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## **Abstract**

The main objective of this study was to establish the relationship between risk management practices and the performance of the first community bank in Kenya. The target population for this study comprised of 18 branches of the first community bank in Kenya. The unit of analysis was the senior managers, middle level managers, supervisors and staff of the 10 branches first community bank in Kenya. Descriptive research design was adopted and simple random sampling was used to select 322 employees from 10 branches first community bank in Kenya. This study used primary data obtained from semi structured questionnaires. Data was analyzed using inferential statistics and presented in a multiple regression model. The regression of coefficients results revealed that risk identification was positively and significantly related to performance of FCB ( $r=0.115$ ,  $p=0.000$ ). Risk assessment was positively and significantly related to performance of FCB( $r=0.130$ ,  $p=0.000$ ). Similarly, monitoring and evaluation was positively and significantly related to performance of FCB( $r=0.161$ ,  $p=0.000$ ). Finally, risk mitigation was positively and significantly related to performance of FCB( $r=0.128$ ,  $p=0.000$ ). From the findings the study concluded that on risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy positively and significantly affect the performance of FCB. The study recommended that banks should recognize potential source of risks, probability of hazards factors occurrences, attention to risk potentials, embrace programs on risk identification and evaluate risk components on their operations. Banks should carry out risk based auditing, fraud risk assessment, and considers risk frequency on new ventures and ultimate consequences. Management should use monitoring tools in their operation, their program officers trained and skillful on monitoring and evaluation. Banks should collaborate with other financial

players to avert risks, continuously improve its risk management strategies, set standards as part of their objectives and operate based on policies and procedures.

**Key words:** *Risk identification, risk assessment, risk monitoring & evaluation, risk mitigation strategy, performance, First Community Bank, Kenya.*

## 1.0 Introduction

Risk is a phenomenon that creates hindrance to the achievement of set objectives and may lead to financial losses. It results from uncertainties in the business environment and certain exposure to business ventures. Risk therefore requires prudent use of resources and management so that the organizations set goals are achieved within the set timeline and the resources available. Management of the risks optimizes risk return trade off. Risk management practices calls for the identification, assessment, evaluation, mitigation, monitoring, analysis and managing the risk in the business environment (Ndwiga, Waithaka, Gakure, & Ngugi, 2012).

Poor risk management practices in an organization can lead to increased losses and poor financial performances (Agyei & Yeboah, 2011). However the managers' behavior and attitude towards risk can influence its management. Systematic risk management framework can help the organization enhance its financial performance, customers' satisfaction and reduce their exposure to risks. Selection of a risk management practice is mostly associated with organization leadership culture and attitude of the decision makers towards the risk management practice selected (Mike & Kaplan, 2014). Most organization focus on extensive measures and risk management while others emphasizes on qualitative discourses and utilization of professional opinion on the emergent risk issues.

In risk management, priority should be followed in that the risk with the highest loss and highest incidence is handled first while risks with lower loss and lowest probability of occurrence are handled later (Ellul & Yerramilli, 2010)). However, no particular model can decide the equilibrium among risks with highest possibility and loss and those with inferior loss, thus making it challenging for the management of risks. Therefore it is good for organizations to focus on risk management in terms of regulatory, as contrasting to eradicating exposure to risk most stakeholders are totally aware of the possible impacts to the firm (Eriki, Idolor, & Eghosa, 2012).

In Kenya risk management practices has been adopted in various sectors of the economy. Conspicuously, it has been employed in insurances sector by the insurance firms to reduce their claims and probably increase their premiums (Gitau, 2011). Despite the existence of the risk management practices, most of the organization still encounter challenges in adoption and management of risks. This has resulted to slow growth of organization and some have collapsed.

