

EFFECT OF ASSET QUALITY ON FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

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ABSTRACT

Dividend is a proportion of net income of the company paid to shareholders based on the number of shares held by them. Most companies mainly pay shareholders their dividends at the end of the accounting period while larger companies pay their dividends on quarterly basis. The purpose of this proposal paper is to establish the effects of dividend policy dimensions on the financial performance of commercial banks in Kenya. The decrease in ROE reached its lowest level of 19.8 % in February 2017 with ROA declined to 2.3 %. As at December 2017, ROA was 2.6 percent from 3.2 percent in December 2016 while the ROE was 20.6 percent from 24.4 percent in December 2016 (Financial Sector Regulators Forum, September 2017). The general objective of the study was to establish the effect of dividend policy dimensions on financial performance of listed commercial banks in Kenya. The study was anchored on the following specific objective: to explore the effect of asset quality on financial performance of listed commercial banks. The study was supported by Bird in hand theory. The study adopted a descriptive design. The target population for the study was 12 listed commercial banks in Kenya. The study applied random sampling to select a sample size of 11 firms for the study. Secondary data was collected using data sheet form published annual report for five years (2017 to 2022). Data analysis was done using Descriptive statistics (mean, standard

deviation) and inferential statistics correlation, simple and multiple Regression analysis. The study identified that, asset quality had a strong, positive and significant correlation with financial performance of listed commercial banks in Kenya. In addition, the study identified that, asset quality had a direct and significant effect on financial performance of commercial Banks in Kenya. Hence, asset quality led to an increase in financial performance of listed commercial Banks in Kenya. The study concluded that, asset quality had a strong, positive and significant correlation with financial performance of listed commercial banks in Kenya. In addition, the study concluded that, asset quality had a direct and significant effect on financial performance of commercial Banks in Kenya. Hence, asset quality led to an increase in financial performance of listed commercial Banks in Kenya. The study recommended that, listed commercial banks should increase assets quality especially those whose asset quality was below average through introduction of more stringent lending standards, using more valuable collateral facilities so that they reduce risk of loan loss and/ or default.

Key words: Asset quality, financial performance, Return on assets

INTRODUCTION

Asset quality

Asset quality is obtained if a portfolio which is combination of two or more assets or categories of assets invested in works perfectly. It is an investment in a blend of profitability asset classes aimed at obtaining optimum return with minimum risk through diversification. An investment is a present allocation of resources in anticipation of a future inflow of funds that rewarded the investor. Divergence of investment helps to spread risk over many assets because in a well-diversified portfolio of investments, some assets may not perform while some may perform, thus balance exist. Managing portfolio thus predominantly involves minimizing risk rather than maximizing return (Van Horne et al, 2017).

Asset-equity aspect of financial liquidity of an enterprise as the ability to settle its liabilities - short-term ones, payable within one year on time through a liquidizing possessed high-liquidity asset (current assets). Financial liquidity of an enterprise is better when larger part of its assets is high-liquidity elements, and worse when the opposite is true. Therefore, if an enterprise wants to maintain high level of financial liquidity, it must possess a large share of cash and high liquidity assets and small share of short-term liabilities. Operating requirements are met through 4 asset/liability management techniques for controlling cash flows, supplemented by assets readily convertible to cash or by an institution's ability to borrow (Ajao & Ogieriakhi, 2018).

Asset that asset quality also referred to as portfolio quality has been defined as the total risk associated with the various assets held by an entity. Asset quality is usually used to gauge the extent to which assets are at an economic risk and thus establish how much provision for probable losses must made. Due to the risk of borrowers defaulting on repayment obligations, loans and advances require a stern assessment of quality to avoid these turning non-performing assets and also reduce the provision for loan losses must made (Ombaba, 2013).

Statement of the Problem

Dividend pay-out decision is considered as the most important financial decision that finance managers encounter. Dividend is payment attributable to shareholders for their investment in a firm and it is distributed from profit earned by the company at the end of the financial period. Capital adequacy, asset quality, liquidity and bank size determine the amount of dividend payment to investors.

The decrease in ROE reached its lowest level of 19.8 % in February 2017 with ROA declined to 2.3 %. As at December 2017, ROA was 2.6 percent from 3.2 percent in December 2016 while the ROE was 20.6 percent from 24.4 percent in December 2016(Financial Sector Regulators Forum, September 2017).

