

**MERGERS AND ACQUISITIONS AND PERFORMANCE OF COMMERCIAL  
BANKS IN KENYA**

**KATHALI THIIRU DANIEL**

**REG NO D53/CE/25558/2014**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS  
IN PARTIAL FULFILMENT FOR THE AWARD OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION (FINANCE) OF  
KENYATTA UNIVERSITY**

**NOVEMBER 2018**

### **Declaration**

This research project is my original work and has not been submitted in any other University. This research work is meant to be used for educational purposes only, as well as to give general information and a general understanding of the research topic, and not to provide any specific business advice. It should not be used as a substitute for competent professional business advice

Signed..... Date .....

Kathali Thiiru Daniel

D53/CE/25558/2014

This research project has been submitted for examination with my approval as University Supervisor.

Signed..... Date .....

Dr. Lucy Wamugo

Lecturer,

Department of Finance and Accounting

School of Business,

Kenyatta University

## **Dedication**

This project is dedicated my father Kathali and mother Beatrice and the entire family for their Support; spiritual, financial, emotional and the continuous encouragement though out my studies.

## **Acknowledgement**

I thank the Almighty God for the gift of life, health, strength, protection that I received throughout my studies and for his many blessings and inspiration during this course. My heartfelt gratitude goes out to my supervisor Dr Lucy Wamugo for her patience, encouragement, professional advice, understanding and guidance throughout this research. Special thanks goes to my parents Mr and Mrs Kathali Manyara and family members for the financial support and encouragement ,to my colleagues Mugambi, Ann Muthoni, Osoro, Mwenda and others whom we shared so much during my stay at the University. I also extend my appreciation to my fellow Businessmen Musa, Imaana, Muthomi and Oscar for their encouragement and much belief in my ability. For all those who contributed directly or indirectly to the accomplishment of this project, you have my heartfelt gratitude.

## Table of Contents

Declaration .....	ii
Dedication .....	iii
Acknowledgement .....	iv
Table of Contents .....	v
List of Figures .....	viii
Operational definition of terms .....	ix
Abbreviations .....	x
Abstract .....	xi
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background of the study .....	1
1.1.3 Financial Performance .....	4
1.1.4 Relationship between Mergers and Acquisitions and Firm Performance.....	5
1.1.5 Commercial Banks in Kenya .....	6
1.2 Statement of the Problem .....	9
1.3 Objectives of the Study.....	11
1.3.1 General Objective .....	11
1.4 Research Questions .....	11
1.6 Scope of the study.....	13
1.7 Organisation of the Study .....	13
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	15
2.1 Introduction.....	15
2.2 Theoretical Review .....	15
2.2.1. Synergies Theory .....	15
2.2.2. Quantitative Liquidity Theories .....	16
2.2.3. Hubris Theory .....	18
2.2.4 Tax incentive Hypothesis Theory .....	18
2.3 Empirical Literature Review.....	20
2.3.3 Capital base and Performance of Commercial Banks.....	23
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	28
3.1 Introduction.....	28
3.2 Research Design.....	28
3.3 Target Population.....	28
3.4 Sampling design and sample size .....	29
3.5 Data Collection .....	30

3.6 Data Analysis .....	30
<b>CHAPTER FOUR: RESULTS AND DISCUSSION</b> .....	32
4.1 Introduction.....	32
4.2 Commercial banks' Performance in selected financial ratios before and after the merger.....	32
4.2.1 Descriptive findings.....	32
4.2.2 Regression model Results .....	34
4.2.3 Premerger (0), post-merger (1) .....	36
4.3 Financial performance of commercial banks in Kenya.....	36
4.3.1 Financial performance before merger.....	37
4.3.2 Financial performance after merger.....	39
4.4 Regression of financial ratios against ROE .....	45
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS</b> ..	49
5.1 Introduction.....	49
5.2 Summary of the study .....	49
5.3 Conclusion .....	50
5.4 Recommendations.....	50
5.6 Suggestion for Further Research.....	51
<b>REFERENCES</b> .....	52
<b>APPENDICES</b> .....	54
<b>APPENDIX I: LIST OF THE BANKS TO BE STUDIED</b> .....	54
<b>Appendix II: Secondary data collected</b> .....	56
<b>Appendix III: Summarized financial ratios for Commercial Banks</b> <b>Error! Bookmark not defined.</b>	
<b>Appendix IV: Work Plan</b> .....	70
<b>Appendix V: Research Budget</b> .....	71

## List of tables

Table 2.1: Research Gaps .....	25
Table 3.1: Sampling Frame .....	29
Table 4.1 Descriptive statistics for the commercial banks pre- and post-merger... and acquisitions using financial ratios	33
Table 4.2 Logit regression model on effect of mergers and acquisition on ..... Commercial banks' financial ratios	35
Table 4.3 Financial performance before merger .....	37
Table 4.4 Financial performance after merger/acquisition .....	39
Table 4.5 Means of ROA before and after merger/acquisition .....	43
Table 4.6 Independent t-test for mean difference in ROA before and after ..... Merger/acquisition	43
Table 4.7 displays the means of ROE before and after merger/acquisition .....	44
Table 4.8 Independent t-test for mean difference in ROA before and after ..... Merger/acquisition	44
Table 4.9 Model Summary.....	45
Table 4.10 ANOVA <sup>a</sup> .....	45
Table 4.11 Coefficients <sup>a</sup> .....	46

## **List of Figures**

Fig 2.1: Conceptual Framework Source: Researcher (2018) .....	27
Fig 4.1: Trend in financial performance .....	38
Fig 4.2: Trends in financial performance after merger/acquisition .....	40
Fig 4.3: Mean ROA of the banks before and after the merger .....	41
Fig 4.4: Mean ROE before and after merger/acquisition .....	42

### **Operational definition of terms**

- Acquisition** : Is an acquiring by one company of the share capital of another in exchange for cash, ordinary shares, loan, or some mixture of the two.
- Capital base** : the capital structure of a company (shareholders' capital plus loans and retained profits) used as a way of assessing the company's worth.
- Liquidity** : Refers to the degree to which an asset or security can be quickly bought or sold in the market without affecting the assets price.
- Asset Quality** : Is the measure of a likelihood of default of a loan or lease, combined with a measure of its marketability.
- Merger** : Corporate combination of two or more independent business Corporations into a single enterprise, usually the absorption of one or more firms by a dominant one with aim of eliminating a competitor; to increase its efficiency; to diversify its products, services, and markets; or to reduce its taxes.
- Profit** : The surplus remaining after total costs are deducted from total revenue and the basis on which tax is computed and dividend is paid. It is the best known measure of success in an enterprise.
- Synergy** : Refers to the concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts or the potential financial benefit achieved through the combining of companies.
- Performance:** Is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues; It is also the general measure of a firm's overall financial health over a given period of time.

### **Abbreviations**

CL-NR	-	Current Liabilities to Net worth Ratio
CR	-	Current Ratio
CBK	-	Central Bank of Kenya
EBIT	-	Earnings Before Interest and Tax
EMH	-	Efficient Market Hypothesis
EPS	-	Earnings per Share
GDP	-	Gross Domestic Product
FA-NR	-	Fixed Asset to Net worth Ratio
LDR	-	Loan to Deposit Ratio
NIM	-	Net Interest Margin
NSE	-	Nairobi Securities Exchange
ROA	-	Return on Assets
ROE	-	Return on Equity
TAR	-	Total Assets Ratio
TDR	-	Total Debts Ratio

