cartelism, and expanded straightforwardness, reasonable play among the partners and opportune instalment of due expenses. The discoveries from the investigation are additionally huge to the researchers in the region of world request and worldwide budgetary focuses.

Limitations of the Study

The research utilized auxiliary information from 6 business banks in Kenya for the needy variable and this example may not be illustrative of all the 42 business banks in Kenya in to such an extent as along these lines the examination may not be material to all banks. To improve this confinement it might be critical to incorporate every single business bank. The outcomes may likewise not be pertinent to other money related parts as the spotlight in this investigation was on business banks. While it can offer essential bits of knowledge to other budgetary establishments, such ends ought to be drawn closer with consideration given the varieties in the manner business banks work and the manner in which other budgetary organizations work.

To improve this, it might be imperative to reproduce this examination to other money related organizations or to incorporate them in the investigation. The time length for the information gathered in this investigation was yearly information for a long time. This is definitely not an exceptionally extensive stretch that can help give hearty outcomes to appropriateness by the banks. A more drawn out period, of state 10 years, with lesser interims, state quarterly, would have been wanted to have the capacity to lead a board examination. A more extended period would help lessen this impediment.

2. LITERATURE REVIEW

Introduction:

This chapter presents literature that relates to the Study. This is being presented based on the following subtopics: theoretical literature review, conceptual framework, and review of variables, critique of existing literature, the research gap and a summary.

Theoretical Literature Review

In order to give a firm grounding to our argument and to illustrate this development, we first review the theories of banking. These are specific, relevant to the commercial banking industry and its regulatory framework (Scholtens and Wensveen, 2003). Various theories have been linked in a unified manner to provide more inclusive explanation of the relationships among the variables. These theories include; quantity theory of money, the classical theory of money, liquidity preference theory, the monetarist transmission theory, the agency theory and information asymmetric theory.

Quantity Theory of Money

The theory attempts to explain how price levels or inflation is tackled through central bank market operation in an effort of banking regulation especially via profit rate adjustments, the theory assumes that there is an aggregate demand for money which calls for banking regulations, the idea here is that agents find money useful in facilitating payments, further the assumption is be that the more exchanges are desired, the more will money be in demand to facilitate these exchanges. This is called the transactions demand for money. Because the number of transactions is difficult to measure, some proxy measure is required for empirical work. The traditional assumption has been that the number of transactions is roughly proportional to the level of budgetary movement, as estimated by the total national output. At last the hypothesis accepts that the value level changes so as to clear the yield for currency showcase (Andolfatto, 2002).

Laidler (2012) accentuates that the amount hypothesis spent the initial segment of the nineteenth century as a segment of Established financial matters. Here it was an uncontroversial clarification of the conduct of the value level under inconvertible paper cash. Despite the fact that Established financial aspects likewise once in a while credited varieties over the long haul balance estimation of the value level when cash was convertible into specie to vacillations in its amount available for use, it all the more commonly centred around the valuable metals' expense of creation under such conditions, while holding the amount hypothesis for short-run investigation. Ekim (2016) the impact of changes in financial arrangement on the dimension of absolute yield is analyzed in the casing of model not covering the running instrument of economy and dependent on the proof of diminished structure, the structure and short named elements of economy is less

underlined contrasted with the since a long time ago named elements including the connections between cash generation and cash swelling. While moving starting here, something like a circumstance, in which monetarist examination doesn't altogether presents the auxiliary associations and elements, is tangle. That monetarists utilize the models dependent on the decreased structure and are keen on since quite a while ago named outcomes rather than short named elements bolster this view. In monetarist examination, the variety happening in money related supply in the present moment is acknowledged to influence the dimension of all out yield. In any case, notwithstanding these perspectives on them, they are sceptical about the utilization of financial approaches in long haul. As indicated by monetarists, the rate of return of securities and value speak to the open door expenses of holding cash. The rate of profit for cash is the administrations given by holding cash just as any premium instalments on cash stores at banks. Expected expansion speaks to the arrival on holding merchandise, this component of specialists to hold sturdy products as resources and will substitute them for cash on the off chance that they expect value swelling is the core of the monetarist transmission channel, which buyer durables and semi durables are, all things considered, stores of riches as well, abundance cash property can be disposed of by acquiring, state a house or a car as opposed to bonds. Cash supply can influence the economy not just by means of its circuitous premium impact on speculation, yet in addition legitimately through its effect on the buy of purchaser durables as resources. (Szulczyk, 2014). In the ongoing past locally there has been bank runs occasioned by insider loaning exercises by significant investors and the Central bank of Kenya has been doing its bit through its supervisory role while trying to protect bank depositors, the names of Chase bank, Imperial bank, Family bank, Oriental and to a small extend Equity bank comes into mind, this theory will assist to examine the role of banking regulations on financial performance of commercial banks in Kenya.

Liquidity Preference Theory

Szulczyk (2014) observes that liquidity preference, in economics, will be the premium that wealth holders demand for exchanging ready money or bank deposits for safe, non-liquid assets such as government bonds. As originally employed by John Maynard Keynes, liquidity preference referred to the relationship between the quantity of money the public wishes to hold and the profit rate. According to Keynes, the public holds money for three purposes: to have on hand for ordinary transactions, to keep as a precaution against extraordinary expenses, and to use for speculative purposes. He hypothesized that the amount held for the last purpose would vary inversely with the rate of profit. The most significant point about Keynes's theory is that, at some very low profit rate, increases in the money supply will not encourage additional investment but instead will be absorbed by increases in people's speculative balances. Maux (2012) is in agreement that this will occur because the profit rate is too low to induce wealth holders to exchange their money for less liquid forms of wealth and because they expect profit rates to rise in the future. The concept of liquidity preference was used by Keynes to explain the prolonged depression of the 1930s. Post-Keynesian analysis, in which the classification of liquid assets has been broadened, has tended to relate the demand for money to a wider array of variables; these include wealth and the various forms in which it is held, the yields of these different forms, and the level of income, as well as the profit rate applied. The commercial banking system through its ability to give credit can influence the profit rate, demand and supply forces influences price of credit and is governed by net and deals with new credit and gross which includes the outstanding old credit (Ireland, 2005). The willingness of certain individuals during a given period to increase their holdings in various claims and other kinds of assets minus the willingness of others to reduce their corresponding holdings gives the supply curves for the different kinds of new credit during the period. Naturally, the quantities each individually is willing to supply depend on the profit rates. The individual has a choice between holding money and lending it out, a choice that can be expressed by means of a demand curve, showing the amounts of money he will desire to hold at different rates of profit (Szulczyk, 2014).

The rate of premium will be resolved at that dimension which makes the profit for cash equivalent to the supply. The contrast between the estimation of the things an individual obtains including cash should separated from endowments, equivalent the adjustment in his net obligation, the profit for each item and factor approaches the supply, and if the profit for cash rises to the supply of cash, it pursues by simple number juggling that the profit for credits smelly equivalent the supply of advances when these last are deciphered in an appropriately comprehensive manner. So also if the conditions of free market activity hold for product factors and credits, it will pursues consequently that the profit for cash approaches the supply of cash. On the off chance that it works along these lines, the condition for profit and supply is slothful. The reserve funds and venture turns out to be consequently equivalent (Zamborsky, 2016).