Ahmed and Fatima (2013) undertook a research about determinants of dividend policy focusing on sectorial analysis from Pakistan and concluded that profitability and size are major determinants of

dividend policy. Wasike and Ambrose (2015), undertook a study about determinants of dividend policy in banking industry in Kenya. The variables of the study were: dividend policy, profitability and cash flow. Chumari (2014), determined whether dividend policy is associated between dividend payout and profitability, liquidity and performance. These studies failed to study on capital adequacy, asset quality, and liquidity base and bank size. This study was carried out to fill this gap.

Objectives of the study

General objective

The general objective of the study was to establish the effect of asset quality on financial performance of listed commercial banks in Kenya.

Specific objectives

To explore the effect of asset quality on financial performance of listed commercial banks in Kenya.

Research Hypotheses

The research was guided by the following research hypotheses:

H₀₁: Asset quality has no statistically significant effect on financial performance of listed commercial banks in Kenya.

LITERATURE REVIEW

Theoretical review

Bird in Hand Theory

The Bird in Hand theory was advanced by Gordon and Litner (1962), they proposed that current dividends are relatively certain compared to future capital gains. They proposed that investors see the current dividend as more certain than the future dividends and capital gains. Risk averse investors choose to get dividend in the present period to forthcoming capital gain due to uncertainties associated with the capital gain and theory is based on the logic that what is available at present is preferred to what was available in the future (Lim,2008).

Gordon and Litner (1962) argue that the future is uncertain and the more the distant the future is, the more uncertain is likely to be, hence investors was agreeable to paying a superior price for stocks on which dividends are paid in the present period. Due to investors' willingness to pay superior price for stocks on which dividend are paid, the financial performance of the firm is viewed positively since the firm is viewed to have capital to deploy in profitable investments that would yield high returns for the organization hence dividend policy is relevant.

The theory assumes that, investors are risk averse and hence they prefer current income. Further, the theory assumes that, income of investor is constant during their investment time. Additionally, the theory assumes that, investors expect same future income as the current rate (Akintoye, 2019). The critiques of this theory argue that, investors cannot expect constant income throughout their investment period because of various economic conditions. Further, they affirm that, income earned is affected by expenses such as taxes, transportation cost which reduce their income (Al-Homaidi, Tabash Farhan & Almaqtari 2018).

The theory is relevant for this study because it informs the relationship between asset quality, liquidity and financial performance of commercial banks in Kenya. The quality of assets is determined by Non-performing loans. Reduction in non-performing increases income generated by banks through interest on loans. Increase in income increases current dividends paid to investors.

Empirical Review

Assets Quality and Performance of banks

Cheruiyot (2016) carried a study on the effect of asset quality on profitability of the commercial banks in Kenya. The study specifically aimed at studying effects of Assets quality, management efficiency, capital adequacy, liquidity management and bank size on profitability of the commercial banks in Kenya. The researcher took a sample size of 43 registered commercial banks in Kenya as at the end of the year 2014. Data collected was analyzed through regression analysis and found out that there was positive relationship between asset quality, liquidity, bank size and capital adequacy on profitability of registered commercial banks in Kenya. The study concluded that there is a positive relation between the profitability and asset quality because when non-performing assets to net asset ratio is low, assets quality is high. It also concluded that there is a significant economy of scale on the relation between the bank size and the performance. The study recommended the reinforcement of capitalization policies by the regulators of the banking industry so that Kenya commercial banks are capable of improving their profitability brought about by reduction in capital cost due to high levels of equity. It also recommended that policies and strategies that ensured proper management of expenditures to get high profitability should be put in place.

Mwongela (2015), assessed the relationship between an asset quality and profitability of commercial banks in Kenya. The specific objectives of the study were effects of loan loss provision to total loan, non-interest income to total assets, non-interest expense to total asset, equity to total asset annual inflation rate market capitalization and money supply growth on profitability of commercial banks. A sample size of 43 banks was used for the study in Kenya. Data collected was analyzed by use of correlation and regression analysis and was found out that there was positive relationship between equity to total assets and return on asset and that only non-interest expense, equity to total asset, inflation rate and market capitalization negatively related to return on asset however the negative relationship was insignificant except for inflation. The study concluded that commercial banks increase loan loss provision to improve profitability and to generate more income for their non-lending activities. It recommended that future studies could improve the study by taking a longer sample period and time series.