In 2007, First Community Bank was approved by the Central Bank of Kenya (CBK to be the first bank to carry out its operations using Sharia laws (CBK, 2008). This opened the door for the operation of Sharia compliant banking in Kenya and the whole of East and Central African states. All branches are located strategically in different towns within the country. Currently it has 18 branches which are: Moyale, Mandera, Wajir, Hebaswein, Garissa, Malindi, Msalani, Kisumu, Nakuru, two in Mombasa and seven in Nairobi. Certainly, the benefits to the clients from this aggressive branch expansion program were an overwhelming value in terms of service delivery and overall networking perspectives.

The bank is under the ownership of community businessmen and group of professionals in East Africa. The aim of FCB is to offer a substitute form of banking to many people in different locations within the country. Regionally, they have placed mid-term strategic plans to inaugurate more operations in East African financial centers with considerable requests for Sharia Compliant services. FCB has Pioneered Sharia Compliant institutions, which are at the terminal stages of bringing more innovative sharia products to Kenya. These include; Islamic Insurance (Takaful) which is already in Kenya, Islamic Bonds (Sukuk) and Sharia Compliant Mutual Funds. These services strictly adhere to terms and conditions of Sharia law.

The Capital Markets Authority (CMA), recently granted FCB approval to become Kenya's first Islamic investment bank. The Kenyan government is studying the alternative of allowing debut sovereign Sukuk issuance. FCB has also launched FCB Capital in order to issue local currency Sukuk plus other capital market products that are Sharia Compliant for a growing market segment. It is this interest that the study will address by establishing the effects of risk management practices on the performance of Islamic financial institutions a case study of first community bank in Kenya.

## **1.2 Statement of the Problem**

Banking industry is at the epicenter of risk management dynamics. They are involved in the management of their risks and the customers' risk which requires the integration of risk management practices into the business system, culture and processes. In spite of this the banking industry has witnessed tremendous changes which are brought about by globalization, liberalization, shorter product life cycle, intensified competition among rivals, changing new regulatory provisions and prudential guidelines, new technology and more demanding consumers. The introduction of Islamic banking and finance system which prohibits interest acquisition and allows for profits sharing which is not provided for, in the regular banking is both challenging and risk to the financial performance of the first community bank. These changes require appropriate risk management practices and thus the study will address risk management practices of Islamic financial institutions.

Credit management for FCB poses the greatest risk as it is credit that is used to measure the worthiness and value of the bank (Ngahu & Njoroge, 2017). Their overall performance can be assessed through increased capital investment, profitability and improved productivity. Despite this, FCB is faced by risk emanating from unique assets and liability structure due to their nature of operations. The concept of profit sharing is also a glaring risk that can plunge the bank into financial crunch. The Sharia laws is the predisposing factor to such vulnerability and thus call for concise risk management practices to avoid stagnation and or losses.

As a result of these risks from credit management, profit sharing, unique assets and liability structure; proper and effective risk management practices ought to be in place. These practices should be applied regularly and periodic reviews on their effectiveness conducted to ascertain their influence on the bank. Identification, quantification and management of the risks can improve the performance of the bank as it minimizes risks encountered. Moreover, FCB is constraint by their rules not to use conventional strategies used by other non-Islamic banks to avert risks. Therefore the study on the relationship between risk management practices and the performance of the first community bank in Kenya is worth researching.

Previous studies have reviewed and critiqued risk management and its challenges by among others. Ebrahim (2010) who studied risk management in Islamic financial institution,



Nyakundi (2010) studied risk strategy implementation and its challenges at Citibank N.A. Kenya. Bandara and Weerakoon (2012) asserted that risk management is important in insurance firms as it is the backbone of success. The context and concepts in which the above studies have been carried out is different from the current study. None of the above studies focused on risk management in Sharia compliant banking and thus the study addressed the contextual gap by establishing the effects of risk management practices on the performance of the first community bank in Kenya.

### **1.3 Research Objectives**

- i. To establish the effects of risk identification on the performance of first community bank in Kenya.
- ii. To examine the effects of risk assessment on the performance of first community bank in Kenya.
- iii. To assess the effects of risk monitoring & evaluation on the performance of first community bank in Kenya.
- iv. To investigate the effects of risk mitigation strategy on the performance of first community bank in Kenya.