No measure of real venture, anyway incredible, can debilitate and surpass the supply of investment funds, which will in every case precisely, keep pace. In the event that this is discovered incomprehensible, it is on the grounds that mistaken for the way that too incredible a press of uncompleted speculation choices is very fit for debilitating the accessible account, if the financial framework is reluctant to expand the supply of cash and the supply from existing holders is inelastic. It is the supply of accessible account which, in practices, holds up occasionally the flood of new issues, at that point if the financial framework makes the money accessible and the venture anticipated by the new issues really happens, the proper dimension of salaries will be created out of which there will essentially stay over a measure of sparing precisely adequate to deal with the new speculation. The control of fund is in reality a powerful, however some of the time hazardous, strategy for managing the rate of speculation. It is imperative that dimension of salaries guarantees balance among sparing and speculation, the rate of intrigue is the cost of storing one might say that it quantifies the unconventionally penance which the holder of a crowd supposes it beneficial to endure in leaning toward it to different cases and resources having an equivalent present esteem (Thomas, 2003). The hypothesis is for the most part seen in the economy at the way in which National banks decide the prices of bonds and treasury bills to the public to finance government expenditures at the same time mop up excess money in circulation hence instilling the culture of saving and investment among its citizens, this theory helps to explain the loan pricing mechanism by commercial banks with net profit margins hence the financial performance.

Conceptual Framework

The conceptual framework consists of independent variables and dependent variables. The independent variables are banking regulations, credit standards, profit rate capping, and affirmative lending. The dependent variable is financial performance as shown in Figure 2.1 below:

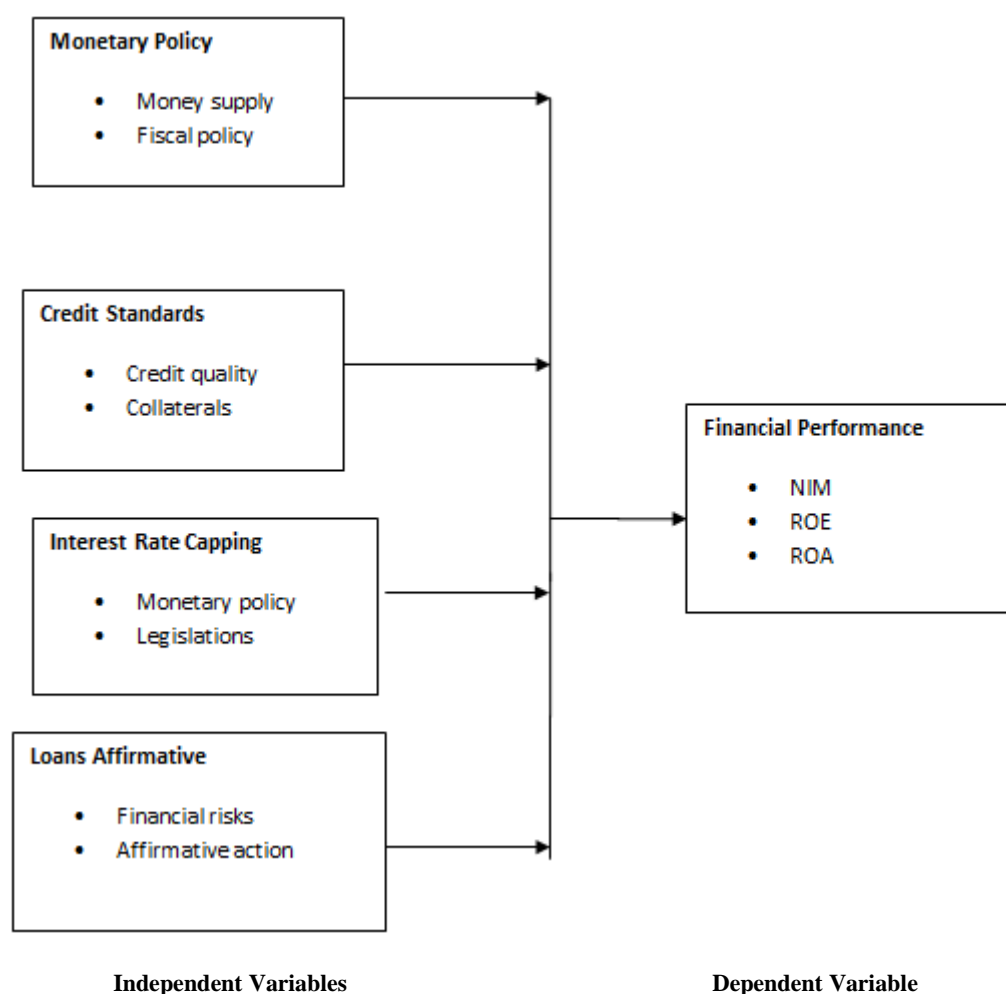


Figure 2.1: Conceptual Framework

Review of Variables

The process of examining a research problem in the social and behavioural sciences is often framed around methods of analysis that compare, contrast, correlate, average, or integrate relationships between or among variables. Cohen, Manison and Morrison (2007) observes that the designation of the dependent and independent variable involves unpacking the research problem in a way that identifies a general cause and effect and classifying these variables as either independent or dependent. The structure and writing style of describing the variables and their application to analyzing the research problem should be stated and unpacked in such a way that the reader obtains a clear understanding of the relationships between the variables and why they are important. This is also important so that the Study can be replicated in the future using the same variables but applied in a different way.

Impact of Banking Regulations on Financial Performance

Understanding the link between profit rates and bank profitability is important for evaluating the effect of the banking regulations stance as captured by the profit rate structure that is the level and slope of the yield curve on the soundness of the financial sector. While banking regulations is not, of course, the only influence on the profit rate structure, it has a major impact on it: the central bank sets the short-term rate and influences longer-term rates through direct purchases of securities and by guiding market participants' expectations about the short-term rate (Borio, Gambacorta and Hofmann, 2015). The link between banking regulations and bank profitability has gained prominence following the great financial crisis of 2008. In the major advanced economies, short-term profit rates have sagged to near zero and long-term profit rates to historically low levels, notably in the wake of ministry of finance forward guidance and large-scale central bank foreign exchange purchases and other economic stimulus activities. Surprisingly, the link between banking regulations and commercial bank profitability is that deposit rates adjust more sluggishly than lending rates. This means that, all else equal, banks make profits when the banking regulations stance changes. In any case, these adjustments typically take place within one year and are not modeled in our econometric setup, as we use annual data the second form, which is more relevant, relates to accounting practices (Borio et al., 2015). Any profit margin on new loans also covers expected losses. But provisions in the period we examine follow the incurred loss model, so that, in contrast to profit rates, they are not forward looking. As a result, extending new loans raises profitability temporarily, since losses normally materialize only a few years later, at which point loans also become non-performing, eroding the profit margin. This also means that if lower market rates induce more lending, they will temporarily boost net profit margins. The strength of this effect will depend on background economic conditions. For instance, it is likely to be weak precisely when profit rates are unusually low and the demand for loans anaemic, beyond the level of profit rates, the slope of the yield curve should also influence net profit income. Specifically, a steeper yield curve should have a positive effect on banks' net profit income (Horne and Wachowicz, 2008). Part of this effect is temporary.

