

This study empirically examined the effects of financial structure on performance of commercial banks in Kenya. The study analyzed financial structure in the Kenyan banking sector and its implications *I* effects on performance of commercial banks by examining the relationship between financial structure and profitability. It is motivated by a desire to explain debt use by Kenya commercial banks. It is as result of the Central Bank of Kenya's move for banks to gradually raise their capital levels and to tightly monitor their operations so as to ensure that banks in Kenya are more efficient in their operations while at the same time being profitable. This study sought to investigate if there was any correlation between leverage level and firm's performance. Profitability was used as a proxy of performance and was operationalized using Return on Equity (ROE) which is accounting-based measure of performance for the period 2005 to 2009. ROE is used as a measure of performance because it is the most revealing measure driven by profitability, productivity and financial structure and is used to compare performance of firms in the same industry. Financial structure was operationalized using short-term leverage, long term leverage and total leverage to total capital. The research design was a descriptive survey of 44 registered commercial banks. However, 38 banks were sampled because they qualified for this study. Secondary data (published annual financial statements) was collected from CMA, CBK and individual banks. Data was analyzed using balanced panel data regression analysis in the estimation of functions relating to return on equity (ROE) with measures of financial structure. The results of this study show that financial structure influences banks' performance. The study shows that commercial banks prefer short term leverage as their source of capital. This highlights the importance of short term debts over long term debts in Kenyan banks' financing.