## **2.0 Literature Review**

### **2.1 Theoretical Framework**

#### **2.1.1 Stakeholder Theory**

Stakeholder theory was originally developed by Edward Freeman in 1984. According to Freeman (1984), stakeholders include employees, shareholders (owners), customers and managers (directors) described as members of the stakeholder family. Stakeholders therefore are individuals involved in the creation of wealth for organizations. They may include beneficiaries and persons exposed to risks arising from what the organizations does (Mahoney, 2014).

Stakeholders' theory informs risk management practices in an organization because the directors/manager must consider the interest of the stakeholders during making decisions. Organization leadership must always consider their interests and the interests of the partners so that they can achieve their set goals. The risks encountered by the organization may be prevented or controlled when stakeholders interest are considered in the organization risk management practices. With the involvement of all the relevant stakeholders in a project, chances are very high that formulation and implementation of risk management strategies will be done in an in tandem manner and possibilities of avoiding risks will increase. This will in turn reorganize the performance of a bank to suit the set goals and objectives.

#### **2.1.2 Portfolio Theory**

Portfolio theory is an advancement of Harry Markowitz who first developed it in 1950s. Markowitz postulated that variance/standard deviation of expected return under reasonable assumptions was a substantial measure of portfolio risks (Szego, 2014). By using the model, expected rate of return of portfolio assets is given by the mean of the expected return for the portfolio assets. The theory thus outline the importance of optimization in the business environment and its significant effects on the return on investments (Zhu & Fan, 2010).

Portfolio theory is relevant to the study because it helps determine ways of efficient diversification and the significance of investments diversification aimed at total risk reduction. It helps the organization understand that their performance is depended on the quality of its portfolio. Investment considerations are thus inevitable because return on investment interacts with return on assets in the portfolio thereby very important.

### **2.1.3 Extreme Value Theory**

Extreme value theory provides an explanation on the assessment of extreme and rare event that is important for the risk management of finance portfolio (Gilli, 2006). It provides the needed statistical modelling and stochastic computations of risks measures. The increasing in the complexity of financial instruments require the use of sophisticated risk management strategies to avoid the adverse effect. On the other end, the security of risks and optional risks transactions provides the extreme vulnerabilities that finance has and the product level. Extreme value theory plays an important methodological role within risk management for insurance, reinsurance, and finance (Embrechts, Resnick, & Samorodnitsky, 1999).

Extreme value theory informs the risk management practices with much emphasis on risk assessment. While assessing the nature of a potential risk, it is important to evaluate the maximum benefits that can be accomplished by actualizing the activity. Credit management ought to be the underlying factor when assessing risks. It is no coincidence that big investment banks are looking at actuarial methods for the sizing of reserves to guard against future credit losses. Therefore, extreme value theory plays a significant role in evaluating potential risks.

### **2.1.4 Risk Management Theory**

Risk management theory attempts to identify risks and take appropriate action to diminish their impending effects on an organization (Rampini, Sufi, & Viswanathan, 2014). It provides the guidelines and standards that are broadly applicable and make it possible to approach risks in a great variety of contexts, from financial portfolio risk to health care and from oil drilling to organizing sports events. It helps in the identification and putting control on the possible risks that can interfere with the achievement of the target goals in an organization. This means that risks should be identified and managed using standard procedures and processes. Risks can originate from vulnerability in money related markets, venture disappointments, lawful liabilities, credit chance, mischances, normal causes and catastrophes and in addition ponder assault from a foe, or occasions of dubious or eccentric main driver (Purnanandam, 2008).