## Abstract

Commercial banks and other financial sector players have faced a myriad of challenges ranging from globalization, heightened competition, uncontrolled market and unfavourable government policy. In Kenya most banks have gone into receivership and others winding up due to entry of many players into the market and therefore high competition. This had led to dwindling of profits, returns on assets, reduced investments and therefore instability. Majority of the commercial banks have cut on their human resource and branch network all aimed at lean operations. Mergers and acquisitions among financial institutions have been a common happening in the world Economy. This has been influenced by the challenges of globalization and fast technological changes and as a consequence, firms are facing intense competition. To face the challenges and explore the partial market opportunities, firms are going for inorganic growth through several strategic alternatives like mergers and acquisitions strategic alliances and joint ventures. Mergers and acquisitions (M&A) are being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale not forgetting strategic positioning. The main objective of this study was to establish the impacts of mergers and acquisitions on the performance of commercial banks in Kenya. The specific objectives of the study were; to examine the effect of capital base on performance of mergers of commercial banks in Kenya, to determine effects of asset quality on mergers and acquisition and finally, to determine the relationship between liquidity and performance of mergers of commercial banks in Kenya. The study adopted a descriptive research design. The unit of observation was the 16 banks that merged or were acquired in Kenya during the study period of 2000 to 2010 while the unit of analysis was the individual banks' annual financial reports. . The study used secondary sources of data from published and audited annual reports of accounts for the population of interest, C.B.K., N.S.E., C.M.A., and bank supervision annual reports from C.B.K. The data was analyzed using SPSS and computation of financial ratios from the financial statements like the balance sheet, cash flows, and profit and loss accounts and hence the interpretation of the study model. The results of the analysis were presented in tables, percentages and graphs. Multiple regression analysis between variables was also done which showed that the variables under study were significant in explaining the relationship between the mergers and acquisitions on the profitability of commercial banks. The study recommends that institutions having weak capital base consolidate to create synergies so as to enjoy economies of scale as this will improve their profitability instead of going public by listing on the Nairobi Stock Exchange as this may be an expensive venture as it requires much funds for listing and that those firms facing constraints on the market should consolidate their energies by resorting to merger/acquisition so as to expand their profitability as the merger/acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders' wealth as opposed to each independent financial institution. The study recommended further studies to be done on the effect of mergers and acquisitions on the performance of other sectors like insurance, manufacturing and ICT.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Mergers and acquisitions among financial institutions have been a common happening in the world Economy. This has been influenced by the challenges of globalization and fast technological changes and as a consequence, firms are facing intense competition. To face the challenges and explore the partial market opportunities, firms are going for inorganic growth through several strategic alternatives like mergers and acquisitions (M&A), strategic alliances and joint ventures. In the last decade, the value of mergers and acquisitions has arguably increased dramatically (Kumar & Bansal, 2008). This has made M&A the most popular strategy among firms who seek to establish a competitive advantage over their rivals in their industry or among industries in the Economy.

Due to changes in the contemporary working environment, several licensed financial institutions, mainly commercial banks, have had to merge (combine their operations in communally agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are: Gain superior market power, increase access to creative and innovative capabilities, thus reducing the risks related to the development of a new product or service, maximization of efficiency through economies of scale and scope and finally in some cases, restructure a firm's competitive scope (Hitt, 2007). Other reasons include a short-term solution to finance tribulations that companies face due to Information asymmetries (Fluck and Lynch, 1999), revitalize the company by bringing in new set of ideas to foster long term survival and achieve market synergy effects.

Most specialists, observers, auditors and analysts among others, when assessing the effects of mergers and acquisitions in the banking sector, look generally at the overall advantages accrued by the merger, market demands, the reduced competition, ease of operations and the need for scale to exploit their opportunities (Fofack, 2009).

### **1.1.1 Mergers and Acquisitions**

A merger can be defined as any transaction that forms one economic unit from two or more initial or previous units. Mergers have already been around for thousands of years: during the ancient times, economies have formed alliances with their neighbors just to protect themselves or to conquer another, for as early as the fifteenth century, international trading was made possible because of alliances. (Freidheim, 1998). Acquisition in general sense is acquiring the ownership in the property. In the perspective of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company. Although an acquisition has some attributes of a merger, the bidding firm is usually the bigger one. The smaller firm has to obey the rules and change its operating methods and may have less influence on the management of the practice.

Mergers and acquisitions of Commercial banks are not unerringly recent phenomena for Kenya. In 1989, Kenya witnessed the merger of nine ruined financial institutions to form the current Consolidated Bank of Kenya Ltd. This assimilation was under the financial sector reform program established by the Government with the objective of taking over and re-structuring various indebted and troubled institutions. On 10<sup>th</sup> November 1994, the Indosuez Merchant Finance merged with Banque Indosuez to form Credit Agricole

Indosuez ([www.centralbank.go.ke](http://www.centralbank.go.ke)). This has been an ongoing activity as deemed reasonable by market forces. Some of the most recent notable merger in the Kenyan financial industry occurred in 2010 with the first merger being on 1<sup>st</sup> February 2010 between Savings and Loans (K) Ltd and Kenya Commercial Bank to form Kenya Commercial Bank Ltd. It was consequently followed by a merger between City Finance Bank Ltd (CBK, 2017).

### **1.1.2 Historical development of Mergers and Acquisitions**

Morris (2014) underscores that the Mergers and acquisitions phenomenon that started out in the U.S. mushroomed all over the globe becoming one of the most important corporate level strategies in the new millennium. They noted that this led to the development of strategies where two or several organizations would share resources and activities to pursue a strategy. The strategic operations have as a result become the way businesses adjust to the ever-dynamic environment in an attempt to survive.

The Great Merger Movement was a principally U.S. business phenomenon that took place from 1895 to 1905. During the great merger movement, smaller firms with little market share united with similar firms to form large, powerful institutions that certainly dominated their market. The mergers were not for large efficiency gains but that was the trend at the time. Wood (2015) adds that, development by mergers tends to go in waves and tends to be choosy in terms of industry and sector.

Shimizu, Hitt, Vaidyanath, & Pisano (2014) argue that, the number and size of M & A's continue to grow exponentially, they found that throughout the 21st century, mergers went through five waves thus therefore concluding that M & A's was a leading strategy

for the 21st century. The waves were merging for monopolies, merging for oligopolies, conglomerate mergers, merging of skills and lastly merging for expansion. Hence we may conclude that the evolution of mergers and acquisitions has been long drawn. Many economic factors have contributed to its development. There are several other factors that have impeded their growth. As long as economic units of production exist mergers and acquisitions would continue for an ever-expanding economy.

### **1.1.3 Financial Performance**

Pandey (2008) defines financial performance as a subjective measure of how well a firm uses assets from its major mode of business to generate revenues. The term can also be used as a universal measure of a firm's overall financial health position over a given period of time, and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Evaluating performance of firms is vital in order to determine whether the business is viable. A key performance gauge used in modern financial management is the financial ratio analysis. The type of financial analysis varies according to the explicit interests of the party involved. According to Holtzman (2014) trade creditors are interested primarily in the liquidity of the firm. Their claims are short term, and the aptitude of the firm to pay these claims is best indicated by means of a systematic analysis of its liquidity. The claims of bondholders on the additional hand are long term. Accordingly, they are more interested in the cash flow ability of the firm to service debts in the long run. Investors in a Company's common stocks are concerned mainly with present and anticipated future earnings and the stability of these earnings about a trend as well as their covariance with earnings of other Companies. As result, investors might concentrate their analysis on a

company's profitability. They would be concerned with the financial condition in so far as it affects its ability to pay dividends and avoid bankruptcy.

According to Myers and Majluf (2006), there are diverse ways of measuring financial performance, but all measures should be taken into consideration. Most growing businesses ultimately target augmented profits which make it important to know how to measure performance. The main standard measures of financial performance include: gross profit margin which measures how much money an organization has made after direct costs of sales have been taken into account; operating margin lies between the gross and net measures of profitability after overheads are considered before interest and tax payments known as the EBIT (earnings before interest and taxes) margin. Net profit margin is somehow narrower measure of profits, as it takes all costs into account, not just direct ones. All overheads, as well as interest and tax payments, are included in the profit calculation.

Financial performance, according to Mwangi (2015), can be measured through financial accounting ratios, Return on Assets or Return on Equity. The volume and rate of returns on shareholders' investment in a firm portrays its performance. In this study, the financial performance of commercial banks in Kenya will be measured through the return on assets and return on equity which all are measures of profitability of a firm.

#### **1.1.4 Relationship between Mergers and Acquisitions and Firm Performance**

There are unconvincing results on the literature on the repercussions of mergers and acquisitions on the overall financial performance of an entity. This study, will aim at

synthesizing and analyzing earlier literature of mergers and acquisitions and its effects on the financial performance in an attempt to establish factors that might influence post-mergers and acquisitions performance. Previous studies have used a variety of measures to examine the impact of Mergers and Acquisitions on overall financial performance of an entity, where measures in place might be accounting measures-based, market measures-based and finally mixed measures, or qualitative measures-based. Feroz (2015) found out that managers should be aware of such determinants and their effect on post-merger/acquisition corporate performance to correctly evaluate proposed offers of mergers and acquisitions and make sound decisions.