This is because if all banks' liabilities were at market rates, the only lasting component of the gains would be the term premium: over time, surprises aside, market rates would catch up with those implicit in the yield curve and hence in forward rates. This means that a negative term premium is very damaging for bank profitability. The permanent component of the effect of the yield curve on net profit income can exceed the term premium only if banks enjoy oligopolistic power in some funding segment, such as retail deposits, allowing them to charge a markdown over market rates changes in the slope of the yield curve will also have quantity effects, notably influencing the volume of banks' fixed-rate mortgages. Similarly to what is discussed above, to the extent that, on balance at some point a higher level of the curve would erase profitability. (Borio et al., 2015).

Effect of Credit Standards on Financial Performance

CBK (2018) observes that banks have tightened credit standards for loan approvals. The third quarter of 2016 saw the most severe tightening of credit standards, with 7 out of the 11 sectors being affected; energy, trade, transport, personal household, manufacturing, financial services and agriculture. The tightening was mainly attributed to implementation of profit rate capping. In addition, banks also cited the reduction of the central bank rate, cost of funds and balance sheet constraints as additional factors that fuelled increased tightening of credit standards. In the fourth quarter of 2016 and the first quarter of 2017, credit standards were tightened in the personal, real estate, and building and construction economic sectors. This was mainly attributed to increased political risk due to the general elections, expectations regarding pace of general economic activity, and delayed government payments which increased the risk of default (Anyanzwa, 2016). Banks' lower capital position also contributed to the tighter standards.

A survey carried out showed that banks expected credit supply to decline in the remainder due to the capping of profit rates. Banks indicated that they had slowed down lending to assess the possible impact of the law and its implementation, in addition to reviewing of credit profiles, leading to realignment of their way of doing business in the wake of lower margins (Ng'ang'a, 2017). The law had left little room for factoring risk premium, and had therefore reduced their appetite for risk. The November 2016 Survey showed that commercial banks expected credit growth to decline due to uncertainties following capping of profit rates, including dealing with pressure to differentiate between low and medium risk customers from high risk customers; need for reforms to manage existing portfolios and focus on cleaning their balance sheet, which would require banks to change their business models.

Another survey showed that independent sector credit growth was expected to remain low due to lower risk appetite by banks, tighter credit processing after capping profit rates, and expected lower business investments by the independent sector in an election year. As a result of profit rate capping, banks are experiencing increased cost of funding and compressed net profit income, driving the need for diversification to other affordable sources of income. Focusing more on non-funded income and optimizing on financial technology to reduce costs. Focusing mostly on secured lending and selectively lending to sectors perceived as low risk (CBK, 2018).

Credit approach can impact advance book. Reach out of credit liberal; banks arrangement may have a hosing impact on the business bank's promoting exertion. Credit is one of the numerous components that impact the profit for a business bank's items. Therefore, how much credit can advance profit relies upon what different components are being utilized (Anyanzwa, 2016). In principle, the business bank should bring down its quality standard for new credits acknowledged as long as the productivity of premium pay created surpasses the additional expenses of the receivables. CBK (2018) shouts on what are the expenses of loosening up credit gauges. Some emerge from an amplified credit division, the administrative work engaged with checking extra records, and overhauling the additional volume of receivables. We expect that these expenses are deducted from the productivity of extra intrigue pay to give a net benefit figure for computational purposes. Another cost originates from the expanded likelihood of awful obligation misfortunes. At last, there is the open door cost of submitting assets to the profit in extra receivables rather than to some other speculation. The extra receivables result from expanded intrigue salary and a more drawn out normal accumulation period. In the event that new clients are pulled in by the casual credit models, gathering from these less-financially sound clients is probably going to be slower than gathering from existing clients (Horne and Wachowicz, 2008). Furthermore, an increasingly liberal augmentation of credit may make certain current clients be less reliable about paying their bills on schedule.

Anyanzwa, (2016) sees that the Kenyan borrowers since the institution of banking revision Act chance missing out using a loan as business banks audit their loaning norms in the light of. Experts comment that more tightly credit will probably gag independent venture and smother the growing economy. The primary level moneylenders will keep on supporting higher edges because of higher yielding retail credits and more grounded ease retail store entrance by ideals of their far reaching branch systems and higher profit in portable and organization banking. As indicated by the report, the income development force and gainfulness of Kenyan banks have been declining steadily in the course of recent years fundamentally because of a drop in edges because of declining resource yields on the back of a low loan fee condition and expanding subsidizing costs because of expanding rivalry from level 2 banks (CBK, 2018). In any case, credit development for the whole financial area had expanded at an aggregate rate of 17.8 percent per annum in the course of recent years regardless of loan cost instability, driven basically by expanding infiltration inside the shopper and the little and medium-sized undertakings part. Ng'ang'a (2017) observes Kenya's recorded banks lost their incentive in earlier years, failing to meet expectations with a drop in the developing business sector lists individually, while this will be to a great extent because of an insecure macroeconomic condition portrayed by a debilitating peddling, flooding expansion, high loan fees and the swelling current record shortfall. Different dangers included desires for an Encouraged Rate climb, a lull in China's economy, delayed Euro zone emergency, the critical decrease in item costs and expanding geopolitical dangers.

Anyanzwa (2016) sees that the expert Exotix communicates his sentiment on the essential driver of the under-performance was worse than average income desires, as the distinction in productivity was moderate particularly among the level 1 bank. In addition, with a comparative drop in the NSE List shows a market wide issue, Kenyan bank stocks are underestimated however mass market banks, for example, KCB, Co-operative Bank and Diamond Trust Bank offer noteworthy upside potential in 2016.

Financial Performance of Commercial Banks in Kenya

CBK(2015)emphasizes that Kenya has 42 commercial banks licensed under the central bank of Kenya banking regulations Act of 1966 of which 11 of the commercial banks are listed in the Nairobi securities exchange NSE which is prudent in reflecting how commercial banks listed are performing financially given the efficient market hypothesis holding. The banking regulations are meant to protect the profits of depositors in the commercial bank and to make sure that banks don't run themselves. Kilongosi(2005) observes that most commercial banks differ in size, capital base and number of branches, with some opening branches and subsidiaries in neighbouring countries with a regional outlook. Financial performance of a commercial bank is influenced by many factors including the level of competition, financial risk, asset quality loan portfolio, the market share a commercial bank controls, profit rates, the level of technology adopted by the commercial bank, levels of banking regulation and lastly the level of a commercial bank's capitalization.