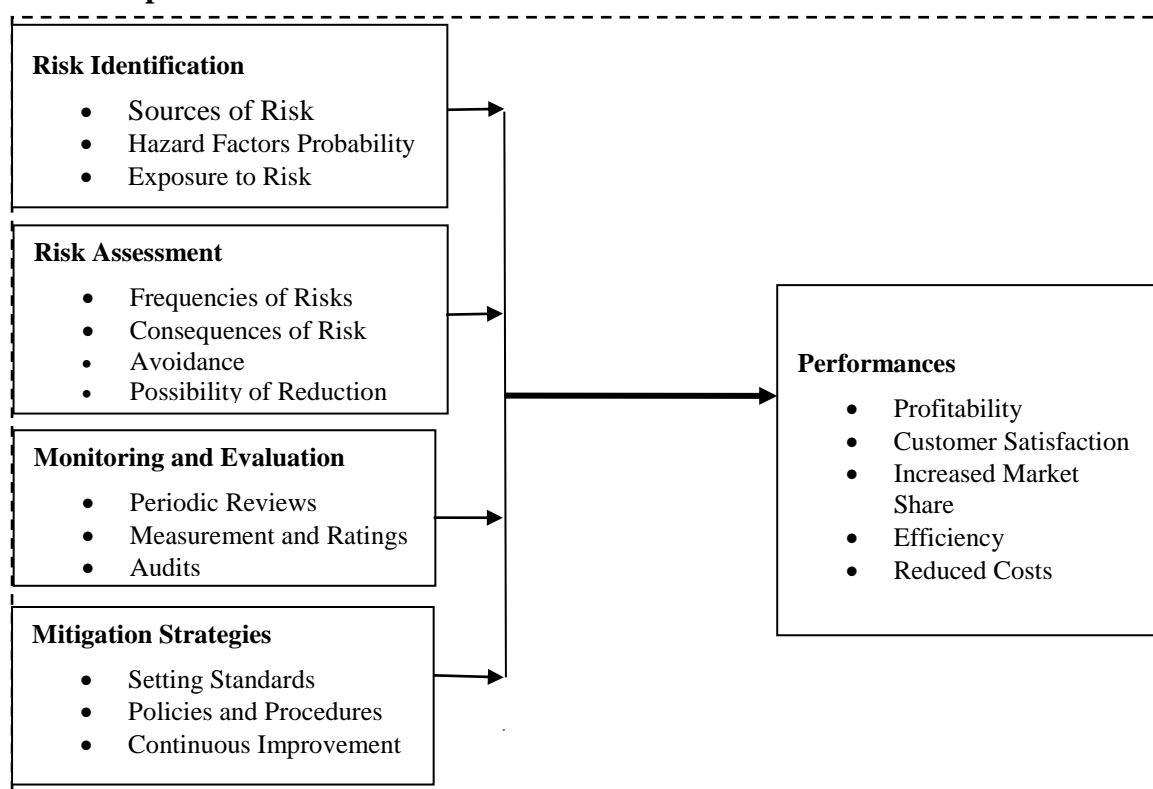
The theory informs the risk management practices that can be employed in financial institutions such as banks. Banks should have guidelines and procedures that can help them manage their risks. Standards set by their regulators ought to be adhered to the latter when managing risks so as to minimize loses. During risk identification, the methods employed by the organization should provide flexibility in the evaluation of potential threats to the progress of the financial institution. Risk assessment should evaluate various sources of potential threat to the progress of the bank. Analysis on the scope and schedule of credit should be ascertained before credit is given out to the clients. Therefore risk management theory informs identification, monitoring, evaluation, analysis and assessment of risks that are potential threat to credit management. On conducting credit management, their practices, procedures and principles needs to be adhered to the required standards.

### 2.1.5 Resource Based View Theory

Resource-based view (RBV) theory proposed by Barney in 1991 is premised on the way that, for a firm to be amazing in the market it needs to achieve resourcefulness. The theory perceived the utilization of the firm-specific resources as key to working up a competitive strategy through preferred value offering over the purchasers (Barney, 2011). The theory also recognized the characteristics and inadequacies that a firm can accomplish through its vital organizations together with its backups in the market (Gupta, 2011).