### **1.1.5 Commercial Banks in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and other prudential guiding principles issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is liable for formulating and implementing monetary policy and fostering the liquidity, solvency and suitable functioning of the financial system. Currently there are 44 licensed commercial banks operating in the country. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members ([ww.centralbank.go.ke](http://www.centralbank.go.ke)).

In the year 2008, the ministry of finance proposed to raise the minimum core capital for commercial banks to 1 billion shillings from 250 million shillings, giving 2012 as the deadline for all banks to comply (Beck, 2010). Consequently, Kenyan banks are set for

Consolidation to meet the deadline to boost bare minimum core capital. Two lenders, CFC Bank and Stanbic Bank successfully merged up citing the need to widen their branch network, growth in size and balance sheet. The local implications on banks of enhanced capital rules abroad following the 2008 global financial crisis also encouraged mergers and acquisitions in the sector.(Beck , (2010) posits that increased competition and capital adequacy requirements are the key drivers behind sector amalgamation. Among the recent mergers are CFC/Stanbic Bank mergers, EABS Akiba Bank, EABSI and ECOBANK. The 2010 merger of two local companies in City Finance Bank Ltd. and Jamii Bora Kenya Ltd. forming Jamii Bora Bank Ltd as a clear case of locally owned firms merging to create more synergies and remain competitive in a fast growing finance industry, highly subjugated by multinationals. The Kenyan corporations utilize mergers as one of the most recurrently selected instruments for attaining growth, Economic Mergers in Kenya have been on the increase by multinational companies either acquiring local firms or two local firms merging across industries or both. A report by Botchway (2010) indicated that (M&A) is a crucial vehicle in facilitating corporate growth and productivity.

Due to changes in the Contemporary business environment, several licensed institutions, mainly commercial banks, have had to merge or rather unite their operational strengths in mutually agreed terms and in other cases, one institution takes over another's operations (acquisitions). Some of the justifications put forward for mergers and acquisitions among the Commercial banks in Kenya are: to meet the increased levels of share capital; broaden supply network and market share; and to benefit from best international practices among others. The schedules below detail the Institutions which have merged or

participated in acquisitions as well as the dates when mergers or acquisitions were approved by the Central bank as from the year 2000 to the year 2010.

To start with, Universal Bank Ltd. merged with Paramount Bank Ltd. to form the Paramount Universal Bank in 2010, Kenya Commercial Bank and Kenya Commercial Finance Co. to form Kenya Commercial Bank Ltd. In the year 2011, Citibank NA merged with ABN Amro Bank Ltd. to form Citibank NA in 2011, Bullion Bank Ltd. and Southern Credit Banking Corp. Ltd. formed Southern Credit Banking Corp. Ltd. in 2011, Co-operative Merchant Bank Ltd and Co-operative Bank Ltd Co-operative Bank of Kenya Ltd in 2002, Biashara Bank Ltd. and Investment & Mortgage Bank Ltd. formed Investment & Mortgage Bank Ltd. in 2002, First American Bank Ltd and Commercial Bank of Africa Ltd formed Commercial Bank of Africa Ltd 2015, East African Building Society and Akiba Bank Ltd formed EABS Bank Ltd in 2015, Prime Capital & Credit Ltd. and Prime Bank Ltd. came up with Prime Bank Ltd. in 2008, CFC Bank Ltd. and Stanbic Bank Ltd. to form CFC Stanbic Bank Ltd. in June 2008, Savings and Loan (K) Limited merged with Kenya Commercial Bank Limited to form Kenya Commercial Bank Limited in February 2010, City Finance Bank Ltd. and Jamii Bora Kenya Ltd. formed Jamii Bora Bank Ltd. in 2010 and lastly, Equatorial Commercial Bank Ltd and Southern Credit Banking Corporation Ltd to Equatorial Commercial Bank Ltd in 2010

For acquisitions, Mashreq Bank Ltd. acquired by Dubai Kenya Ltd. to Dubai Bank Ltd. in April .2010, Credit Agricole Indosuez (K) Ltd. by Bank of Africa Kenya Ltd. to Bank of Africa Bank Ltd.in April.2014 , EABS Bank Ltd. was acquired by Ecobank Kenya Ltd. to form Ecobank Bank Ltd. in June 2008, Fina Bank Ltd by Guaranty Trust Bank Plc to form Guaranty Trust Bank (Kenya) Ltd in November 2013, K-Rep Bank Ltd was

acquired by Centum Ltd to form K-Rep Bank Ltd in December 2014, Equatorial Commercial Bank Ltd by Mwalimu Sacco Society Ltd to Equatorial Commercial Bank Ltd in December 2014.

## **1.2 Statement of the Problem**

Commercial banks and other financial sector players have faced a myriad of challenges ranging from globalization, heightened competition, uncontrolled market and unfavourable government policy (Kumar & Bansal, 2008). In Kenya most banks have gone into receivership and others winding up due to entry of many players into the market and therefore high competition. This had led to dwindling of profits, returns on assets, reduced investments and therefore instability (Mwangi, 2015). Majority of the commercial banks have cut on their human resource and branch network all aimed at lean operations. Mergers and acquisitions among financial institutions have been a common happening in the world Economy. This has been influenced by the challenges of globalization and fast technological changes and as a consequence, firms are facing intense competition. To face the challenges and explore the partial market opportunities, firms are going for inorganic growth through several strategic alternatives like mergers and acquisitions strategic alliances and joint ventures.

Mergers and acquisitions (M&A) are being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale not forgetting strategic positioning (Wachira, 2016).

Shareholders and managers of banks opt to mergers and acquisitions in the quest to better financial performance in their banks but research on this subject have come up with mixed results. Some studies have suggested that the merged-up banks perform better than the individual banks performed before the exercise, whereas other studies have not found any meaningful progress in financial performance resulting from a merger. The study by (Saple, 2010) observed that mergers did not lead to an improvement in performance as measured by profitability accustomed for the industry average. Other than indicators with legal necessities by the central bank of Kenya merger restructuring has not improved the financial performance of the majority of merger institutions as indicated by the profitability and earnings ratios (Chesang, 2008).

Shareholders contemplating mergers are at a loss due to the inconsistent findings by research studies on this subject. The inconsistent findings have made it hard for players in the banking sector to say with certainty whether merging two banks is an advisable undertaking (Athanasoglou & Brissimis, 2014 and Straub, 2007).The study majored on mergers and acquisitions of banks in Kenya. The outcome of the study provided bank managers and shareholders of similar banks with insights upon which to refer their decisions regarding mergers and acquisitions. The study therefore sought to determine the impact of mergers and acquisitions on financial performance of banks taking a close examination of banking industry in Kenya. This study was therefore designed to fill the knowledge gap by answering the research question, what is the effect of mergers and acquisitions on the overall financial performance of commercial banks in Kenya?

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The study will be set out to determine the effect of mergers and acquisitions on the financial performance of commercial banks in Kenya.

#### **1.3.2 Specific Objectives**

- i. To establish the effect of capital base on performance of mergers and acquisition of commercial banks in Kenya.
- ii. To assess the effect of asset quality on the performance of mergers and acquisitions of commercial banks in Kenya.
- iii. To determine the effect of liquidity on performance of mergers and acquisitions of commercial banks in Kenya.

### **1.4 Research Questions**

The research questions used to guide this research included:

- i. What is the effect of capital base on the performance of Commercial banks in Kenya involved in mergers and acquisitions?
- ii. To what extent does asset quality in a mergers and acquisition affect the performance of commercial banks in Kenya?
- iii. How does liquidity among the mergers and acquisitions of commercial banks in Kenya influence their performance?

### **1.5 Significance of the study**

Due to the fact that massive resources both financial and non-financial are typically committed to effectively implement mergers and acquisitions, it is worthwhile to establish the actual impact of Mergers and Acquisitions on the financial performance of Commercial banks in Kenya. On completion, this fact will be of significant use to many groups.

To researchers, this work would provide a basis for extra study especially in the core areas of merger and acquisitions for researchers interested in building on the already present knowledge base about the literature review on the impacts of mergers and acquisition on the financial performance of commercial banks in the Kenyan economy.

Policy Makers as well would benefit in that, this study would enable the policy makers to come up with new and improved standards aimed at establishment of an appropriate level of mergers and acquisitions. The findings would be used to come up with more effective methods of managing liquidity levels of a firm.

