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Financial Risk Management and Performance of Commercial Banks in Nakuru City County, Kenya

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Abstract: **The purpose of the study was to establish the effect of financial risk management on performance of Commercial banks in Nakuru City, Kenya. The study was guided by the following specific objective; compliance risk management on performance of Commercial banks in Kenya. This study adopted a descriptive research design. This study targeted the Commercial banks in Nakuru city Kenya. The Credit managers of the banks were targeted. The study adopted census survey and therefore all the credit managers in Commercial banks in Nakuru City were studied. 33 Credit managers were targeted from 11 banks. Data collection instrument used was questionnaire and other information relevant to the study. A structured questionnaire was administered to the respondents. Piloting was done to determine if the full-scale study was conducted in the way that was planned and whether there were some components that needed to be changed. Once data was collected, it was crosschecked and verified for errors, completeness and consistency. It was coded, entered and analysed descriptively using Statistical Package for Social Sciences (SSPS 28). Pearson correlation analysis was used to test the relationship between variables in the study hypotheses. ANOVA multiple linear regression analysis was also used to determine the statistical relationship between the independent variable and the dependent. The findings implied that banks may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities and that the current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. The findings also showed that it makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance. The finds further revealed that compliance function should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk. Through the findings, compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure and that banks conducting compliance work should consider adopting a risk-based approach as compliance management systems are sound and minimize excessive or serious future violations exposing the company to significant impairment of reputation, value, earnings, or business opportunity. Based on the findings, the study concluded that compliance has significant effect on Performance of Commercial Banks in Nakuru City County**

Kenya. β1=0.794, p value= 0.001). The relationship was considered significant since the p value 0.001 was less than the significant level of 0.05. The study came up with the following recommendations; the management of commercial banks should formulate a designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies should be incorporated into business processes to improve compliance.

Keywords: **compliance risk management, financial risk management, financial performance.**

1. INTRODUCTION

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. The banking industry acts as a go-between for individuals, companies, and governments in terms of money. According to Muriithi and Waweru (2022), commercial banks have played a crucial role in propelling Kenya's economy. Nevertheless, banks' financial viability and performance are undermined by periodic financial crisis. Problems with commercial banks' performance can make it hard for individuals, companies, and governments to get the money they need (Ratemo & Ndede, 2021).

Banks, as intermediary institutions, help to stimulate economic growth by generating capital and channelling them to the actual economy. As a result, banks transform into institutions that have an impact on a country's economic growth (Farras Brastama & Yadnya, 2020; Margono et al., 2020; and Jati, 2021). The banking industry has the capacity to drive a country's economic growth because it acts as a financial intermediary, collecting monies in the form of deposits and distributing them back to the public in the form of credit. As a result, banks must be able to sustain consistent performance in order to perform their tasks properly within the economic system (Wahyuni & Choirul Umam, 2023; Al-Sharkas & Al-Sharkas, 2022; and Chandrasegaran, 2020) A bank's primary measure of success is how well it performs its duties as a financial intermediary. Consequently, the bank needs to raise the calibre of its operations in addition to attempting to uphold public confidence. (Tangngisalu et al., 2020). In terms of regulation and bank supervision, bank profitability and stability among financial institutions are becoming more and more crucial (Al-Matari, 2023); a profitable and stable banks are resilient to shocks, and the banking sector helps keep the financial system stable, which boosts the nation's economic growth (Nguyen, 2020). If a bank operates effectively, people are more likely to use credit, save money, or make time deposits. In contrast, if a bank performs poorly, the public would refuse to entrust their money to it. The bank's profitability value shows good results (Wahyuni & Choirul Umam, 2023). Moreover, bank inefficiency and insolvency contributed to the financial crisis (Rahman et al., 2020). Every business uses its financial performance as a benchmark to assess a company's profitability and accomplishments (Syafrizall et al., 2021). Similarly, (Jadhav et al., 2021) mentioned financial performance as an assessment of the financial conditions or profitability of a bank in order to gain insight into the health of the bank using an index that relates two pieces of financial data, called financial ratios. ROA is a ratio that measures how efficient a company is in managing its assets to generate profits over a period. ROA can help management and investors see how well a company is able to convert its investment in assets into profit or profit (Syafrizall et al., 2021).