The resource-based view theory is used to explain how the performance of firm can be affected by risk management practices. Despite the fulfillment of the three key resources (the organization, physical and human capital inputs) risk management aspect serves as a key factor to the achievement of the financial institution. Further, the banks can develop their business model around the key resources but with reference to finance so as to enhance the overall performance. Risk management practices can be success if performance contracting and accountability are put fronted in any aspect of managing the financial institution. The theory informs the concept of performance of First Community Bank in Kenya.

### 2.4 Conceptual Framework



**Figure 1: Conceptual Framework**

### 3.0 Research Methodology

The research design adopted was descriptive research design. The target population of the study was 100 senior management offices 500 staff. Census technique was used to choose a sample of 100 senior management officers. Simple random sampling was used to select 222

staff calculated using adopted Israel (1992). This study used primary data collected using semi-structured questionnaires.

#### 4.0 Analysis, Results and Discussions

##### 4.1 Response Rate

The number of questionnaires that were administered were three hundred and twenty two (322), however, a total of two hundred and sixty two (262) questionnaires were properly filled and returned. Sixty of the respondents never returned the questionnaires. The response rate result is shown in Table 1.

**Table 1: Response Rate**

Response	Frequency	Percent
Returned	262	81.37%
Unreturned	60	18.63%
<b>Total</b>	<b>322</b>	<b>100%</b>

According to Bailey (2000), a response rate of 50% is adequate, while a response rate greater than 70% is very good for conclusion of a study. Based on the observation, the response rate of 81.37% is therefore very good for conclusion of the study. This response rate can be attributed to data collection procedures which included the use of drop and pick mechanism, confidentiality assurance and anonymity issued to the respondents.

##### 4.5 Inferential Statistics

##### 4.5.1 Correlation Analysis

Pearson Correlation was used to establish the association between risk management practices and performance. The association between risk identification, risk assessment, monitoring and evaluation, risk mitigation strategy and performance of First community bank was established. The result is presented in Table 2.

**Table 2: Association between Risk Management Practices and Performance of First Community Bank**

Correlations		Risk Identification	Risk Assessment	Monitoring & Evaluation	Risk Mitigation	Performance
Risk Identification	Pearson					
	Correlation	1.000				
	Sig. (2-tailed)					
Risk Assessment	Pearson					
	Correlation	.579**	1.000			
	Sig. (2-tailed)	0.000				
Monitoring & Evaluation	Pearson					
	Correlation	.549**	.569**	1.000		
	Sig. (2-tailed)	0.000	0.000			
Risk Mitigation	Pearson					
	Correlation	.606**	.545**	.589**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.000		
Performance	Pearson					
	Correlation	.583**	.588**	.616**	.595**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

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



Results in Table 2 indicated that there was a positive and a significant association between risk identification and performance of FCB ( $r=0.583$ ,  $p=0.000$ ). The results similarly indicated that risk assessment was positively and significantly associated with the performance of FCB ( $r=0.588$ ,  $p=0.000$ ). Monitoring and evaluation was positively and significantly associated with the performance of FCB ( $r=0.616$ ,  $p=0.000$ ). Furthermore, risk mitigation was positively and significantly associated with the performance of FCB ( $r=0.595$ ,  $p=0.000$ ).

#### 4.5.2 Regression Analysis

The relationship between risk management practices and performance was examined in the study using regression analysis. Results are presented in Table 3, 4 and 5.

**Table 3: Model Finess**

<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
.723a	0.523	0.516	0.43013

Table 3 presents the regression model on risk management practices versus performance of FCB. As presented in the table, the coefficient of determination R Square is 0.523 and R is 0.723 at 0.000 significance level. The model indicates that risk management practices explains 52.3% of the variation in performance of FCB ( $R\text{-squared}=0.523$ ). This means 52.3% of the performance of FCB is affected by risk management practices. This implies that there exist a positive and significant relationship between risk management practices and performance of FCB.