Customers and potential Investors, the research work should add knowledge on the understanding of the importance of Mergers and Acquisitions in analyzing performance by current and potential investors, customers of commercial banks and other banks in the Contemporary dynamic world. In addition, it would be of much benefit to executives and managers of the commercial banks as the researcher aims to widely and broadly cover banks that have recently merged and their relative performances in the industry.

Academicians and learners would adequately use findings of this study in making contributions to the existing archetype on investor's behavior toward the mergers, acquisition and restructuring of Commercial banks. It would also be used to establish the research gaps and provide reference for further research under the field of merger and acquisition.

### **1.6 Scope of the study**

This project is on the effect of mergers and acquisition on the performance of Commercial banks in Kenya. The researcher based the work on the recognized commercial bank mergers approved by the Central Bank of Kenya (CBK). The study proposed to focus on commercial banks that were merged or acquired in the period of fourteen years from the year, January 2000 to December 2010. This was done in Nairobi as all the commercial banks' headquarters are located in Nairobi.

### **1.7 Organisation of the Study**

The study was conducted by coming up with the research topic, incubated and found the necessary research gaps in the field. Chapter One further covers the background of the study, establishes the relationship between the research topic and the variables to be tested in the objectives. Chapter one further finalizes with the scope and the factors expected to limit the researcher in the course of the study.

Introduction of the Literature review sheds more light on the work of others in the Theoretical review whereby the researcher discusses the various theories relevant to the study. At the heart of Chapter two, is the Empirical Literature review whereby Past studies in the research topic are discussed thematically and finally linked to the researchers' study and finally the Conceptual framework sums it up.

Chapter three sheds light on the Research Methodology, research design, the Data Collection Methods and finally introduces the data analysis to be performed in chapter four, which epitomizes the study by coming up with the Results and Discussion of the analysis work and finally the Summary, conclusion and Recommendations for further research ends up in Chapter five.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, literature relevant to the study is discussed thematically and summarized; the chapter discusses relevant literatures from a wider perspective to bring out the impact of mergers and acquisition on the financial performance of commercial banks in Kenya before and after the mergers and acquisitions. Theories supporting the study were also discussed and their relationship with the study highlighted.

#### **2.2 Theoretical Review**

Several theories have been advanced towards the justification and impact of mergers and acquisitions. M&A can be financially justified and wholly acceptable only if it increases the wealth of the acquiring company shareholders in case of acquisitions and that of the owners in case of a merger. The acceptability of the set up will be after proving that the newly formed entity is performing better than the previous set up, before the merger or the acquisition. Andrade and Stafford (2014) have identified three Justifications or motives for acquisitions which are generally considered to be economic, financial or managerial in origin.

##### **2.2.1. Synergies Theory**

According to this theory, merging occur broadly because they generate 'synergies' to both the acquirer and the target which, in turn, increases the worth or the value of the firm(Malatesta, 1983;Lubatkin, 1987).The efficiency theory posits, in fact, that merging

will only occur when they are expected to lead to abundant realizable synergies to make the deal of importance to both parties; it is the symmetric expectations of gains which results in a 'friendly' merger being put forward and accepted. If the gain in value to the preyed firm was not positive, it is suggested, the target firm's owners would not sell or allow to the acquisition, and if the gains were negative to the bidders' owners, the acquirer would not complete the deal. Efficiency theory predicts creation of value with positive returns to both the acquirer and the target. Dunis & Klein (2015) evidence this suggestion that we must, however, differentiate between 'operative synergies' or 'efficiency gains' achieved through economies of scale and scope-and 'allocative synergies' or 'collusive synergies' as an outcome of increased market power and an improved ability to extract consumer surplus when commenting on value creation in mergers and acquisitions. Most of recent literature concludes that operating synergies are the most significant source of gain and that operating synergies may exist but may not be realised (Bemile & Baugess, 2011). The study supports this study by indicating that mergers bring about financial and resource synergies through improvement of capital base, human resource capacity and market control.

### **2.2.2. Quantitative Liquidity Theories**

Baumol's (1952) model of inventory management and Miller and Orr's (1966) model where dynamics of cash flows are put into recognition, are some of the earlier research efforts done to come up with optimal liquidity and cash balances models, given the cash flows of firms, the focus was on using quantitative models that weighed the benefits and costs of holding cash (liquidity). These earlier models have helped financial managers

solve the problems in management of finances, but they rest on assumptions that are not practical in reality. The trade-off model suggests that firms point out their optimal level of cash holdings by weighting the marginal costs plus marginal benefits of holding cash. The advantages related to cash holdings are: reduces the probability of financial distress, allows pursuing of investment policy when financial constraints are met, and highly reduces the costs of raising external funds or selling off of assets in place. The main cost of holding cash is the opportunity cost of the capital invested in liquid assets. A firm that does pay dividends can raise funds at low cost by reducing its dividend payments, different to a firm that seldom pays dividends. Firms will trade-off holding cash and investing it depending on its investment needs.

Miller and Orr (1966) model of demand for money by firms suggests that there are economies of scale in cash management. This would lead bigger firms to hold lesser cash compared to smaller firms. Also, it is argued that the fees incurred in obtaining funds through borrowing are unrelated to the size of the loan, an indication that such fees are a fixed amount. Thus, increasing funds is relatively more costly to smaller firms encouraging them to hold more cash than larger firms. Firms with high volatility in cash flows face a greater likelihood of experiencing cash shortages due to unexpected deterioration in flow of cash. Thus, cash flow uncertainty should have a positive correlation to the cash holdings.

Barclay and Smith (1995), however provide substantiation that firms with the highest and lowest credit risk often issue more short-term debt while average or mid-level credit risk firms issue long-term debt. On considering that firms with the highest credit rating have better access to borrowing, it is expected that these firms will hold smaller amounts of

cash for precautionary reasons, which would lead to maturity of debts being positively related to cash holdings.

The theory argues that with mergers and acquisitions, firms enjoy economies of scale ranging from holding cash, borrowing, cash management, risk management and debt management. This supports the variable on liquidity improvement given mergers and acquisitions among banks.

### **2.2.3. Hubris Theory**

In acquisitions, the acquiring firm identifies a prospective target firm and estimates the worth of its assets. If the valuation turns below the existing market price (of the stock) then no proposal is made. It is only when the value is above the market value, a bid is made. Roll (1986) suggests that managers are prone to errors of over-optimism in evaluation of acquisition or bidding opportunities due to disproportionate pride or hubris. The researcher further argues that a specific bidder may not learn from earlier mistakes in valuation of target firm and may be convinced that the valuation is correct. Therefore, the takeover phenomenon is an outcome of hubris on the part of bidders, the overbearing presupposition that their valuation is correct and can never be wrong. Nonetheless, this theory assumes a strong form of market efficiency. This theory supports the variable on asset quality among firms involved in mergers or/and acquisitions.

### **2.2.4 Tax incentive Hypothesis Theory**

As per Trautwein, (1990), the tax incentive hypothesis of mergers and acquisitions, tax provision is an important incentive for mergers since it not only affects the conclusion to

merge but also the way the merger is structured. He further explains that different ways of structuring a merger will have differing tax consequences that includes an opportunity to carry over by the acquirer the net operating losses and unused tax credits, an opportunity to step up assets or use their new sales prices as a basis for depreciation, an inducement provided by a lower income tax rate on capital gains than on dividends to retain earnings to acquire other firms and finally the opportunity for a bidding firm to deduct from taxable income the interest payments incurred on acquisitions related indebtedness, this theory holds up and encourages the banks' liquidity.

### **2.2.5 Capital Asset Pricing Model Theory**

The Capital Asset Pricing Model Theory was developed by Sharpe (1964) and refined by Linter (1965) and Black (1972). This model explains that investors must diversify their portfolios and that they must possess a given fraction of the bank's market portfolio. Investors without special investment knowledge are advised to hold diversified portfolios. This is called efficient markets hypothesis (Black, 1971). All investors need high levels of assurance of expected returns so as to invest in highly risky ventures. However, it should be known that in the presence of informational asymmetries and contract enforcement problems, banks will not always commit their resources to businesses with high returns. Making of corrections on estimation errors can greatly improve investment performance; this statement is supported by empirical evidence based on simulation analysis, mean-variance portfolio selection and sample portfolio performance.