Alrwashdeh, Ahmed, Danish, and Shah (2023) state that financial intermediation is a core role of commercial banks. It links businesses, individuals, and other entities with providers of financial services (Ali et al.,2020). Loans to businesses and individuals are the main activities of commercial banks. Commercial banks also support savings services. Furthermore, commercial banks check the credit of potential borrowers before giving them loans (Al-Ardah & AlOkdeh, 2022). According to Ali and Oudat (2020), commercial banks facilitate the transfer of cash from lenders to borrowers through their actions. Commercial banks mediate between those who have surplus cash and those who are short or require more funding, levelling the playing field (Nawabzada, 2021). Furthermore, commercial banks have facilitated small and medium firms' access to credit facilities. Economic growth is therefore stimulated by commercial banks (Kaddumia & Al-Kilani, 2020).

Locally, banks in Kenya just like other businesses are facing a number of financial risks in their daily operations. There are a number of large scale deposit money banks in Kenya that have been scaling down there operations due to poor performance. The poor performance has been partly associated financial risks. One of such problem of banks is the lack of liquidity caused by issuing of loans without studying and respecting the required procedures. The deposits are used to provide credits, the issue unsecured loan and finally the borrowers fail to payback those loans which lead to loss of

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liquidity, and finally Central banks bankruptcy of the most of them. Bank need to manage the credit management inherent to the entire portfolio as well as the risk of individual credits or transaction (Duniamastaki, 2022).

Commercial banks in Kenya act as intermediaries in the transfer of financial resources among the participants in the financial system. The degree of efficiency of financial intermediaries influences economic growth and hence the performance of commercial banks is of paramount importance (Catherine, 2020). Financial risk management plays an important role in the liquidity and loan default rate of commercial banks in Kenya. To ensure consistent improvement in performance, commercial banks have adopted various financial risk management practices such as institutional risk management, liquidity risk management, default risk management and concentration risk management (Siddique, Khan & Khan, 2021). However, despite the adoption of these risk management practices, the financial performance of commercial banks in Kenya still remains poor. The profitability of commercial banks has also been decreasing. Further, the pre-tax profit of commercial banks in Kenya decreased by29.3 percent from Ksh.159.1 billion in 2019 to Ksh.112.1 billion in 2020 (Central Bank of Kenya, 2020). The return on assets (ROA) among commercial banks reduced from 3.5% in 2018 to 3.3% in 2019, which later decreased to 2.7% in 2020. In addition, the Return on Equity (ROE) among commercial banks reduced from 22.5% in 2018 to 21.8% in 2019 and then reduced to 13.9% in 2020 (Central Bank of Kenya, 2020). In addition, the bank supervision report by the CBK indicates that the ratio of gross NPLs to gross loans increased from 5.2 % in 2013 to 12.7 % in 2018 and then increased to 12.9% in 2019 and 14.5% in 2020.

Banks in Kenya just like other businesses are facing a number of financial risks in their daily operations. There are a number of large scale deposit money banks in Kenya that have been scaling down there operations due to poor performance. The poor performance has been partly associated financial risks. One of such problem of banks is the lack of liquidity caused by issuing of loans without studying and respecting the required procedures. The deposits are used to provide credits, the issue unsecured loan and finally the borrowers fail to payback those loans which lead to loss of liquidity, and finally Central banks bankruptcy of the most of them. Bank need to manage the credit management inherent to the entire portfolio as well as the risk of individual credits or transaction (Duniamastaki, 2022).

The poor performance of banks may be determined by some element such as: liquidity risk, systematic risk, operating risk, credit risk monetary policy issue, economic ramification. But credit risk management may have played a big role in collapsing of many financial institutions. Since a high risk provide a high profitability and a low credit risk took provide a low profitability, this situation lead banks to increase their risk for satisfying their shareholder in this case the commercial bank faces the liquidity crisis as what happened in 2008 deepest recession since the Word war II, it was also the longest, lasting eighteen months.

The unemployment rate more than doubled, from less than 5 percent to 10 percent in Kenya. Yimka et al (2015) stated that credit risk is caused by, low capital and liquidity levels, directed lending, massive licensing of banks, poor loan underwriting, reckless lending, poor credit assessment, no non-executive directors, poor loan underwriting, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank. Other types of risk which are external to a bank may include inflation risk, market risk, exchange rate risk, political risk etc.