Kadionglu, Niyazi and Nurcan (2017) analyzed the effect of asset quality on bank profitability in Turkey. The specific objectives of the study were effects nonperforming loans to total asset, provision for non-performing loan to total loan and total equity to total asset on profitability. The study took a sample size of 55 banks in the country and data collected was analyzed by use of regression analysis tool. The study found out that there was a positive significant relationship between non-performing loan and profitability of banks. It was concluded that as asset quality of banks has significant importance on financial system of the county, it may affect economic growth of the country alongside profitability. The study recommended that regulations aiming to ensure high asset quality be put in place by both national and international organization and that risk models be developed with regard to the issue.

Adeolu (2014) examined the relationship between the asset quality and bank performance. The specific objective of the study was to analyze the effect of loan loss ratios on profitability. The study took a sample size of 6 largest listed banks at Nigeria stock exchange based on market capitalization with a sample interval of the fifteen years period from 1999 to 2013. Data collected was analyzed by Pearson correlation analysis and regression analysis using statistical packages such SPSS. The study found out that asset quality had a statistically relationship and it influence financial performance of banks. The study recommended that a further research on factors influencing the liquidity of commercial banks in the country is it can add value to profitability of commercial banks.

Kasavica (2015) explored the effect an asset quality and profitability of commercial bank in Kenya. The specific objectives of the study were to study the effects of maturity of portfolio, Maturity of the portfolio, client's rating, nonperforming loans, and effective coverage of the portfolio with collateral of effective coverage. The study took a sample size of 1 commercial bank in Serbia. The data collected was analyzed with the use of regression model where the results found out that maturity of majority of the variables affects profitability which was maintained mainly by the fact that it acts as rule on long term loan on annual lowers the rates of interest which short-term loan gives slightly higher interest rate. It was also found out that long term asset is more expensive which and generally decreases the profit margin within the relationship between interest and the source. The study concluded that the higher the performance of loans, the lower the provisioning and that the higher the level of loans under less favorable rating cost, the more the cost and the lesser the profits. The study recommended that specific practical tool for determining the characteristic of the asset quality and the effect on profitability used in the study be used in other commercial banks to give comparison results.

Conceptual Framework

The conceptual framework shows the relationship between the independent variables and dependent variable as shown on Figure 2.1 It assumed that the relationship between the independent variable and dependent variables is linear. In the figure below, independent variable of the study was asset quality, liquidity, capital adequacy and bank size while financial performance was the dependent variable. Financial performance was measured in terms of ROA.

Independent variables

Dependent variable



Fig 2.1 Conceptual Framework
Source: Researcher (2023)

The researcher assumes that when the level of Asset quality is low, the performance of the banks is also expected to be low and when the level of Asset quality is higher, the performance level is expected to go up.

The Liquidity would affect the performance of the banks because when the level of liquidity goes down, the performance is also expected to reduce and when the level of Liquidity goes up, then it is expected that the level of performance would also rise.

The researcher assumes that any drop in the capital adequacy of the banks would lead to drop in performance and when the capital adequacy goes up then the performance is expected to increase.

RESEARCH METHODOLOGY

Research Design

According to Cooper & Schindler (2009), a research design presents a systematic process that guides the discovery, measurement, collection and analysis of data. On the other hand, Mugenda and Mugenda (2013) opined that, a research design describes the outline and steps to be followed in presenting answers to a research question. The study adopts a descriptive design. A census study is the study of every unit in the population. According to (Creswell, 2007), a descriptive research design aim at finding the effect of predicator variables on dependent variable. Descriptive design was used because it is the best method of collecting information that explains the relationship between variables. Descriptive studies answer questions such ‘What is’ and this research was able to ascertain the association between dividend policy and financial performance of listed commercial banks using secondary data obtained from financial statements of listed commercial banks.

Study Area.