The ability of the bank to attract a clientele that can generate sufficient income is fundamental to the sustainability of the commercial bank. The financial performance of a commercial bank can be measured by use of various financial analysis ratios such as (1) return on equity (Helleiner, 2017).Return on equity measures how efficiently a firm can use the money from shareholders to generate profits and grow the company. Unlike other return on investment ratios ROE is a profitability ratio from the investor's point of view not the company. In other words this ratio calculates how much money is made based on the investor investment in the company, not the company's investment in assets or something else. That being said, investors want to see a high return on equity ratio because this indicates that the company is using its investor funds effectively. Higher ratios are almost always better than lower ratios, but have to be compared to other companies' ratios in the industry. Kilongosi (2005) observes that since every industry has different levels of investors and income, ROE can't be used to compare companies outside of their industries very effectively. Many investors also choose to calculate the return on equity at the beginning of a period and the end of a period to see the change in return. This helps track a company's progress and ability to maintain a positive earnings trend.Kilongosi(2005) emphasizes that the second most important ration is return on assets (RAO) essentially the ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits. Since all assets are either funded by equity or debt, some investors try to disregard the costs of acquiring the assets in the return calculation by adding back profit expense in the formula. It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. A positive ROA ratio usually indicates an upward profit trend as well. ROA is most useful for comparing companies in the same industry as different industries use assets differently. For instance, construction companies use large, expensive equipment while software companies use computers and servers.Further the ratio of net profit margins (NIM), the NIM ratio measures the profit a company makes on its investing activities as a percentage of total investing assets. Commercial banks and other financial institutions typically use this ratio to analyze their investment decisions and track the financial performance of their lending operations. This way they can adjust their lending practices to maximize profitability. Investment firms also use this margin to measure the success of a fund manager's investment decision-making. A positive percentage indicates that the fund manager made good decisions and was able to a profit on his investments. A negative ratio, on the other hand, means the fund manager lost money on his investments because the profit expenses exceeded the investment earnings. The local implication of this implies that if the Central Bank of Kenya (Amendment) and that which provides that the bank profit rates be pegged on the 91-day treasury bill that came into force, the bank profit rates are strongly being influenced by the volatility of the treasury yield and thereby bank NIM, in the long run commercial banks in Kenya will no longer rely on profit generated income as their main source of income, and that they will have to move from their traditional intermediation role and towards other innovative ways of raising fee income (Kilongosi, 2005).

Critique of Existing Literature

It is soundly wondered by many critics as to what are the reasons for the existence of a system of banking regulations and controls. The basic function of banking, in accordance with neoclassical economics, is to efficiently manage the transformation of liquid deposits bank liabilities into illiquid loans bank assets. This way, the time-preference of depositors and the need for finance of business will both be satisfied (Davis and Karim, 2014) and the efficient allocation of financial resources will be achieved (Levine, 2007). The theory of asymmetric information posits that the single most important reason is to avoid market failures caused by possible moral hazard behavior of the banks.

Safeguarding prudence is thus at the heart of regulation and control. Prudence entails providing protection for depositors, ensuring that banks are not fragile, and avoiding the spread of failures among banks. Once prudence is ensured, the banks can then be left to work in a way that is as close as possible to the unfettered capital market, so that allocative efficiency can be achieved. From the perspective of the international establishment and indeed most mainstream economists, and seemingly also parts of the, furthering the market reform of the country's financial system must not be deterred or sidetracked by the financial crises in the advanced capitalist economies. These views appear to be flawed in relation to the international discussion over the reform of banking regulations and controls (Juand Lo, 2012). They are mostly based on the understanding that financial fragility is caused by, insufficient prudence of individual commercial banks. And, theoretically, this understanding is underpinned by the economics of information asymmetry: insufficient prudence is a symptom of market failure caused by the moral hazard of individual banks. But this theoretical and policy position has faced serious challenges in the international discussion. A contrasting view posits that financial fragility is a systematic phenomenon that cannot be reduced to the excessively risky pursuits of individual banks. This alternative view highlights the centrality of the different structures of the financial sector in the generation and/or the prevention of fragility (Levine, 2007).

Research Gap

The empirical studies identifies that there is a need of banking regulation with emphasis on the impact of the regulations on financial performance of commercial banks. Studies done by different authors such as Ng`ang`a (2017) find that capital can significantly influence bank cost and profit efficiency measures, find also a negative association between restrictions on bank activities and banking sector sustainability. Banking regulations in different countries especially in the African context do give varied results (CBK, 2018). Some appearing solid connection between the two factors yet objected by different researchers. Subsequently this investigation is advocated by this absence of experimental examination at the nation level on the connection between banking guidelines and business banks budgetary execution in the repercussions.

Summary of Literature Review

Helleiner(2011) opines that it is clear that a good number of national economist scholars who are both locally aptly accurately recognized a large number of the key market and administrative disappointments that wound up adding to the 2008 money related emergency. They cautioned about a considerable lot of the threats related with securitization, for example, chance practices in home loan securitization, the hazards of depending using a credit card rating organizations, the developing foundational criticalness of unregulated or gently controlled speculation banks and segments, the intensification of emergencies crosswise over business sectors and nations, the haziness of over the counter subordinates, and the grouping of hazard in vast and interconnected firms. In the administrative domain, they investigated experts for neglecting to refresh guidelines to assess a large number of these perils and for depend on all the more for the most part on market-accommodating types of guideline. They additionally created investigations of political reasons for administrative patterns, contending that they mirrored the intensity of independent budgetary premiums and ideational patterns just as U.S. furthermore, English power and profits. Global market analyst researchers were less fruitful in distinguishing the more macroeconomic reasons for the emergency, especially the job of worldwide capital streams in producing the U.S. money related air pocket (Ng'ang'a, 2017).

Verick and Islam (2010) underlines that there are a scope of complex and interlinked factors behind the rise of the worldwide money related emergency in 2008, in particular free financial approach, worldwide uneven characters, misperceptions of hazard and remiss financial guideline the effect of the emergency is somewhat assorted, reflecting contrasts in introductory conditions, transmission channels and vulnerabilities of economies, alongside the job of government arrangement in alleviating the downturn. The principle dangers to the recuperation identify with the untimely withdrawal of the improvement bundles, the proceeding and developing awkward nature both all inclusive and locally and the test of setting a fitting dimension of guideline for the budgetary segment to maintain a strategic distance from a portion of the missteps that were influenced prompting up to the beginning of the emergency in 2008. The way to recuperation will be extended and questionable, and at last, will depend on whether China and to some degree, India can keep on driving worldwide development.