Adegbie and David (2020) confirmed that many banks had collapsed or experienced serious financial constraints due to their continuous exposure to severe operational loss events and fraudulent actions. According to Khan et al (2023) financial institutions have experienced several large operational loss events in the past years. Also, many banks in Kenya had experienced financial distress and subsequently liquidated or taken over due to poor or ineffective financial risk management practices and policies. For example, Kenya National Bank, Cooperative and Bank, and others had failed due to losses suffered from operational events such as weak risk management, noncompliance with credit policies, poor operational policies and procedures in the bank, weak human resources and capacity, weak corporate governance, compromise in information technology, ineffective audit, mismanagement, weak supervisory framework and major regulatory change (NDIC 2017). Also, Gathigia et al.,(2024)explained that the crisis in the banking sector was caused by poor financial risk management practices, absence of basic control measures, near total absence of corporate governance in most of banks, lack of adequate disclosure and transparency about the accurate financial positions of banks, poor operating environment, weak internal control, inside abuse, among others.

Studies have been carried out globally and locally on effect, impact or relationship between financial risk management practices and financial performance of firms, but the studies discovered mix results. Some indicated positive and

significant result while others disclosed negative and insignificant effect, impact or relationship. Fluctuations in interest rates might potentially have adverse effects on individuals' financial circumstances. The volatility of interest rates significantly impacts a nation's economic environment and investment behavior, as evidenced. Seizing this opportunity is customary and vital for every thriving firm. Prior studies that discovered positive or significant effect, impact or relationship includes; Jerono and Olweny (2023), Mária et al (2023), Ishmail et al (2023), Khan et al (2023), Lukman and Surajudeen (2022), Thair and Qais (2022), Shima et al (2022), Yuliia et al (2022), Apochi and Baffa (2022), Salimata et al (2022), Samsul et al (2022), Bassey and Udoh (2022), Falah et al (2022), Salah (2022), Ishaq et al (2021), Ugwu et al., (2021), Halbous (2021), Olajide and Diekolola (2020) etc. On the contrary, Oluwaleye et al (2023), Edwin et al (2023), Ademola and Ismaila (2022), Duniamastaki (2022), Lenka and Jindřich (2022), Chintya et al (2022), Abiodun et al (2021)**,** Abdullahi (2021) discovered negative or insignificant effect or relationship between the dimensions of financial risk management and financial measures of deposit money banks and other financial institutions with Kenya and outside Kenya. This study sought to examine the effect of compliance risk management on financial performance of Commercial banks in Nakuru City County, Kenya;

2. COMPLIANCE RISK MANAGEMENT

The banking industry acts as a go-between for individuals, companies, and governments in terms of money. According to Muriithi and Waweru (2022), commercial banks have played a crucial role in propelling Kenya's economy. Nevertheless, banks' financial viability and performance are undermined by periodic financial crisis. Problems with commercial banks' performance can make it hard for individuals, companies, and governments to get the money they need (Ratemo & Ndede, 2021). Episodes of financial instability are a well-documented fact of economic history. This, in combination with the numerous systemic and non-systemic banking crises internationally on record, suggests that financial institutions, and especially banks, operate in a high-risk environment. As may be expected, this situation has not escaped industry and regulatory body attention. Banking system connects the fundamental economic units and plays the role of financial intermediation. It helps in the creation of wealth through the establishment of a series of interconnected economic relations. Consequently, any disturbance in the conventional banking sector has significant implications for the overall economy primarily due to the banks' heavy reliance on interest rates which are either market forced or state governed (Callioni, 2008).

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. This has made the sector more efficient, innovative, competitive and profitable. The transformation of the industry has resulted in an emergence of technologically innovative products and services (Zidan, 2020). Banks have employed these innovative products and services in their operations so as to provide customers with easy accessibility. The new capital requirements may lead to an improved buffer for risk absorption in the sector. However, increased competition, growing customer demands, and new regulations are likely to continue to add complexity to business models of banks and information technology environment. These complexities may not be easily unraveled and can lead to the inability to capture or respond rapidly and successfully to emerging external opportunities (Babatunde et al., 2023).

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that a Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities (CBK 2012).