The study was carried out on listed commercial banks at Nairobi Securities exchange in Kenya. Kenya is located in East Africa and its borders Tanzania to the south, Somalia to the East, Ethiopia to the North and Uganda to West

Population of study

According to Mugenda (2008), target population is the entire group of individuals, objects, things or elements that share common characteristics and may or may not be found in the same

geographical location. The populace of the research was 12 listed commercial banks in Kenya. According to the CBK report (2022), there were 12 banks listed on the NSE.

Table 3.1 Target population

BANKING

ABSA Bank Kenya Plc Ord	0.50
BK Group Plc Ord	0.80
Diamond Trust Bank Kenya Ltd Ord	4.00
Equity Group Holdings Plc Ord	0.50
HF Group Plc Ord	5.00
I&M Holdings Plc Ord	1.00
KCB Group Plc Ord	1.00
National Bank of Kenya Ltd Ord	5.00
NCBA Group Plc Ord	5.00
Stanbic Holdings Plc ord.	5.00
Standard Chartered Bank Kenya Ltd Ord	5.00
The Co-operative Bank of Kenya Ltd Ord	1.00

Source: NSE, 2022

Sample size and Sampling design

According to Yakubu and Egopija (2021), Sampling design is a plan applied in selecting a sample size and other key elements of a survey (Kothari et al., 2010). This study adopted purposeful sampling techniques to select sample size.

Sample size

A sample is a representative part of a population (Gay (2007). The sample refers to a part of item or group of people taken from the whole population for a study (Sritharan,2015). The sample size for this study was selected by applying Yamane formula 1967.

$$n = \frac{N}{1 + Ne^2}$$

Where

n = the Minimum Size of the Sample;

N = Size of population

- e = confidence level at 95 % (5%=0.05)

$$\frac{12}{1 + 12(0.05)^2} = 11$$

Thus, the sample size of the study was 11 listed commercial banks in Kenya

Table 3.2 sample size

BANKING

ABSA Bank Kenya Plc Ord	0.50
BK Group Plc Ord	0.80
Diamond Trust Bank Kenya Ltd Ord	4.00
Equity Group Holdings Plc Ord	0.50
HF Group Plc Ord	5.00
I&M Holdings Plc Ord	1.00
KCB Group Plc Ord	1.00
NCBA Group Plc Ord	5.00
Stanbic Holdings Plc ord.	5.00
Standard Chartered Bank Kenya Ltd Ord	5.00
The Co-operative Bank of Kenya Ltd Ord	1.00

Source: researcher 2023

Data Collection

Secondary data was collected from the financial statements of the 11 listed commercial banks submitted to NSE for the period of 2017 to 2021 using data collection sheet from published annual financial statements. Dividend per share was obtained from the published comprehensive statements of Income. Asset quality was measured by Non-performing loans which were extracted from published financial statements and other disclosures while liquidity was calculated as ratio of customer deposits to total assets and data was collected from published comprehensive income statement. Secondary data was used because it has been used successful in several past studies; Ndirangu (2014) used secondary data to establish the consequence of dividend policy on future financial performance of firms listed at the NSE. Figures were gotten from the financial statements because of reliability of the data as financial statement are audited and published.

Data Analysis and presentation

Data was analyzed using Statistical Package for Social Sciences (SPSS). This was employed in undertaking descriptive analysis. Descriptive statistics include those of the mean, standard deviation. Further, the study applied inferential statistics (correlation analysis, simple and multiple Regression analysis) to examine the relationship between independent variables (factors) and the dependent variable. Analyzed Data was presented in tables and figures. Regression model was as follows;

Simple regression

Asset quality

$$Y = \beta_0 + \beta_3 X_3$$

3.8 Hypothesis testing criteria

The study tested the hypothesis based on the table.

Hypotheses	criteria	Conclusion
H0 ₂ : Asset quality has no statistically significant effect on financial performance of listed commercial banks in Kenya.	P=<.05	The null hypothesis is rejected.

Source: researcher 2023

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

Descriptive Statistics

The study aspired to determine the influence of asset quality on financial performance of listed commercial banks in Kenya. The study utilized secondary data that was obtained from published annual reports for 5 years from 2017-2021. Analyzed data was presented in tables.