**Table 4: Analysis of Variance**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	52.227	4	13.057	70.573	0.000
Residual	47.548	257	0.185		
Total	99.775	261			

Table 4 presents the Analysis of Variance (ANOVA) results. The findings confirms that the regression model of risk management practices versus performance of FCB index is significant and supported by  $F=70.573$ ,  $p<0.000$ ) since p-values was 0.00 which is less than 0.05. The regression of coefficients results in Table 5 shows that risk identification was positively and significantly related to performance of FCB( $r=0.115$ ,  $p=0.000$ ). Risk assessment was positively and significantly related to performance of FCB( $r=0.130$ ,  $p=0.000$ ). Similarly, monitoring and evaluation was positively and significantly related to performance of FCB( $r=0.161$ ,  $p=0.000$ ). Finally, risk mitigation was positively and significantly related to performance of FCB ( $r=0.128$ ,  $p=0.000$ ).

**Table 5: Regression of Coefficients**

	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
(Constant)	1.908	0.108		17.737	0.000
Risk Identification	0.115	0.037	0.185	3.12	0.002
Risk Assessment	0.130	0.035	0.214	3.7	0.000
Monitoring & Evaluation	0.161	0.035	0.271	4.647	0.000
Risk Mitigation	0.128	0.037	0.206	3.457	0.001

Thus, the optimal model of the study is;

$$Y = 1.908 + 0.115X_1 + 0.130X_2 + 0.161X_3 + 0.128X_4$$

Where

Y = Performance

X<sub>1</sub> = Risk Identification

X<sub>2</sub> = Risk Assessment

X<sub>3</sub> = Monitoring and Evaluation

X<sub>4</sub> = Risk Mitigation

#### 4.6 Discussion

The study established the effects of risk identification on the performance of first community bank in Kenya. Results revealed that risk identification was positively and significantly related to performance of FCB ( $r=0.115$ ,  $p=0.000$ ). This means that an increase in a unit of risk identification leads to an increase in 0.115 units of performance of FCB. It is therefore imperative that banks should comprehend and manage risks as one of their main activities for effective operation of the institution. It requires the testing of the large vulnerabilities that revolves around credit, market, liquidity and operations. Transparency in risk identification is critical for their control, mitigation and strategic planning. It is equally important to point out that risk identification must be thoughtful and qualitatively different from the conventional methods. With effective risk identification strategies, any financial institution can map and appropriately deal with a potential risk. The success of any financial institution is dependent on its identification methods of potential risks that can affect the bank. If the bank can have effective strategies and methods of identifying risks, then then will be able to avert potential risks and minimize the chances of recurring non-performing loans.

The result agrees to Mburu, Ogolla and Ngugi (2015) who assessed the identification of risks and their management strategy that affected performance of the manufacturers in Kenya. Their findings noted that cases of turbulent markets risk identification was necessary for even performance of supply chain in a company. Similarly, Ndwiga, *et al.*, (2012) observed that methods used in identifying risks are tools used to optimize opportunities of knowing hazards inherent in certain systems, facilities or products and the tools are categorized in broad headings of inductive, deductive or intuitive methods. This implies that the identification of risks depends on the most part of past experience that ought to be utilized as a part of upcoming undertaking. In order to locate the potential risk, an assignment pertaining the risks should be completed.

The effect of risk assessment on the performance of first community bank in Kenya was examined. Risk assessment was found to be positively and significantly related to performance of FCB ( $r=0.130$ ,  $p=0.000$ ). This implies that an increase in a unit of risk assessment leads to an increase in 0.130 units of Performance of FCB. Risk assessment is used in the financial institutions to ascertain the rate of return on investment, whether on assets or loans. It needs to evaluate issues that are likely to distract the organization from achieving its objective. It is therefore prudent that it employ procedures that are continuous and progressive in order to completely evaluate the issues on their potential that can cause crisis to the organization. With an effective risk assessment procedures, principles and policies an organization can ably determine the extent of potential risks and formulate

strategies to counter it. Banks should evaluate risks in order to make informed decision on how to minimize them. This can lead to increased performance in the institution as risks have been evaluated and modalities on how to counter them are put in place.