According to Parker and Nielsen (2009), the current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. It makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance.

Haynes (2005), maintains compliance function as the function that should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk, manage internal, external and inter-relationships, and turn regulatory burden into competitive advantage (e.g. such as recommending IT solutions, regulation and guidance).

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In general terms, the inter-relationships for the Compliance function are: the Board of Directors has the responsibility for overseeing the management of the compliance function; Senior Management is responsible for establishing a compliance policy and a permanent and effective Compliance function. Some regulators promote two levels of compliance function: 1) operational and 2) oversight that is independent from business. The roles of each of the respective functions along with the Board of Directors, Senior Management, Compliance Staff and Business Unit personnel, all have a part to play in contributing to the overall success of the three internal control functions as they form an effective risk management framework (Basel, 2008).

Compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure. This ensures that compliance measures address noncompliance risks in the most effective manner. Banks conducting compliance work should consider adopting a risk-based approach because benefits are likely to be achieved in all regulatory areas (Leandri, 2005). They should also be aware that while there could initially be some additional costs in carrying out the processes involved, these costs are likely to be outweighed by the efficiencies gained from improved targeting of resources over time.

The following indicators should be used when assessing the quantity of compliance risk. Low: Violations or noncompliance issues are insignificant, as measured by their number or seriousness. The institution has a good record of compliance. The Bank has a strong control structure that has proven effective. Compliance management systems are sound and minimize the likelihood of excessive or serious future violations or noncompliance (Kelsey, 2004). From the moderate perspectives, the frequency or severity of violations or noncompliance is reasonable. The institution has a satisfactory record of compliance. Compliance management systems are adequate to avoid significant or frequent violations or noncompliance (Haynes, 2005). Finally on basis of high measures, violations or noncompliance expose the company to significant impairment of reputation, value, earnings, or business opportunity. The institution has an unsatisfactory record of compliance. Compliance management systems are deficient, reflecting an inadequate commitment to risk management.

Companies around the world have made substantial investments in personnel, processes and technology to help control business risk (Mills, 2008). Historically, these risk investments have focused primarily on financial controls and regulatory compliance. Too many financial institutions took on excessive risk with too little regard for reasonable, realistic long-term performance expectations. The debacle is focusing minds on more robust approaches to risk management, with a new imperative to keep pace with financial innovation, performance incentives, and business goals. Reforms will stretch risk management across the organization and involve systematically linking risk and corporate performance management, leading to an informed view of reward (Parker and Nielsen, 2009).

According to Verrecchia (2001), Companies that keep their proverbial eyes on the ball on improving performance, both financially and operationally will emerge from these trying times better positioned to take advantage of opportunities. However, conducting business as usual is in itself a risky proposition. Compliance-driven approaches to managing risk no longer suffice in an increasingly volatile, interconnected business environment. Approaches to risk management need to provide business leaders and their boards of directors with an integrated view of risk and performance that defines how rapidly emerging events will impact operations, quality, and, ultimately, shareholder value.

Recent research shows that many companies fail to connect risk and performance in the course of basic performance management (Basel, 2008; Carreta and Farina, 2010). External stakeholders are already motivating companies to take a fresh approach to aligning their risk appetites and performance objectives in a smarter, more systematic way (Febri et al.,2023). Company directors, credit rating agencies, and institutional investors alike are scrutinizing the risk-reward relationship and formalizing their own linkages between risk and performance, creating new expectations and market demands for businesses (Kirimi, et al., 2022).

It should be understood at the start that this is not merely a defensive response to greater uncertainty in the business environment and, for some, to pending regulation (Mills, 2008). According to Tse and Retno et al., (2024) states that banks are recognizing that the same drivers of increased volatility capital mobility, rapid innovation, and the development of new business models also offer opportunities that they must exploit to increase revenue, improve shareholder value, and satisfy evolving customer demands. With an integrated, principled approach to managing risk and business performance, companies can seize with greater confidence the opportunities that an interconnected economy presents (Kirimi, et al., 2022).

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The process of connecting risk and reward starts at strategy setting (Retno et al.,2024). When company leaders understand the greatest sources of value creation and destruction across their organizations, when they assign clear accountability for risk management and performance management, and when they systematically quantify the rewards associated with the risks, they change the decision-making game for their managers (Sobel, and Reding, 2004).