Asset Quality

The study sought to find out the quality of assets held by listed commercial banks in Kenya. The study did descriptive analysis and presented its findings in the 4.2 below

Table 4.2 Asset Quality

	N	Minimum	Maximum	Mean	Std. Deviation
ABSA Bank Kenya Plc Ord 0.50	5	1.14	5.86	2.8568	2.36693
BK Group Plc Ord 0.80	5	1.15	12.44	3.4488	5.02412
Diamond Trust Bank Kenya Ltd Ord 4.00	5	.79	11.74	3.1552	4.79974
Equity Group Holdings Plc Ord 0.50	5	1.14	7.84	2.5116	2.98049
HF Group Plc Ord 5.00	5	.59	3.60	1.6882	1.30296
I&M Holdings Plc Ord 1.00	5	1.05	1.24	1.1712	.07197
KCB Group Plc Ord 1.00	5	.75	1.19	1.0912	.19093
NCBA Group Plc Ord 5.00	5	1.15	1.42	1.2130	.11579
Stanbic Holdings Plc ord.5.00	5	.02	1.20	.6128	.57646
Standard Chartered Bank Kenya Ltd Ord 5.00	5	1.17	2.89	2.1178	.86784
The Co-operative Bank of Kenya Ltd Ord 1.00	5	.07	1.22	.7494	.61898
Average mean				1.8741	
Valid N (listwise)	5				

Source: field data 2023

The study revealed that, ABSA Bank Kenya Plc Ord 0.50 had mean of 2.8568 with standard deviation 2.36693, BK Group Plc Ord 0.80 had mean of 3.4488 with standard deviation of 5.02412, Diamond Trust Bank Kenya Ltd Ord 4.00 had mean of 3.1552 with standard deviation of 4.79974, Equity Group Holdings Plc Ord 0.50 had mean of 2.5116 with standard deviation of 2.98049, HF Group Plc Ord 5.00 had mean value of 1.6882 with standard deviation of 1.30296, I&M Holdings Plc Ord 1.00 had mean of 1.1712 with standard deviation .07197, KCB Group Plc Ord 1.00 had mean of 1.0912 with standard deviation of .19093, NCBA Group Plc Ord 5.00 had mean of 1.2130 with standard deviation of .11579, Stanbic Holdings Plc ord.5.00 had mean of .6128 with standard deviation of .57646, Standard Chartered Bank Kenya Ltd Ord 5.00 had mean of 2.1178 with standard deviation of .86784 and The Co-operative Bank of Kenya Ltd Ord 1.00 had mean of .7494 with standard deviation of .61898. Thus, the study identified BK Group Plc Ord 0.80 had the highest mean while Stanbic Holdings Plc ord.5.00 had the lowest mean. Thus, BK Group Plc Ord 0.80 had the highest asset quality hence, higher financial performance while Stanbic Holdings Plc ord.5.00 had the lowest asset quality thus, it registered lowest financial performance. Further, the study noted that asset quality for most listed commercial banks like Standard Chartered Bank Kenya Ltd Ord 5.00, ABSA Bank Kenya Plc Ord 0.50, Equity Group Holdings Plc Ord 0.50. Thus, they had higher asset quality and hence higher financial performance. On the other hand, asset quality for some of listed commercial like I&M Holdings Plc Ord 1.00, NCBA Group Plc Ord 5.00, Stanbic

Holdings Plc ord.5.00 and The Co-operative Bank of Kenya Ltd Ord 1.00 was below average mean hence, they recorded low financial performance.

Inferential statistics

Correlation analysis

The study conducted correlational analysis to determine the natures of relationship between independent variables (capital adequacy, liquidity, asset quality and banks and size) and financial performance. The findings of the study were presented in 4.5.

Table 4.5 Correlation analysis

		Asset Quality	financial performance
Asset Quality	Pearson Correlation	1	.633**
	Sig. (2-tailed)		.000
	N	55	55
financial performance	Pearson Correlation	.633**	1
	Sig. (2-tailed)	.000	
	N	55	55

Source : Filed data 2023

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The study identified that, asset quality had a strong, positive and significant correlation with financial performance of listed commercial banks in Kenya N=55, $r=.633^{**}$, $P=.000 < 0.01$. A variation in asset quality led to substantial direct change in the linkage between asset quality and financial performance of listed commercial banks in Kenya. These finding agreed with Cheruiyot (2016) who in his study on the effects of asset quality on profitability of the commercial banks in Kenya found out that there was positive relationship between asset quality, liquidity, bank size and capital adequacy on profitability of registered commercial bank in Kenya.