According to this model, investors always try to avoid risks and they only look at the variance and mean on their return on investment during a single period when choosing portfolios (Fofack, 2009). Since portfolios reduce the variance of portfolio return, given expected profits, and increase expected returns, given variance; investors always choose mean-variance-efficient portfolios. This model further assumes that the qualities of assets and loans are crucial items in any given banks portfolio since a bank's portfolio comprises of both assets and liabilities. It therefore is the prerogative of bank management bodies to come up with portfolios that will give the highest returns a reduced risks and costs. This model is relevant to this study because it is used in estimating of cost of capital for banks and in evaluation of performance appraisals of financial instrument portfolios. The theory reveals the relationship between yields and risks hence supports capital base growth among firms involved in a merger or acquisition.

## **2.3 Empirical Literature Review**

Mergers and Acquisitions have attracted a wide and expansive body of empirical literature. A number of major studies have been used in the empirical literature to investigate the gains, motives and effects of mergers and acquisitions.

### **2.3.1 Asset Quality and Performance of Commercial banks**

Evaluation of assets to estimate their credit risk is asset quality. The asset quality of commercial banks directly has an effect on their financial and operational as well as the national financial soundness. According to Yin (2009), a drop in the value of asset quality due to commercial banks not keen on loan quality is likely a severe cause of future crisis. Michael (2010), on the other hand argues that the most prime determinant of the quality

of asset is the loan portfolio value and the banks control of credit management. Loans and securities are forms of commercial banks assets but they pose the highest threat in amount of risks. Moreover, other assets such as real estate's, off balance sheet items and cash also affect asset quality of a commercial bank.

According to Levine (2008), asset strongly determines the financial performance of any sectoral institution since it increases interest income and leads to a fall in the cost burden of bad debt management at the same time. Legally, banks are expected to keep aside cash deductible as an expense so as to cushion the bank against bad debts and other loan defaults. The higher the NPS ratio to the gross/net asset, the lower the asset quality. This therefore implies a negative trade-off between asset quality and the bank's financial performance (Ombaba, 2013).

The quality of current and potential credit risks reflects the asset quality ratings indicate the quality and this is highly intertwined with the loan investment portfolios, real estates and off-balance sheet transactions. This also reflects the bank's ability to identify and manage credit risks. According to (Abata, 2014), asset quality evaluation should be emphasized on how adequate the Allowance for Loan and Lease Losses (ALLL) are, the intensity of disclosure to counter-party, the issuer or borrower default under actual or implied contractual agreements. However there are other factors and risks to consider which actually stand to affect the bank's assets value or marketability, including, but not limited to; operating, market, reputation, strategic and compliance risks should be considered.

### **2.3.2 Liquidity and Performance of Commercial banks**

A Study by Bourke, (2009) done to establish the Correlation between Banks profitability and Assets for North American Banks, Europe and Australia for 10 years. Economic framework was used as an equation in the presentation. Profitability was the dependent variable regressed against a set of control variables and a Liquid Assets with a nonlinear expression. Liquid assets were used as control variables in the study and there was no definite line on the estimated parameter. It was found out that a company experiencing high profitability and low liquidity will have to borrow more money, leading to higher costs. The interest rates will later increase since the cheaper option will have been exhausted. When their debts increases, credit risks increase leading to higher interest rates being charged by the financiers. The study shows that liquidity and profitability are essential conditions for a health existence of a company, and both should be held in high esteem when strategizing for the short and long term of the Company.

Greuning, and Bratanovic, (2014 ) noted that maintaining a relative degree of liquidity in the whole banking system is of extreme importance, because the registration of a liquidity crisis at a single bank can have severe consequences over the whole banking system due to the risk of infectivity through interbank settlements. The sophistication of liquidity management and liquidity risk depends on the size and characteristics of each bank as do the nature and complexity of activities held by it. The management of liquidity policies of a bank has to include a decisional structure for the risk management, a pattern (a strategy) for approaching operations and funding, a set of exposure limits to liquidity risk and a set of procedures for planning liquidities after alternative scenarios including crisis situations.

Bhunja (2010) refers to liquidity as the ability of a firm to meet its short term financial obligations. Liquidity plays a critical role in the successful functioning of an Organization. A study of liquidity is crucial to both the internal and external analysts because of its 5 close associations with normal operations of a business. Weak liquidity position poses a threat to the solvency as well as profitability of a firm and makes it insecure and unsound. Two common ways to measure liquidity of an institution are the acid test ratio and current ratio. The current ratio shows the relationship between current assets and current liabilities. Normally, a high current ratio is considered to be an indicator of the firm's readiness or to promptly meet its short term liabilities. On the other hand, the acid test ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without any loss of value. Low liquidity leads to the incapability of a company to pay its creditors on time or honor its maturing obligations to suppliers of credit, services and goods. Also, the failure to meet the short term liabilities could affect the company's normal operations and most probably affect its reputation as well.

### **2.3.3 Capital base and Performance of Commercial Banks**

A study by Pasiouras & Kosmidou (2007) on indicators of the best or the most competitive banks, employed trend analysis on the financial ratios for a period of time, they argue that the best performing banks are those who maintain a high equity level relative to their assets. Highly capitalized banks are stable and assured to be profitable even during economically difficult times. Furthermore, a lower risk increases a bank's creditworthiness and reduces its funding cost. In addition, banks with higher equity to assets ratios will normally have a lower need of external funding, which has a positive

effect on their profitability. From this point of view, a higher capital ratio has a positive effect on profitability. Hence, mergers and acquisitions increase the capital base leading to good financial performance of commercial banks.

A study by Olalekan (2012) on inference of merger and acquisition of commercial banks in Nigeria on their profitability and other related measures of performance found out that there is noteworthy relationship between pre and post-merger and acquisition on capital base of commercial banks and profitability level. Merger and acquisitions have also increased the capitalization of commercial banks as evidenced in company's share ownership, increase in the cost of services and changes in bank lending rates. Based on these findings, arrived at conclusion, that the merger and acquisition activity improved the in general performance of banks significantly and also has contributed immensely to the growth of the real estate sector for sustainable growth and development.

(Javaid, 2011) Conducted a study on factors affecting profitability of Commercial banks. By use of regression analysis in analyzing his data, he observed that the capital muscle of a bank is of paramount importance in affecting its profitability .A well-capitalized bank is perceived to be of lower risk and such benefit is converted to profitability. He adds that a well-capitalized bank faces lower expected costs of financial distress and such advantage is reflected into high profitability. Merged firms have more access to financial markets that were not available initially to one or both of the said firms. The cost of capital reduces below premerger levels. For example, the combined firm may have a lower probability of bankruptcy than the two separate firms if the cash flows of the two firms

are not perfectly positively correlated. (Bruckner, 2015) did a study on the impact of mergers on bank performance and observed that mergers and acquisitions of commercial banks had accordingly increased the capital base of banks and that increase in capital base of commercial banks does not only enhance revenue generation but acts as a hedge against future losses, economic slow-down and to secure the capital of shareholders.