The word financial performance refers to how well an organization's policies help it to reach its planned financial goal in terms of money. Financial performance is a set of measures used to assess the healthiness of banks including some form of risk assessment and it is used as a key internal performance measure for every bank entity. Turyahebya (2013) described the financial performance as the capacity to work proficiently and produce profits and in this way can survive, develop, and respond to the surrounding prospects and challenges. Aguayo (2020) asserted that a company's ability to maximize the utilization of its resources, overall operational effectiveness, as well as the performance of its management, are all indicators of its financial success. Financial performance entails measuring the results of a firm's strategies, policies and operations in monetary terms. Financial performance provides a subjective measure of how well a bank can use its assets to generate revenues (Herciu, 2017). Financial performance is measured using a firm's revenues, liabilities, and cash flow. Financial performance indicators in the form of ratios include profitability, liquidity, financial utilisation structure and investment shareholder ratio (Bouteille & Coogan-Pushner, 2021; Levy & Zhang, 2019). The measure of profitability is by gross profit margin, the amount of money made after deducting the sales/services direct cost. The operating margin lies between the gross and net profitability measures and net profit margin, including all costs. Liquidity ratios indicate the ability to meet short-term obligations. Efficiency ratios indicate how well the business assets are used (Tian, 2021; Lam et al., 2018).

Return on average asset is a profitability measure which seeks to ascertain the company’s efficiency in asset utilization. It is a profitability ratio that measures how efficient an organization is in utilizing the company’s assets to generate earnings or profit. Return on average asset therefore is a measure of the contribution of an average asset to earnings or profit generation. It is a good measure of efficiency. Organizations may have huge amounts in assets or capital but generate little profit or earnings. Figures of assets or capital of an organization are mere absolute figures or amounts. Translating these figures in a clearer perspective gives a clearer view or understanding of efficiency which is necessary for business decision making. Organizations may be carrying in their books, impaired or obsolete assets that are not adding value to the business but may not expect the figures to be put to test of efficiency like this. Therefore return on assets is important as it exposes areas of inefficiency and assets that are not adding values. Such assets therefore may be subjected to asset impairment and subsequently disposed of and possibly replaced where necessary. This ratio is very important to the board and management who regularly appraise themselves to ascertain how efficient and effective they are. Also, to shareholders who always wish to assess their agents (Board and Management) on efficiency and effectiveness to be rest assured of the continuity of the business investment business growth, wealth and dividend maximization. To potential investors who may wish to assess a company's financial strength and efficiency, this profitability ratio is key. Hardgrave et al (2015) defined return on assets as a financial ratio that indicates how profitable a company is in relation to its total assets. Return on assets x-rays the amount of profit earned by a firm in comparison to its total value of assets. The higher the return on asset (ROA), the better the firm, as a lower ROA rate may mean lower asset productivity and wastage. It is an expedient indicator of asset intensity. An ideal return on asset figure is a function of the company and industry it operates in. However, a return on assets of 5% or higher is good. It is important for firms that are highly competitive like banks to always watch this ratio. It is therefore important to carry out both vertical and horizontal analysis of this likewise other ratios. In other words, it is important to have a trend analysis to compare it year on year. It is important also to compare it with that of similar firms in the same industry as well as company average.

3. METHOD

This study adopted a descriptive research design. Target population is that population to which a researcher wants to generalize the results of the study (Mugenda and Mugenda, 2003).This study constituted a census survey of the 11 banks in in Nakuru city County respectively. Credit managers of the banks were targeted. According to Dale (1979) a sample of 10% of a large population and a 30% of a small population is appropriate for doing a study. The study adopted census survey and therefore all the credit managers in 11 banks, 33 in total were studied. Data collection instrument used was questionnaire and other information relevant to the study. A structured questionnaire was administered to the respondents. Both primary and secondary data was collected. Piloting was done to determine if the full-scale study was conducted in

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the way that was planned and whether there were some components that should be changed. The study ensured validity by using the experts' opinion on the piloted questionnaires. To ensure reliability the study used Cronbach's Alpha. A coefficient of 0.7 or above implies that there is a high degree of reliability of the data Mugenda and Mugenda (2011). Once data was collected, it was crosschecked and verified for errors, completeness and consistency. It was coded, entered and analysed descriptively using IBM Statistical Package for Social Sciences (SSPS 23). Pearson correlation analysis was used to test the relationship between variables in the study hypotheses. ANOVA multiple linear regression analysis was also be used to determine the statistical relationship between the independent variable and the dependent.