The result agrees to that of Kirogo, Ngahu and Wagoki (2014) who established the how risk assessment affected financial performance in insurance firms in Nakuru town. The study concluded that risk auditing as a component of assessing risks positively affected the financial performance of insurance companies in Nakuru Town. Similarly, Kasiva (2012) found out that risk-based auditing through risk management should be enhanced to enable the organization concerned to detect risks on time. These results implies that auditing is the main component of risk assessment in a bank. Carrying out periodic reviews can help the bank evaluate the nature of potential risk and thus formulates strategies on how to reduce them. Risk assessment should therefore consider risk based auditing their main component of evaluating risks when engaging new ventures. A success in risk assessment can lead to reduced risks and thus increased performance in a bank.

Risk monitoring and evaluation effect on the performance of first community bank in Kenya was assessed. Monitoring and evaluation was positively and significantly related to performance of FCB( $r=0.161$ ,  $p=0.000$ ). This implies that a unit change in monitoring and evaluation leads to 0.161 units increase in performance of FCB. Monitoring and evaluation departments within the financial institutions need to cooperate with each other on issues such as audit, legal matters, internal control and financial reporting. There is need that they should share information for purposes of conformity and as per the financial regulations. It is important that monitoring process be done periodically for enhanced financial health. If monitoring and evaluation process is streamlined in the organization/bank chances are very high that risk can be identified and the necessary actions undertaken. Monitoring and evaluation helps the bank track formulation of credit process to its implementation together with the output which is the interest earned. It is therefore important to note that a bank needs to have an effective monitoring process that is characterizes by constant reviews, training of staff and evaluation of indicators based on non-performing loans. Programs on credit risks can be created which can be categorized into risk potentials, risk amounts and performance of loans. With this in mind, risk monitoring and evaluation can be undertaken with the view to improve performance rather than to keep operation according to the laid procedures and goals.

The result is consistent with that of Waithera and Wanyoike (2015) who determined the factors that influenced the monitoring and evaluation of project and the performance of youth funded agribusiness projects in Bahati Sub-County of Kenya. The findings indicated that only the training of staff had a statistically significant influence on project monitoring and evaluation performance of youth funded agribusiness projects. Similarly, Mwangi (2015) observed that assessment influences the result of constituency development fund projects in Kenya.

The study finally investigated the effects of risk mitigation strategy on the performance of first community bank in Kenya. Risk mitigation was found to be positively and significantly related to performance of FCB ( $r=0.128$ ,  $p=0.000$ ). This means that an increase in a unit of risk mitigation leads an increase in 0.128 units of performance of FCB. This is important in trying to eliminate avoidable dangers during financial transactions. Whilst it is difficult to completely eliminate the risks that can affect operations of a bank, it is equally true that certain levels of risks are not acceptable. In reducing the risks that may be encountered

certain mechanisms ought to be applied. These are separation of duties, internal procedures, staff training and appropriate recording of transactions. Physical security and legal duty are also fundamental. Investment towards cost reduction should be prioritized and championed by the risk management strategies in the insurance firms. Management should proactively implement its risk management strategies during the planning stage of the risk management practices. This will ensure that there is proper participation by all the stakeholders and partners of supply chain in implementing of risk management strategies.

The result is consistent with that of Mutua (2015) who investigated the effect of mitigating credit risk to the performance of commercial banks currently operating in Chuka Town in Tharaka Nithi County. Findings indicated that there was significant relationship between bank performance and credit risk management. Similarly, Kagawthi (2014) observed that the key risk mitigation strategies outlined included insurance, collaboration, use of credits scorecards and diversification.

The fitness of model was used in the regression model in explaining the study phenomena. Risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy were found to be satisfactory variables in explaining performance of FCB. This is supported by coefficient of determination also known as the R square of 52.3%. This means that Risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy explain 52.3% of the variations in the dependent variable, which is performance of FCB in Kenya. Therefore the performance of a bank is influenced by risk management practices which are the risk identification, risk assessment, risk mitigation and risk monitoring. The profitability, market share and customer services for the bank can be improved by enhancing the risk management practices.