## 2.4 Summary of Literature Reviewed and Research Gaps

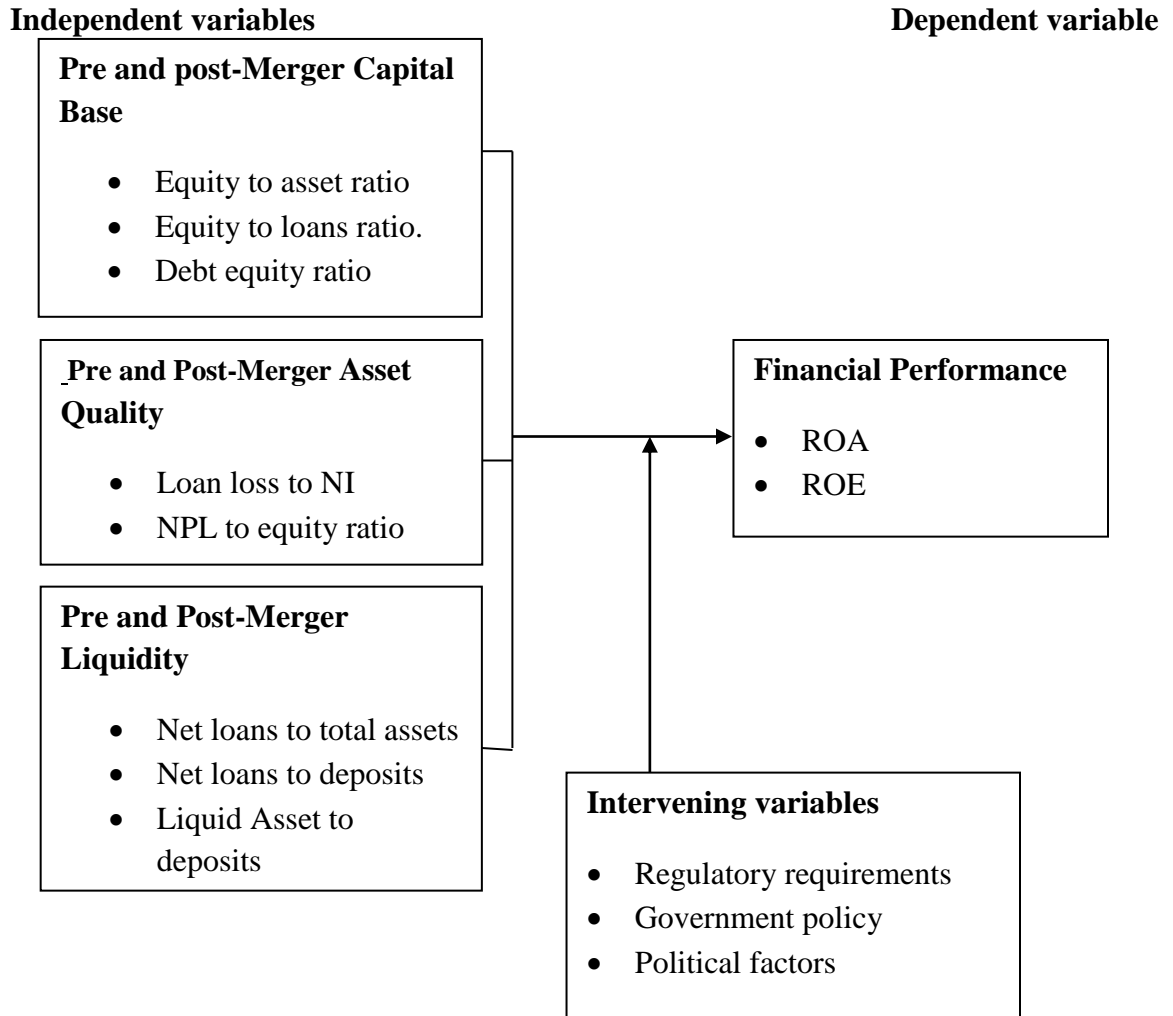
**Table 2.1: Research Gaps**

<b>Author</b>	<b>Title</b>	<b>Findings</b>	<b>Gaps</b>
Levine (2008)	Asset quality and performance of commercial banks in India	Asset quality determines the performance of any bank because it increases interest income and reduces the cost burden of bad debt management	The study was conducted among banks in India while the current is based on the Kenyan context
Bourke (2009)	The correlation between banks' profitability and assets for North American Banks, Europe and Australia for 10 years	A company experiencing high profitability and low liquidity will have to borrow more money leading to higher costs	The study assessed the scenario but did not point out the correlation
Olalekan (2012)	Implication of mergers and	There is a significant relationship between	The study context was Nigeria while

	acquisitions of commercial banks in Nigeria on their profitability	pre and post-merger/acquisition capital base of commercial banks and level of profitability	the current one is Kenya
Javaid (2011)	Factors affecting profitability of commercial banks in Malaysia	A well-capitalized banks is perceived to be of lower risk and such advantage is converted to profitability and also merged firms have access to financial markets that were not available to one or both of the smaller firms	The study did not indicate the significant effect of mergers and acquisitions on profitability of commercial banks but rather an observation

## 2.5 Conceptual Framework

Conceptual framework is a graphic or a schematic illustration of the independent variables and the dependent variables. The independent variables in this research will be capital base, Asset quality and liquidity. The dependent variable of the study will be financial performance as indicated by return on assets (ROA) and return on equity (ROE).



*Figure 2.1 Conceptual Framework*

*Source: Researcher (2017)*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the researcher clearly outlines the procedure used to conduct the empirical research which is the backbone of the research project. This includes how the data was collected, the resolve of the population size studied and how the data was presented, analyzed, interpreted and presented.

#### **3.2 Research Design**

This is the definitive scheme for the collection, measurement and analysis of data. Descriptive survey design was adopted to establish the effect of mergers and acquisitions on the financial performance of commercial banks in Kenya. According to Mugenda and Mugenda (2003) descriptive research design is used to explain the status of a phenomenon as it was, is and will be given the parameters.

#### **3.3 Target Population**

The population under study consisted of 8 commercial banks that merged or were involved in acquisitions in the period of 2000-2010. The unit of observation was the banks that merged or were acquired in Kenya between the year 2000 and 2010 while the unit of analysis was the bank managers of the selected banks. Secondary historical unbiased data available to the public was retrieved from the financial statements of the commercial banks and the central bank. The sampling frame was all the banks that have merged or been acquired in Kenya.

### 3.4 Sampling design and sample size

The study adopted random sampling as the research technique, and due to the variation in date of merger or acquisition and the uniform periods before and after merger, this will involve 5 years before and after the merger hence provide information on medium and long-term effect of merger or acquisition on profitability of commercial banks. In this study, 8 Commercial banks involved in mergers and acquisitions between the year 2000 and 2010 will be examined. The banks included in the examination are the ones that had specific characteristics that were required for this study; must have been involved in a merger or an acquisition. Below is a sampling frame;

**Table 3.1: Sampling Frame**

<b>Time</b>	<b>No of mergers and acquisitions</b>	<b>Sample size (No of commercial banks)</b>
2000 -2002	6	2
2003 -2004	2	0
2005 -2006	2	2
2007-2008	3	2
2009-2010	3	2
<b>TOTAL</b>	<b>16</b>	<b>8</b>

*Source: Researcher, (2017)*

From table 3.1, the number of mergers and acquisitions formed by Commercial banks in Kenya totaled to 16 between the year 2000 and 2010.

### **3.5 Data Collection**

The researcher used secondary data, secondary sources from the audited annual reports of accounts for the respective banks over the period. Financial data from Statement of financial position, financial ratios included, Statement of comprehensive Income and Statement of Cash Flow of the respective commercial banks for five years before and after the mergers was used to calculate and analyze the profitability (EPS), ROE and ROA from the published financial statements and reports for the merged banks for the period under study. The data collection tool attached was dropped to the bank managers to fill and collected after one week. The data tool was checked for completeness before collection.

### **3.6 Data Analysis**

The study relied on secondary data that was collected from the published official financial statements for pre and post-merger financial performance of the commercial banks. To establish the effect of Mergers and Acquisitions on the overall financial performance of commercial banks in Kenya, accounting ratios were used to analyze the financial performance of the 8 Commercial banks under study. For the pre-merger/acquisition period, ratios for both the acquirers and the targets examined to get an indication of the relative financial performance of the acquirer and the target. For the post-merger period, the focus of the analysis was on the combined institution. Pre-merger average data ( $P_0$ ) compared with the post-merger average data ( $P_1$ ) to determine what changes occurred in financial performance following the merger or the acquisition. In this study, two financial performance indicators were employed: profitability ratios, ROA and ROE.

The researcher then conducts a regression analysis to establish the relationship between the dependent and independent variables. The dependent variables being the financial performance were denoted by  $X_1$ ,  $X_2$  and  $X_3$  against the independent variables being the ROA and ROE. The multiple regression model used was:  $\text{Logit}(0/1) = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$

0 - Pre-merger

1 - Post-merger

$B_0$  - Constant

$B_1, B_2, B_3$  - Regression Coefficients

$X_1$  - Capital base (pre and post-merger)

$X_2$  - Liquidity (pre and post-merger)

$X_3$  - Asset quality (pre and post-merger)

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Introduction**

In this chapter, the researcher presents the findings of the study. It is important to note that the findings have been presented and discussed in line with the research objectives.

#### **4.2 Commercial banks' Performance in selected financial ratios before and after the merger**

In this study, capital base, asset quality and liquidity were explored as independent variables that normally affect the financial performance of commercial banks. A decision to merge or acquire another bank is basically aimed at improving these ratios. First, descriptive statistics of these ratios are presented involving both pre-merger/acquisition and post-merger/acquisition. Independent t-test was also used to establish whether pre-merger ratios were significantly different from post-merger ratios. Secondly, a multiple regression model was used to establish whether merger and acquisition led to significant improvement on key financial ratios including the ones for financial performance.