4. DISCUSSIONS

4.1. Compliance Risk Management on Performance of Commercial Banks in Nakuru City Kenya

The second specific objective of the study was to examine the effect of compliance risk management on performance of Commercial banks in Nakuru city Kenya. The respondents were requested to indicate their level of agreement on the statements relating to the effect of compliance risk management on performance of Commercial banks in Nakuru city Kenya. The results were as shown in Table 4.1.

From the results, the respondents agreed that bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities. This is supported by a mean of 3.785 (std. dv = 0.756). In addition, as shown by a mean of 3.748 (std. dv = 0.855), the respondents agreed the current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. The respondents also agreed that it makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance. This is shown by a mean of 3.576 (std. dv = 0.658). The respondents also respondent compliance function should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk. This is shown by a mean of 3.724 (std. dv = 0.524). With a mean of 3.681 (std. dv = 0.848), the respondents agreed that Compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure. In addition, the respondents agreed that banks conducting compliance work should consider adopting a risk-based approach as compliance management systems are sound and minimize excessive or serious future violations exposing the company to significant impairment of reputation, value, earnings, or business opportunity. This is shown by a mean of 3.691 (std. dv = 0.798).

Table 4.1: Compliance Risk Management on Performance of Commercial Banks in Nakuru City Kenya

	Mean	Std. Deviation
Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities	3.785	0.756
The current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk.	3.748	0.855
It makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance	3.576	0.658
compliance function should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk	3.724	0.524

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Compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure	3.641	0.748
Banks conducting compliance work should consider adopting a risk-based approach as compliance management systems are sound and minimize excessive or serious future violations exposing the company to significant impairment of reputation, value, earnings, or business opportunity	3.691	0.798
Aggregate	**3.982**	**0.819**

4.2. Performance of Commercial Banks in Nakuru City, Kenya.

The respondents were requested to indicate their level of agreement on various statements relating to performance of commercial banks in Nakuru City County Kenya. A 5 point Likert scale was used where 1 symbolized strongly disagree, 2 symbolized disagree, 3 symbolized neutral, 4 symbolized agree and 5 symbolized strongly agree. The results were as presented in table 4.2.

From the results, the respondents agreed that financial performance is a set of measures used to assess the healthiness of banks including some form of risk assessment and it is used as a key internal performance measure for every bank entity. This is supported by a mean of 4.281 (std. dv = 0.957). In addition, as shown by a mean of 3.978 (std. dv = 0.841), the respondents agreed that a company's ability to maximize the utilization of its resources, overall operational effectiveness, as well as the performance of its management, are all indicators of its financial success. This is shown by a mean of 3.823 (std. dv = 0.752). The respondents also agreed that Financial performance is measured using a firm's revenues, liabilities, and cash flow. This is shown by a mean of 3.812 (std. dv = 0.843). With a mean of 3.743 (std. dv = 0.925), the respondents agreed that Return on average asset is a profitability measure which seeks to ascertain the company's efficiency in asset utilization. The respondent also agreed that Return on average asset therefore is a measure of the contribution of an average asset to earnings or profit generation as it is a good measure of efficiency. This is shown by a mean of 3.961 (std. dv = 0.911).

Table 4.2: Performance of Commercial Banks in Nakuru City, Kenya.

	Mean	Std. Deviation
Financial performance is a set of measures used to assess the healthiness of banks including some form of risk assessment and it is used as a key internal performance measure for every bank entity	4.281	0.957
a company's ability to maximize the utilization of its resources, overall operational effectiveness, as well as the performance of its management, are all indicators of its financial success	3.978	0.841
Financial performance is measured using a firm's revenues, liabilities, and cash flow	3.823	0.752
Return on average asset is a profitability measure which seeks to ascertain the company's efficiency in asset utilization	3.812	0.843
The operating margin lies between the gross and net profitability measures and net profit margin, including all costs.	3.743	0.925
Return on average asset therefore is a measure of the contribution of an average asset to earnings or profit generation as it is a good measure of efficiency	3.961	0.911
Aggregate	**3.997**	**0.841**

4.3 Inferential Statistics

Inferential statistics in the current study focused on correlation and regression analysis. Correlation analysis was used to determine the strength of the relationship while regression analysis was used to determine the relationship between dependent variable (performance of commercial banks in Nakuru City County Kenya) and independent variable (compliance risk management).