CBK (2018) observes that based on the result of a study it conducted, it was found that profit rate caps has started to yield negative effects on the Kenyan economy in that, the profit rate caps has infringed on the independence of the central bank and complicates the conduct of banking regulations. It is found that under the profit rate capping environment, banking

regulations produces perverse outcomes. Reduced intermediation by commercial banks there being significant increase in average loan sizes arising from declining loans accounts, mainly driven by the large banks, thus shunning the smaller borrowers. The banks have shifted lending to Government and the large corporate. Whereas demand for credit has increased following the capping of lending rates, credit to the independent sector has continued to decline. The structure of revenue of the commercial banks has started to shift away from profit income. In addition, some commercial banks have exploited the existing approval limits to increase fees on loans in a bid to offset loss in profit income. The banking sector remains tough. However, small commercial banks will continue to experience significant decline in profitability in months since the performance, which may complicate their viability. exclusion of micro, small and medium enterprises by the commercial banks will lower growth mainly on account of the reduced access to credit by the micro, small and medium enterprises (Cytonn, 2017).

3. RESEARCH METHODOLOGY

Introduction

This chapter is divided into the following subsections; research design, target population, sample size and sampling design, data collection instrument, data collection procedure and Pilot test under data validity and reliability, data analysis and presentation analysis.

Research Design

Research configuration can be characterized as a structure or blue print for directing business explore venture in a proficient way. It subtleties the strategies important for accumulation, estimation and examination of data which encourages the specialist to structure or take care of business explore issues (Sreejesh, Mohapatra and Anusree, 2014). This exploration issue was contemplated using an enlightening examination plan. As per Cooper and Schindler (2003), an elucidating Study is worried about discovering the what, where and how of a marvel. A graphic research configuration is a plan that is utilized when the examination needs to depict explicit conduct as it happens in nature. This structure is viewed as a fitting apparatus for gathering data when the objective of the exploration calls for quantitative and subjective information. It regularly centers on the premise of speculations that push it toward the deductive side. Expressive plan can likewise permit obtaining of a great deal of data through depiction.

Greener, 2008 underlines that examination configuration isn't identified with a specific technique for gathering information or a specific sort of information. Any exploration configuration can, on a fundamental level, utilize any sort of information gathering strategy and can utilize either quantitative or subjective information. Research configuration alludes to the structure of an enquiry: it is a consistent issue instead of a strategic one. It has been contended that the focal job of research configuration is to limit the opportunity of illustration off base causal surmising from information.

Ngechu (2004) sees that plan is a coherent errand attempted to guarantee that the proof gathered empowers us to respond to questions or to test speculations as unambiguously as could reasonably be expected. When structuring research it is fundamental that we recognize the kind of proof required to respond to the examination question in a persuading way. This implies we should not just gather proof that is predictable with a specific hypothesis or clarification. Research should be organized so that the proof additionally bears on elective opponent clarifications and empowers us to distinguish which of the contending clarifications is most convincing experimentally. It additionally implies that we should not just search for proof that bolsters our most loved hypothesis: we ought to likewise search for proof that can possibly invalidate our favoured clarifications. A descriptive survey is concerned primarily with addressing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. As such they do not share the emphasis in analytic designs upon control but they do share a concern to secure a representative sample of the relevant population. This is to ensure that any subsequent assessments of the attributes of that population are accurate and the findings are generalizable in other words, they have population validity, however, this is not to say that descriptive surveys are a theoretical and that prior reviews of the literature are not as important as in the case of an analytical survey. Rather, prior consideration of the relevant theory and literature may be vital in determining what kinds of questions need to be asked (Gill and Johnson, 2002).

Kathori (2004) sees that the use of illustrative plan is additionally helpful for distinguishing factors and theoretical builds which can be additionally studied. The aim of this Study is to influence and report the impact of banking regulations on the financial performance of commercial banks in Kenya. This study thus seeks to be able to conclude the findings to all commercial banks in Kenya.

Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The Study focused on the employees in the first tier commercial banks in Kenya. Selected commercial banks in the sector were studied to represent the sector. The target population comprised of entire population from the six selected commercial banks namely Kenya Commercial Bank, Equity Bank, Cooperative Bank, Standard Chartered, Barclays Bank, and Diamond Trust Bank. The first tier commercial banks control the Kenyan banking industry market share of 58.20 as measured by summation of their individual asset bases (Cyttonn, 2017).

Sample Size and Sampling Technique

Sampling is the process of systematically selecting representative elements from the entire population that act as a representative of the total population (Ng`ang`a, 2017). Kothari(2004) emphasizes on what should be the size of the sample or how large or small should be 'n' which if the sample size 'n' is too small, it may not serve to achieve the objectives and if it is too large, we may incur huge cost and waste resources. As a general rule we can say that the sample has to be of an optimum size which should neither be excessively large nor too small. Though technically, the sample size should be large enough to give a confidence interval of desired width and as such the size of the sample must be chosen by some logical process before sample is taken from the universe. The sample size of the Study was calculated using the formula below as recommended by Fisher.

$$nf = \frac{n}{1 + n/N}$$

Where

nf = Sample size (When the population is less than 10,000)

n = Sample size (When the population is more than 10,000); 136

N= Estimate of the population size: 295

$$nf = \frac{136}{1 + 136/295}$$

nf= 93 (Respondents).

Sample size for the respondents was 93 bankers; the population is considered appropriate due to the convenience in terms of time and cost both for the researcher and on the effectiveness of data collection. It is also expected to be valid for data inferential analysis.

Data Collection Instrument

Ng`ang`a, 2017 observes that data collection is an important stage as it influences the validity of the results received from the Study. Data collection ensures that information required making an analysis and conclusion is available and further records are kept in a bid to pass information to the future generation, the research made use of both primary and secondary data, secondary data is already in existence from what other research has been done. Secondary data was collected from existing first tier commercial banks financial statements which are publicly available on different platforms.

Wilkinson and Birmingham (2003) emphasizes that questionnaires can be difficult to design and analyze. Questions posed can be misleading or ambiguous they may need to be targeted at specific, difficult to reach, groups; and they can create hours, days or weeks of work in analysis. However, a well-planned and well executed questionnaire campaign can produce rich data in a format ready for analysis and simple interpretation. If correctly managed they can be less resource-intensive than many other research instruments, and they can help gather views and opinions from many respondents as they are more commonly termed. Questionnaires have been centrally used to provide an indication of the make-up of society for centuries in the form of periodic census surveys and are often used by large organizations to establish people's views and opinions on a wide variety of topics. We often require information on a range of subjects and to obtain that information we may be required to ask people questions. Questionnaires can be designed and used to collect vast quantities of data from a variety of respondents. They have a number of benefits over other forms of data collection

including them being inexpensive to administer; very little training is needed to develop them; and they can be easily and quickly analyzed once completed. An effective questionnaire is one that enables the transmission of useful and accurate information or data from the respondent to the researcher. This is a complex process which involves presenting questions in a clear and unambiguous way so that the respondent may interpret them, articulate his or her response and transmit it effectively to the researcher. Once transmitted, the answers must be recorded, coded and analyzed fairly so that they accurately reflect the respondents views (Kothari, 2004). Questionnaire was used to collect data for the Study which is basically a set of written questions on a sheet with spaces provided for respondents to reply to the questions posed, questionnaires are frequently self administered and it's most useful when you want to collect a small amount of clearly defined facts from a large number of people.