## **5.0 Conclusion**

From the findings the study concluded that on risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy positively and significantly affect the performance of FCB. FCB has been improving in terms of its profit performances in the last five years (2013-2017). On risk identification, the study concluded that the First community bank recognized potential source of risks, probability of hazards factors occurrences, attention to risk potentials, embraced programs on risk identification and evaluated risk components on their projects.

Risk assessment is a component of strategic planning tools that give the firms an outside-in perspective of the strategic planning process. The study concluded that FCB carries out risk based auditing, attends to fraud risk assessment, and considers risk frequency on new ventures and ultimate consequences. However, the bank may not have been reporting and doing risk avoidance.

On monitoring and evaluation, the study concluded that FCB completed their set goals timely, used monitoring tools in their operation, their program officers are skillful on monitoring and evaluation, routine audit is conducted using logical framework and carried out period reviews.

Finally, the study concluded that FCB does not embrace insurance, collaborates with other financial players to avert risks, continuously improved its risk management strategies, set standards as part of their objectives and operates based on policies and procedures.

## **6.0 Implication of the Study Findings**

The study has found that risk management practices has a positive and significant effect on performance of First Community Bank. The result implies that risk management practices informs the performance of a financial institution. Financial institution can embrace risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy in their policy making process on for better performance and reduction in risks. The result is therefore important for commercial bank in embracing risk management practices for improved performances. Management can therefore formulate and implement strategies that are informed by risk management practices when giving out loans to its customers or engaging in new ventures.

The result of the study is important to stakeholders and management of commercial banks. The study has provided an insight into risk management practices and how they affect performance. Leadership of the banks can use the findings to improve their profitability and enhance cost reduction through aversion of risks. The study has also provided an in-depth information about risk management practices by Sharia compliant bank. The study contributed to the body of knowledge on risk identification, risk assessment, monitoring and evaluation and risk mitigation strategy. This has enabled users' get better understanding of risk management strategies in Sharia Compliant bank

## **6.1 Recommendations**

Banks should recognize potential source of risks, probability of hazards factors occurrences, attention to risk potentials, embrace programs on risk identification and evaluate risk components on their operations. Banks should use methods that can identify risks in different products, organizations, systems or situations. They may use of activities based contracts that are clean cost management targets, competitive bidding, and setting annual savings target and build alliances through supply chain systems. Project teams in the banks should continuously review credit scope, estimated costs, repayment timelines, performance parameters and expected output. This will be a good for assurance of all the stakeholders in that their expectations will be factored during loan awarding and non-performing loans can be minimized to be as low as possible. Therefore risk identification should be iterative in nature in that as a credit program is running more information about the project can be ascertained.

Banks should carry out risk based auditing, fraud risk assessment, and considers risk frequency on new ventures and ultimate consequences. They should conduct frequent reporting and doing risk avoidance in each operation they undertake. Banks should enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process. Banks should evaluate risks in order to make informed decision on how to minimize them. This can lead to increased performance in the institution as risks have been evaluated and modalities on how to counter them are put in place.

Management should use monitoring tools in their operation, their program officers trained and skillful on monitoring and evaluation. They should conduct routine audit using logical framework and periodic reviews. Managers should consider offering short, formal monitoring and evaluation training courses to all team groups in their organization. Reviews helps to point out the possible repercussion on incomplete and or delayed project, therefore they should be done periodically.

Banks should collaborate with other financial players to avert risks, continuously improve its risk management strategies, set standards as part of their objectives and operate based on



policies and procedures. Banks should be implementing different strategies and philosophies to control inventory, to reduce costs, bring continuous improvement, to improve forecasting and improved efficiency and responsiveness to market chances and economic situations. Similarly, the management of banks should proactively implement its risk management strategies during the planning stage of the risk management practices. This will ensure that there is proper participation by all the stakeholders and partners of supply chain in implementing of risk management strategies.

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