4.3.1 Correlation Analysis

The present study used Pearson correlation analysis to determine the strength of association between independent variables (Market risk management, compliance risk management, credit risk management and interest rate risk

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management) and the dependent variable (Performance of Commercial Banks in Nakuru City County Kenya) dependent variable. Pearson correlation coefficient range between zero and one, where by the strength of association increase with increase in the value of the correlation coefficients. The current study employed Taylor (2018) correlation coefficient ratings where by 0.80 to 1.00 depicts a very strong relationship, 0.60 to 0.79 depicts strong, 0.40 to 0.59 depicts moderate, 0.20 to 0.39 depicts weak.

Table 4.3: Correlation Coefficients

		Performance of Commercial Banks	Compliance risk management
Performance of Commercial Banks	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	30	
	N	30	
Compliance risk management	Pearson Correlation	.854**	1
	Sig. (2-tailed)	.001	
	N	30	30

From the results, there was a very strong relationship between Compliance risk and Performance of Commercial Banks in Nakuru City County Kenya (r = 0.854, p value =0.001). The relationship was significant since the p value 0.001 was less than 0.05 (significant level).

4.3.2 Regression Analysis

Multivariate regression analysis was used to assess the relationship between independent variables (compliance risk management) and the dependent variable (Performance of Commercial Banks in Nakuru City County Kenya).

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.899	.731	.726	.311121

a. Predictors: (Constant), compliance risk management,

The model summary was used to explain the variation in the dependent variable that could be explained by the independent variables. The r-squared for the relationship between the independent variables and the dependent variable was 0.731. This implied that 73.1% of the variation in the dependent variable (Performance of Commercial Banks in Nakuru City County Kenya) could be explained by independent variables (compliance risk management).

Table 4.5: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	29.773	4	3.056	53.12	.000[b]
1	Residual	6.471	26	.038		
	Total	36.244	30			

a. Dependent Variable: Performance of Commercial Banks In Nakuru City County Kenya

b. Predictors: (Constant), compliance risk management,

The ANOVA was used to determine whether the model was a good fit for the data. F calculated was 53.12 while the F critical was 2.010. The p value was 0.000. Since the F-calculated was greater than the F-critical and the p value 0.000 was less than 0.05, the model was considered as a good fit for the data. Therefore, the model can be used to predict the influence of compliance risk management on Performance of Commercial Banks in Nakuru City County Kenya.

Table 4.6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.559	0.034		4.904	0.000
	compliance risk management	0.794	0.133	0.450	3.891	0.000

a. Dependent Variable: Performance of Commercial Banks in Nakuru City County Kenya.

The regression model was as follows:

$Y = 0.559 + 0.794X_1 + \varepsilon$

According to the results, compliance has significant effect on Performance of Commercial Banks in Nakuru City County Kenya. $\beta1=0.794$, p value= 0.001). The relationship was considered significant since the p value 0.001 was less than the significant level of 0.05.

5. CONCLUSIONS AND RECOMMENDATIONS

The specific objective of the study was to examine the effect of compliance risk management on performance of Commercial banks in Nakuru city Kenya. The findings implied that banks may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities and that the current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. The findings also showed that it makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance. The finds further revealed that compliance function should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk. Through the findings, compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure and that banks conducting compliance work should consider adopting a risk-based approach as compliance management systems are sound and minimize excessive or serious future violations exposing the company to significant impairment of reputation, value, earnings, or business opportunity. Based on the findings, the study concluded that compliance has significant effect on Performance of Commercial Banks in Nakuru City County Kenya. $\beta1=0.794$, p value= 0.001). The relationship was considered significant since the p value 0.001 was less than the significant level of 0.05. The study came up with the following recommendations; the management of commercial banks should formulate a designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies should be incorporated into business processes to improve compliance.

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