##### **4.2.1 Descriptive findings**

Capital base was measured by: equity to total assets ratio and equity to net loans ratio. Asset quality was measured by: Loan loss to net interest revenue, Loan loss reserve to non-performing loans as well as Non-performing loans to equity ratio. On the other hand, liquidity was measured by Net loans to total assets and Liquid assets to deposit. Both premerger and post-merger ratios were obtained for the banks under study. The results were as displayed in table 4.1

**Table 4.1 Descriptive statistics for the commercial banks pre- and post-merger and acquisitions using financial ratios**

Indicators	Number of banks		Mean		S.Dev		Independent t-test	
	pre	Post	pre	Post	pre	Post	t-value	Sig
<b>Capital base</b>								
Equity to total assets ratio	8	4	8.23	10.42	7.31	9.43	3.003	0.001
Equity to net loans ratio	8	4	38.42	44.12	17.21	21.44	2.045	0.000
<b>Asset quality</b>								
Loan loss to net interest revenue	8	4	10.32	15.28	13.47	17.94	1.458	0.253
Loan loss reserve to non-performing loans	8	4	82.35	89.69	32.78	48.86	1.342	0.233
Non-performing loans to equity	8	4	54.16	40.27	18.54	22.36	-2.13	0.001
<b>Liquidity</b>								
Net loans to total assets	8	4	22.85	30.43	11.11	14.34	1.231	0.173
Net loans to deposits	8	4	42.21	47.26	2.33	2.79	1.242	0.181
Liquid assets to deposit	8	4	78.42	73.42	20.37	21.39	-2.244	0.023

*Source: Researcher (2017)*

The findings in table 4.1 show that most of the financial ratios increased after merger/acquisition. For instance, Equity to total assets ratio increased from 8.23 to 10.42 while equity to net loans ratio increased from 38.42 to 44.12. The two variables under capital base increased significantly after merger ( $p=0.001<0.05$  and  $p=0.000<0.05$ ). However, only non-performing loans to equity ratio recorded significant decline after merger when it comes to asset quality ( $p=0.001<0.05$ ). The other two indicators of asset

quality did not record significant change after the M&A. similarly, only liquid asset to deposit ratio had a significant increase after M&A ( $p=0.023<0.05$ )

#### **4.2.2 Regression model Results**

The model was conducted at 95% confidence interval; hence significance was determined at the threshold of 0.05. Two models were conducted, one involving all the sub-variables without any grouping and the other being a step-wise one, where composite variables were formed in line with the research objectives. The two were aimed at comparing the results of separate sub-variables and the composite variables. Since logit model involves dichotomous variables, pre-M&A data were coded as “0” while the post-M&A) were coded as “1”. According to Abdou (2009), logit regression model is more accurate in comparing pre- and post M&A results since it defines two discrete variables as “0” and “1”. The probability of the binary outcome is hypothesized as to be related with a set of predictors. Basically, in this model, the study intended to establish the financial performance of post M&A ratios being different from pre M&A ratios, and whether the observed difference was statistically significant at 95% confidence interval. The model was therefore used to determine whether there was a systematic change in capital base, asset quality, liquidity and financial performance (ROA and ROE) after mergers and acquisitions (table 4.2)

**Table 4.2 Logit regression model on effect of mergers and acquisition on commercial banks' financial ratios**

Indicators	LR model (individual sub-variables) (CI: 95%)			LR model (Stepwise) (CI: 95%)		
	Estimate	Chi (X <sup>2</sup> )	Sig	estimate	Chi (X <sup>2</sup> )	Sig
<b>Capital base</b>						
Equity to total assets ratio	-0.6314	20.4521	0.000	0.1549	12.329	0.002
Equity to net loans ratio	0.3136	3.2134	0.0564			
<b>Asset quality</b>				-0.0264	3.564	0.0232
Loan loss to net interest revenue	0.0660	3.0561	0.0899			
Loan loss reserve to non-performing loans	0.2706	109.63	0.0000			
Non-performing loans to equity	-0.0233	0.2936	0.5134			
<b>Liquidity</b>				-0.9944	22.435	0.0000
Net loans to total assets	0.2756	0.1805	0.3636			
Net loans to deposits	0.0432	0.0453	0.6462			
Liquid assets to deposit	-0.2648	24.421	0.0000			
<b>Financial performance</b>				-0.3468	16.379	0.005
Return on Assets (ROA)	3.5482	2.5490	0.3734			
Return on Equity (ROE)	0.2435	38.758	0.0000			
Model			0.0000			0.0000
R2	0.9123 (91.23%)			0.7256 (72.56%)		
Adj R <sup>2</sup>	0.6234 (62.34%)			0.0.6215 (62.15%)		
MSE	0.0024			0.0115		
MAE	0.2417			0.4513		

*Source: Researcher (2017)*

### **4.2.3 Premerger (0), post-merger (1)**

In table 4.2 the adjusted  $R^2$ , it can be observed that the change in these financial ratios was significant with around 62% prediction that they were affected by the M&A decisions of the commercial banks ( $p=0.000<0.05$ ). Basically, the findings show M&A improved the financial ratios of the banks, an indication of better performance. In fact, there was no much difference in the model involving the sub-variables and the composite variables. However, while all the composite variables were significantly changed after M&A, some specific sub-variables did not record significant changes. For instance, the result indicate that there was no significant difference in loan to interest revenue ( $p=0.0899>0.05$ ), Equity to net loans ratio ( $p=0.0564>0.05$ ), net loans to total assets ( $0.3636>0.05$ ) and net loans to deposit ( $p=0.6462>0.05$ ). Moreover, ROA as a measure of financial performance did not change significantly after M&A ( $p=0.3734>0.05$ ). The findings show that only ROE was significantly affected by M&A, an implication that undertakings of merger and acquisition only helped in improving one indicator of financial performance.

### **4.3 Financial performance of commercials banks in Kenya**

Financial performance was measured using Return on Assets (ROA) and Return on Equity (ROE). First, the findings on performance before merger is presented after which financial performance after merger is presented. Since mergers and acquisitions were taking place at different periods, the years under analysis were not similar. For instance, while the period for some banks starts from 1996, which of others starts from 2011 depending on when mergers and acquisitions took place. However, in all the cases, the researcher has considered 5 years period before the merger and 5 years after the merger.

As such, the period was labeled as year 1, 2, 3, 4 and 5. For KC Fin Co. and KCB, year 1 to 5 represents 1996 to 2010, for CBA and First American Bank it represents 2000 to 2014, for Bullion Bank and Southern Credit Bank, the period represents 1996 to 2010, for CFC and Stanbic Bank the period represents 2003 to 2007 while for Prime Bank and EABS Bank Limited the period represents 2014 to 2008.