Data Collection Procedure

Kathori (2004) emphasizes that the task of data collection begins after a research problem has been defined and research design plan chalked out. While deciding about the method of data collection to be used for the Study, the researcher needs to keep in mind the primary and secondary data. The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. The researcher would have to decide which sort of data he would be using thus collecting for his Study and accordingly he selected one or the other method of data collection. The methods of collecting primary and secondary data differ since primary data are to be originally collected, while in case of secondary data the nature of data collection work is merely that of compilation.

In this Study, questionnaires were used to collect data from the selected first tier commercial banks employees. The questionnaires was distributed through mailed questions or given directly to respondents to answer on their own. The likert scale type was employed in construction of the questionnaire. Questionnaires are a quick method of collecting data and plenty of data may be collected if mailed questionnaires are returned. Besides, use of questionnaires was cheaper than interviews and focus discussions (Wilkinson and Birmingham, 2003).

Pilot Test

Cohen, Manison and Morrison (2007) it brings to bear that the wording of questionnaires is of paramount importance and that pretesting is crucial to their success, a pilot survey principally increased the reliability, validity and practicability of the questionnaire. Kothari, 2004 observes that in a structured questionnaire the best that can be done is to influence the question-sequence with the help of a pilot survey which is likely to produce good rapport with most respondents. The research used 20 respondents to test for reliability of the data collection tool questionnaire randomly from the banks.

Reliability

It is considered that if the outcome of a measuring process is reproducible, then the measuring instrument is reliable. Reliable measuring scales provide stable measures at different times under different conditions, for example, if a coffee vending machine gives the same quantity of coffee every time, then it can be concluded that the measurement of the coffee vending machine is reliable. Thus, reliability can be defined as the degree to which the measurements of a particular instrument are free from errors and as a result produce consistent results. However, in certain situations, poor data collection methods give rise to low reliability (Sreejesh et al., 2014). The quality of the data collected can become poor if the respondents do not understand the questions properly and give irrelevant answers to them (Kothari, 2004). There are three methods that can be used to evaluate the reliability of a measure. They are test retest reliability, equivalent forms and internal consistency. If the result of a research is the same, even when it is conducted for the second or third time, it confirms the repeatability aspect, for example, if 40 % of a sample says that they do not watch movies, and when the research is repeated after sometime and the result is same or almost the same again, then the measurement process is said to be reliable. However, there are certain problems regarding the test retest method of testing reliability, the first and foremost issue is that it is very difficult to obtain the cooperation and locate all the respondents for a second round of research. Apart from this, the responses of these people may have changed on the second occasion, and sometimes environmental factors may also influence the responses. Some of the shortcomings of test retest reliability can be overcome in this method.

In equivalent form reliability, two measurement scales of a similar nature are to be developed. For instance, if the researcher is profited in finding out the perceptions of consumers on recent technologically advanced products, then he can develop two questionnaires. Sreejesh et al., (2014) emphasizes that each questionnaire contains different questions to measure their perceptions, but both the questionnaires should have an approximately equal number of questions. The two questionnaires can be administered with a time gap of about two weeks. The reliability in this method is tested by measuring the correlation of the scores generated by the two instruments. The major problem with equivalent form reliability is that it is almost impossible to frame two totally equivalent questionnaires. (Sreejesh et al., 2014) emphasizes that reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability in research is influenced by random error, of which, if it is high, reliability is low. To assess the reliability of instruments the test-retest technique is used. Cohen et al., (2007) emphasizes that the test of reliability is another important test of sound measurement. A measuring instrument is reliable if it provides consistent results. Reliable measuring instrument does contribute to validity, but a reliable instrument need not be a valid instrument. Reliability is not as valuable as validity, but it is easier to assess reliability in comparison to validity. If the quality of reliability is satisfied by an instrument, then while using it we can be confident that the transient and situational factors are not interfering. The questionnaires were pretested on participants during a pilot Study. The instruments were used twice on the same members at different times. The Cronbach alpha provides a coefficient of inter-item correlations, that is, the correlation of each item with the sum of all the other relevant items, and is useful for multi-item scales.

Validity

Sreejesh et al., (2014) observes that the ability of a scale or a measuring instrument to measure what it is intended to measure can be termed as the validity of the measurement. Validity can be measured through several methods like face validity, content validity, criterion related validity and construct validity. Content validity refers to the adequacy in the selection of relevant variables for measurement. The scale that is selected should have the required number of variables for measurement. At times, it was also clear that some variables considered for measurement do not possess any content validity as they did not serve the purpose of the research. The scale should instead be developed to measure aspects such as the number of classrooms, the number of qualified teachers on roll, the capacity of the playground and so on. It is often difficult to identify and include all the relevant variables that need to be studied for any research process.

The criterion related validity refers to the degree to which a measurement instrument can analyze a variable that is said to have a criterion (Cohen et al., 2007). If a new measure is developed, one has to ensure that it correlates with other measures of the same construct. For instance, length of an object can be measured with the help of tape measure, calipers, and odometers and also with a ruler and if a new technique of measure is developed then one has to ensure that this new measure correlates with other measures of length. If a researcher wants to establish criterion validity for a new measure for the payment of wages, then he may want to ensure that this measure correlates with other traditional measures of wage payment such as total number of days worked. Criterion validity may be categorized as predictive validity and concurrent validity. Predictive validity is the extent to which a future level of a criterion variable can be predicted by a current measurement on a scale (Sreejesh et al., 2014). A scale for measuring the future occupancy of an apartment complex for example may use this scale. A builder may give preference to only those repairs that may attract new tenants in the future rather than focusing on all the areas that need repair. Concurrent validity is related with the relationship between the predictor variable and the criterion variable. Both the predictor variable and the criterion variable are evaluated at the same point in time (Sreejesh et al., 2014). Construct validity refers to the degree to which a measurement instrument represents and logically connects through the underlying theory. Construct validity, although it is not directly addressed by the researcher, is extremely important. It assesses the underlying aspects relating to behavior; it measures why a person behaved in a certain way rather than how he has behaved. Two statistical methods for analyzing construct validity convergent validity and discriminant validity. Convergent validity is the extent of correlation among different measures that are intended to measure the same concept.

Discriminant validity denotes the lack of or low correlation among the constructs that are supposed to be different. Consider a multi-item scale that is being developed to measure the tendency to stay in low-cost hotels. This tendency has four personality variables; high level of self-confidence, low need for status, low need for distinctiveness and high level of adaptability. Additionally, this tendency to stay in low-cost hotels is not related to brand loyalty or high-level

aggressiveness. The scale can be said to have construct, if it correlates highly with other measures of tendency to stay in low-cost hotels such as reported hotels patronized and social class convergent validity. Has a low correlation with the unrelated constructs of brand loyalty and a high level of aggressiveness discriminant validity (Sreejesh et al., 2014).