Asset quality and financial performance

The study conducted simple regression to find out the effect of asset quality on financial performance of listed commercial banks in Kenya. The findings were presented below in table 4.10 (a) - 4.10 (c).

Table 4.10 (a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633 ^a	.400	.389	2.12987

Source: Filed data 2023

a. Predictors: (Constant), Asset Quality

b. Dependent Variable: Financial Performance

The study revealed that, the study noted R was $=.633^a$. Hence, asset quality and financial performance of listed commercial banks in Kenya had a positive correlation. Additionally, the R square for the study was .400. Thus, asset quality explained 40.0% positive change in financial performance of commercial banks in Kenya. Likewise, Mwongela (2015), found out that there was positive relationship between equity to total assets and return on asset and that only non-interest

expense, equity to total asset, inflation rate and market capitalization negatively related to return on asset however the negative relationship was insignificant except for inflation.

Table 4.10 (b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	160.332	1	160.332	35.346	.000 ^b
	Residual	240.427	53	4.536		
	Total	400.758	54			

Source: filed data 2023

- a. Dependent Variable: financial performance
- b. Predictors: (Constant), Asset Quality

The F test for the study was 35.344, P=. 000b <0.05. Therefore, the overall regression model was suitable for the study. Additionally, the revealed that, asset quality had a significant effect financial performance of commercial banks in Kenya. Similarly, Adeolu (2014) in his study on asset quality and bank performance found out that asset quality had a statistically relationship and it influence financial performance of banks.

Table 4.10 (c) Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.551	.339		4.577	.000
	Asset Quality	.154	.026	.633	5.945	.000

Source Filed data 2023

- a. Dependent Variable: Financial performance

The study identified that, when other factors are constant at zero, asset quality contributed to 55.1% variation in financial performance of listed commercial banks in Kenya. To that end, 44.9% of the change in financial performance is explained by other factors. Additionally, the study revealed that asset quality had a positive and significant effect on financial performance of commercial Banks in Kenya. B= .154, t=5.945, P=.000< 0.05. Additionally, the study found out that, asset quality led to the increase in financial performance of listed commercial Banks in Kenya by 15.4%.

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

$$Y = .551 + .154 X_1$$

Hypotheses testing

H0₂: Asset quality has no statistically significant effect on financial performance of listed commercial banks in Kenya.

The study identified that, asset quality had a direct and significant effect on financial performance of commercial Banks in Kenya. P=.000< 0.05. Hence, asset quality led to an increase in financial performance of listed commercial Banks in Kenya significantly. As such, the null hypothesis was rejected.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

Asset quality and financial performance

The study identified that, Asset Quality had a strong, positive and significant correlation with financial performance of listed commercial banks in Kenya. A variation in asset quality led to substantial direct change in the linkage between asset quality and financial performance of listed commercial banks in Kenya. In addition, the study identified that, asset quality had a direct and significant effect on financial performance of commercial Banks in Kenya. Hence, asset quality led to an increase in financial performance of listed commercial Banks in Kenya.

Conclusions

Asset quality and financial performance

The study concluded that, asset quality had a strong, positive and significant correlation with financial performance of listed commercial banks in Kenya. A variation in asset quality led to substantial direct change in the linkage between asset quality and financial performance of listed commercial banks in Kenya. In addition, the study concluded that, asset quality had a direct and significant effect on financial performance of commercial Banks in Kenya. Hence, asset quality led to an increase in financial performance of listed commercial Banks in Kenya.

Recommendations

Asset quality

The study recommended that, listed commercial banks should increase assets quality especially those whose asset quality was below average through introduction of more stringent lending standards, using more valuable collateral facilities so that they reduce risk of loan loss and/ or default. Additionally, listed commercial should adopt the use of high-quality liquid assets that can be easily and quickly converted in cash without significant loss of value. This would reduce the risk of loss and hence increase their financial performance. Further, the study recommended that commercial banks should put in place insolvency legislation and be more cautious especially when lending to higher individual or corporates with history of defaulting. This would reduce losses and hence, increase financial performance.

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