Kothari (2004) observes that validity is the degree to which a test measures what it purports to measure. To enhance validity, the researcher exposed the instrument of data collection to experts in research for judgment. Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility. In other words, validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. The researcher can also conduct a pilot Study whereby inappropriate questionnaire items would be discarded, rephrased or merged.

Data Analysis and Presentation

Data analysis, which has been used as a research instrument for many years, was initially a time-consuming process. While we can now analyze varying types of datum using computer software, in the early days of content analysis much of the work was done with little automation. This often restricted analyses to simple frequency counts of identified words and terms. The introduction of evermore sophisticated processing equipment in the form of mainframe computers and the advancing development of personal computers has enabled content analysis to move beyond word counts to consider such issues as the relationship between words and phrases. It is now becoming a powerful agent in the development of artificial intelligence hence being used to draw conclusions and make inferences from messages (Wilkinson and Birmingham, 2003). Whilst the tools used for analysis may have changed and developed, the essential principles of content analysis has remained constant. To conduct a content analysis, the data is coded or grouped into categories which are tested for their reliability and validity. Whether or not they accurately represent what is being said, in a transcript for example. These categories or codes included words or themes, word senses, phrases or whole sentences. Once coded, the textual data are interpreted and the results of the analysis provided. In essence, the stages of the content analysis process are outlined, focus on the number of times a word, theme or issue emerges, and meaning is applied to that numerical data (Wilkinson and Birmingham, 2003).

Qualitative researchers argue that because some form of quantification occurs, the real meanings of the data are overlooked in favor of frequencies (Cohen et al., 2007). Qualitative research is concerned with capturing the richness, and describing the unique complexities, of data. Some argue that counting numbers so dilutes the quality of the information collected as to make it of little use. Additionally, there are many researchers who argue that themes and issues can be influenced more readily through a qualitative, more holistic, approach rather than by employing advanced statistical and analytical techniques. There are a number of techniques favored by qualitative researchers who employ content analysis methods; one approach is to use a relational analysis model to examine content. As with other content analysis models, relational analysis begins by identifying themes or issues to explore. However, unlike the majority of other analyses, this approach attempts to explore and identify relationships between the themes or issues. Using this more qualitative model of analysis allows researchers to establish significant relationships between words or phrases. Relationships, rather than concepts, are the focus of this model, and individual words, phrases and themes are viewed as themselves having no inherent meaning; the meaning sought by relational analysis is established through an exploration of the links and relationships between a text's concepts, words or phrases. It might help here to think of concepts not as semantic units, packages of meaning, but rather as symbols in some ways like those used in mathematics and logic which acquire their meaning through their relations with other such symbols in the text. Another would be to think of concepts as units whose meaning has been replaced in each case by some other value, numerical for instance (Kothari, 2004).

Ng`ang`a(2017) emphasizes that data analysis to be done with main aim of answering the research questions more so in establishing the impact of banking regulations on the financial performance of commercial banks in Kenya, all the commercial banks selected for the Study are listed on the NSE also closely monitored by capital markets authority for financial and operational efficiency while also regulated by the central bank of Kenya for fiduciary duty to the economy and citizenry. The data was edited, coded and organized to bring out meaning using descriptive statistics such as mean, percentage, and standard deviation and inferential statistics such as correlation and regression analysis. The results were then presented using tables. The analysis was done using multiple regression analysis for testing the significance levels of variable over the other, the model of:

$$Y = \beta_0 + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + \beta_4\chi_4 + \epsilon$$

Where;

Y = Financial performance; X_1 = Banking regulations; X_2 = Credit standards; X_3 = Profit rate capping; X_4 = Affirmative lending; $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of regression; ϵ = error term.

4. RESEARCH FINDINGS AND DISCUSSIONS

Introduction

This chapter presents the findings of the study as guided by the methodology and the results. The chapter also gives a discussion which is guided by the research findings.

Research Findings

Research finding is the principal outcomes of a research project, what the project suggested, revealed or indicated which will usually refer to the totality of outcomes, rather than the conclusions or recommendations drawn from them.

Response Rate

The study targeted 93 respondents. From these respondents only 71 were able to deliver back fully filled questionnaires. This gave a return rate of 76.3 % which was acceptable for data analysis as it was more than 50% as recommended by Osoro (2012).

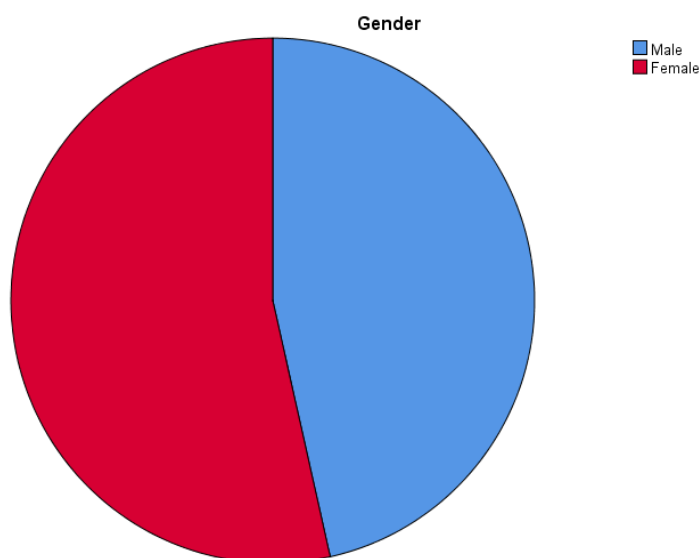


Figure 4.1: Distribution of Gender

The analysis of general information indicated that majority of the respondents were female being represented by 54% while male were represented by 46%.

Table 4.1: Age Distribution

Age Category	Frequency	Percent
<30	14	19.7
30-40	37	52.1
41-50	16	22.5
>50	4	5.6
Total	71	100

The age distributions of the respondents were analyzed to be in four different groups. 20% of the respondents were below the age of 30 years; about 52% were of the ages between 30 and 40 years. Between ages 41 and 50 years were 22% with only 6% representing ages above 50 years.

Table 4.2: Education Level Distribution.

Details	Frequency	Percent
Certificate	5	7
Diploma	8	11.3
Degree	48	67.6
Post graduate	10	14.1
Total	71	100

On education levels majority of the respondents had degree qualification representing 68%. Those who had post graduate qualification were about 14% with diploma holders representing 11% and certificates qualification were 7%.

Descriptive Statistics Analysis

Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that, for example, patterns might emerge from the data.

Credit Standards and Financial Performance

The second objective of the study aimed at determining the effect of credit standards on the financial performance of commercial banks in Trans Nzoia. The objective was assessed by use of questionnaires in which the respondents were required to express their opinion on a likert scale provided. Table 4.3 presents the findings at a five point where 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4= Agree; 5=Strongly Disagree.

Table 4.3: Credit Standards and Financial Performance

Details	SD	D	NS	A	SA	Mean	Std. Dev
Loan approval and income of comm. Banks	1	11	11	30	18	1.7465	1.05
Lending levels and bank's popularity	0	5	20	27	19	3.8451	0.9
stringent requirements and income levels	2	7	16	21	25	2.8451	1.1
Banks determining business expansion	4	9	16	21	21	3.1479	1.2

The speed of loan approval seemed to have a direct effect on income of commercial banks with 48 positive acceptances. The lending levels and bank's popularity recorded 46 agreements. The stringent requirements and income levels are related with a record of 46 agreements. On whether banks can determine business expansion respondents agreed with 41. The effect of credit standards on financial performance was studied by four items. All items revealed an average of 3. Whether the more business loans approved to traders, the higher the income earned by the commercial banks, the mean was 1.746. Whether there is a direct relationship between a bank's lending levels and its popularity in the society the mean was 3.845. The mean of the banks stringent loan requirements by commercial banks at times turning away potential borrowers hence less income to banks was 2.845. Finally whether most businesses people depend on commercial banks to expand their business, the mean was 3.148.

Univariate Regression Analysis

Univariate analysis is simplest form of data analysis where the data being analyzed contains only one variable. Since it's a single variable it doesn't deal with causes or relationships. The main purpose of univariate analysis is to describe the data and find patterns that exist within it. The research sort to find out the impact of banking regulation on the financial performance of commercial banks, the findings on the univariate regression analysis are presented in the below tables.

Credit Standards and Financial Performance

The Table 4.4 gives the degree of relationship between the credit standards and financial performance. With R value being 0.274

Table 4.4: Model Summary of Credit Standards

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.274 ^a	.075	.019	.72111

a. Predictors: (Constant), banks determining business expansion, loan approval and income of commercial banks, stringent requirements and income levels, lending levels and bank's popularity

b. Dependent Variable: Financial performance

Table 4.5 shows that of ANOVA analysis of the relationship between credit standards and the financial performance of banks. The *F-value* was 1.336. This revealed that the items had the ability to predict the responses that were expected. The significance of the relationship was 0.266.

Table 4.5: ANOVA for Credit Standards and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.779	4	.695	1.336	.266 ^b
	Residual	34.320	66	.520		
	Total	37.099	70			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Banks determining business expansion, Loan approval and income of comm. banks, stringent requirements and income levels, Lending levels and bank's popularity

Discussions

The general objective of the study was to determine the impact of banking regulations on the financial performance of commercial banks in Trans Nzoia County. The findings of the study have revealed that indeed there exists an impact of the banking regulations variables on the financial performance of the commercial banks. The analysis of findings showed that there is a relationship between the independent variables and the dependent variable. The study also indicated that there exists an effect of credit standard on the financial performance of commercial banks in Trans Nzoia County. To this the findings revealed that 0.293 (29.3%) of the financial performance of banks is caused by the type of credit standards implemented at the time. These findings indicate that the more business loans approved to traders, the higher the income earned by the commercial banks and also stringent loan requirements by commercial banks at times turn away potential borrowers hence less income to banks also. According to Anyanzwa (2016), credit policy can have a significant influence on loan book. Extend of credit liberal; banks policy may have a dampening effect on the commercial bank's marketing effort. Credit is one of the many factors that influence the demand for a commercial bank's products. Consequently, the degree to which credit can promote demand depends on what other factors are being employed. This thought is in consistent with the findings. It can be summarized that the more the commercial bank raises its quality standard for new loans the higher the profitability of interest income generated to exceed the costs of the loans.

It was also indicated that 0.242 (24.2%) of the bank's financial performance is as a result of the type of banking regulations. this implies that respondents view central bank of Kenya as to safeguard the financial interests of all bank depositors in Kenya and also that all operations of commercial banks in Kenya are monitored by several government agencies. The respondents view commercial banks in Kenya as can be reported to government authorities in case a depositor notices fraudulent activities in his account.

5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS**Introduction**

This chapter gives a discussion of findings with respect to the research questions. It also gives conclusion and recommendations for further research.

Summary**Effect Credit Standards on the Financial Performance of Commercial Banks.**

The second objective of the study aimed at finding out the effect of credit standards on financial performance of banks assert that there is the opportunity cost of committing funds to the investment in additional receivables instead of to some other investment, that the additional receivables result from increased interest income and a longer average collection period. If new customers are attracted by the relaxed credit standards, collecting from these less-creditworthy customers is likely to be slower than collecting from existing customers. In addition, a more liberal extension of credit may cause certain existing customers to be less conscientious about paying their bills on time. This thought could be consistent with the findings of this study in which it is established that there exists an effect of credit standard on the financial performance of commercial banks in Trans Nzoia County. To this the findings revealed that 0.293 (29.3%) of the

financial performance of banks is caused by the type of credit standards implemented at the time. Also confirming this findings is the central bank report of 2018 in which it was noted that the earnings growth momentum and profitability of Kenyan banks have been declining gradually over the past four years primarily due to a drop in margins as a result of declining asset yields on the back of a low interest rate environment and increasing funding costs due to increasing competition from tier 2 banks.

Conclusion

From the findings and analysis it is worth noting that a strong relationship exists between banking regulations and financial performance. It can be concluded that the absence of banking regulations in the commercial banks sector, may kill the business vision of the banking sector of Trans Nzoia County. One key component to any financial market is the banking system. Commercial banks facilitate financial transactions by mobilizing and allocating funds to investment projects with the greatest long term economic benefits. Moreover, it is widely acknowledged that a well regulated banking system, defined by its supervisory practices, risk taking, and governance, promotes greater financial performance and economic stability.

It can be concluded also that a proposal of four major reasons why commercial banks should be regulated holds true. The first relates to monetary policy the ability of banks to create money. Second, as channels of credit or investments, banks are involved in credit allocation. Third, banks are regulated to ensure healthy competition and innovation by preventing the formation of cartels. The fourth is for prudential regulation reasons and to mitigate the problem of asymmetric information. More economists' have stated in the past that the reason for bank regulation originates from the existence of asymmetric information is the fact that customers of the commercial banks are less informed thus placed more at a disadvantage about the affairs of the commercial banks than the bank itself.

Recommendations

The study recommends that the banking regulatory body should conduct continuous audit of the commercial banks to ascertain the degree of the compliance that the banks in Trans Nzoia exhibit in the practice and compliance with the regulatory standards. This will ensure that loopholes are not present in the implementation bank regulations hence improving the operational efficiency of the banks and thereby maximizing their returns to the members. The study also recommends that banks should aim at establishing more transparency and accountability in the banking sector to ensure regulatory compliance so as to avert the negative impacts on their financial performance. But again the regulatory body should aim to incentive the banks the show higher level of compliance.

The study further recommends that a similar study should be conducted in other parts of the country or in other countries to ascertain whether similar findings would be reached. A study should also be carried out on the value of complying with the banking regulations practices and requirements to members of the banking sector and not necessarily on the financial performance of the commercial banks which was the focus of this study.

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