#### 4.3.1 Financial performance before merger

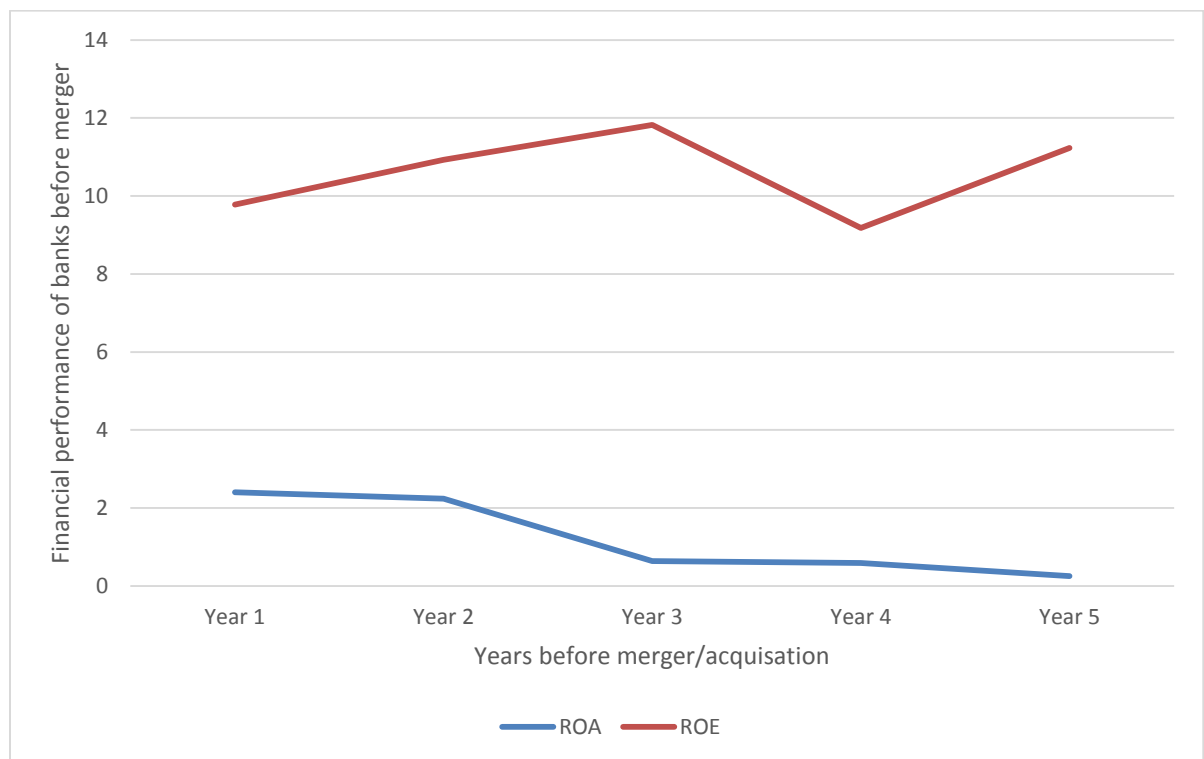
The results in table 4.3 shows the findings on financial performance of the respective banks under study before merger took place

**Table 4.3 Financial performance before merger**

		Year 1	Year 2	Year 3	Year 4	Year 5
Bank						
KC Fin Co.	ROA	1.14	1.18	0.97	1.25	1.26
	ROE	5.58	12.54	9.68	4.29	5.98
KCB	ROA	1.32	0.98	1.16	1.24	1.27
	ROE	-21.37	-5.29	2.9	2.67	3.21
CBA	ROA	1.62	2.71	2.3	2.23	2.23
	ROE	29.02	22.4	15.6	16.18	17.2
First American Bank	ROA	1.62	2.71	2.3	2.23	2.23
	ROE	19.87	15.9	15.6	16.18	17.8
Bullion Bank	ROA	7.2	4.27	-11.7	-12.3	-15
	ROE	5.9	10.8	12.4	-11.2	-14.7
Southern Credit Bank	ROA	1.57	1.25	1.42	0.65	-0.7
	ROE	3.2	1.6	1.42	1.6	-0.7
CFC Bank	ROA	1.87	1.91	1.54	2.1	3.1
	ROE	23.65	20.77	15.4	19.4	27.59
Stanbic Bank	ROA	1.48	1.29	2.5	2.9	3.4
	ROE	12.4	8.7	21.6	24.3	33.48
<b>Average</b>	<b>ROA</b>	<b>2.4</b>	<b>2.234</b>	<b>0.638</b>	<b>0.59</b>	<b>0.249</b>
	<b>ROE</b>	<b>9.781</b>	<b>10.928</b>	<b>11.825</b>	<b>9.178</b>	<b>11.233</b>

*Source: Researcher (2017)*

From the findings in table 4.3 most of the banks had positive ROA and ROE before merger. However, some banks had recorded negative ROE. For instance, in 1996 and 1997 KCB had negative ROE before improving in the subsequent years. On the other hand, Bullion Bank had started to record negative ROA and ROE just two years before merger. The trend in performance is as displayed in fig 4.1



**Fig 4.1 Trend in financial performance**

*Source: Researcher (2017)*

The findings show that the ROA for the banks before merger had been going down gradually towards the year of merger. It can further be observed that on average, ROE had been going up until two years before merger after which it went down one year before merger. Generally, ROE did not show a consistent trend before merger.

### 4.3.2 Financial performance after merger

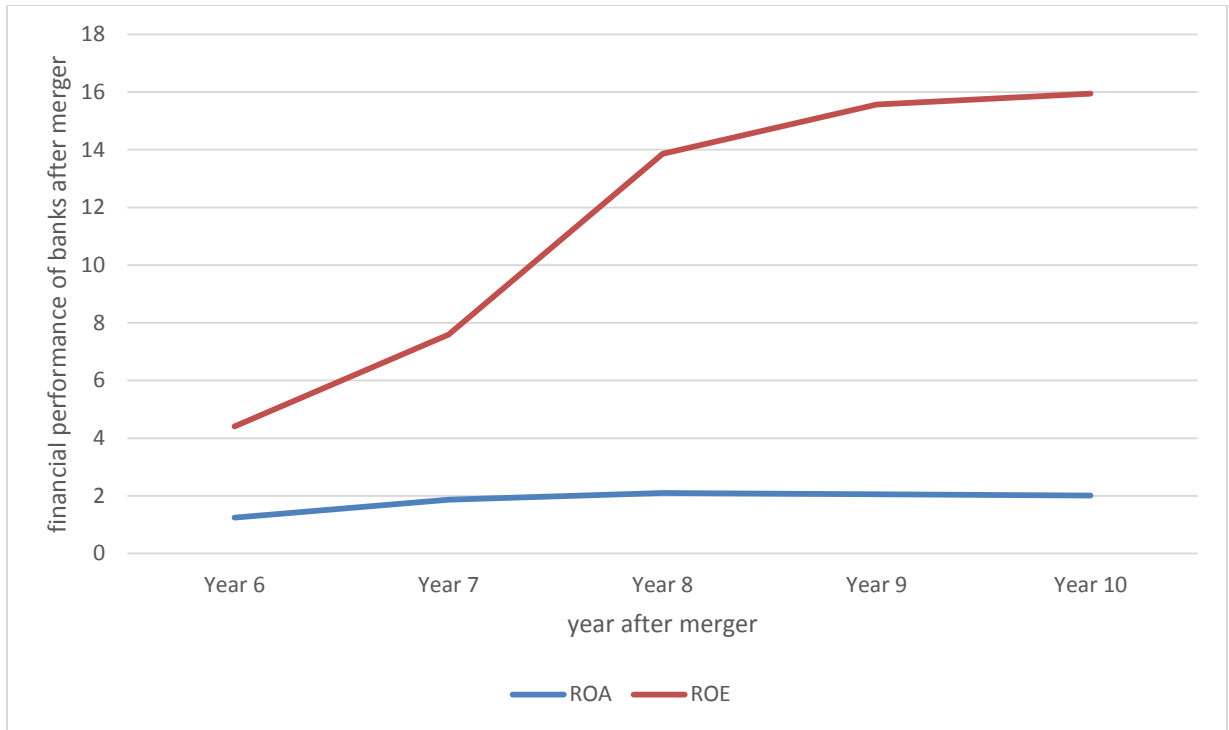
The period labeled year 6 to 10 represents the five-year period after merger/acquisition of the banks under the study. The KC Fin Co. was acquired by KCB to form KCB Ltd. On the other hand First American Bank was acquired by CBA which retained its name; Southern Credit Bank acquired Bullion Bank forming Southern Credit Bank Corp Ltd while the CFC Bank merged with Stanbic Bank to form CFC Stanbic Bank (table 4.3).

**Table 4.4 Financial performance after merger/acquisition**

		Year 6	Year 7	Year 8	Year 9	Year 10
Bank						
KCB Ltd	ROA	0.19	1.35	0.9	1.32	1.83
	ROE	2.65	-7.41	10.6	13.5	19.2
Commercial Bank of Africa	ROA	1.68	2.9	3.5	3.3	3.4
	ROE	2.36	9.17	9.15	5.9	6.25
Southern Credit Bank Corp Ltd	ROA	1.63	0.4	0.92	1.37	0.62
	ROE	-5.79	3.2	7.25	12.07	5.98
CFC Stanbic Bank	ROA	1.5	2.8	3.1	2.23	2.21
	ROE	18.4	25.4	28.43	30.82	32.34
<b>Average</b>	<b>ROA</b>	<b>1.25</b>	<b>1.8625</b>	<b>2.105</b>	<b>2.055</b>	<b>2.015</b>
	<b>ROE</b>	<b>4.405</b>	<b>7.59</b>	<b>13.8575</b>	<b>15.5725</b>	<b>15.9425</b>

*Source: Researcher (2017)*

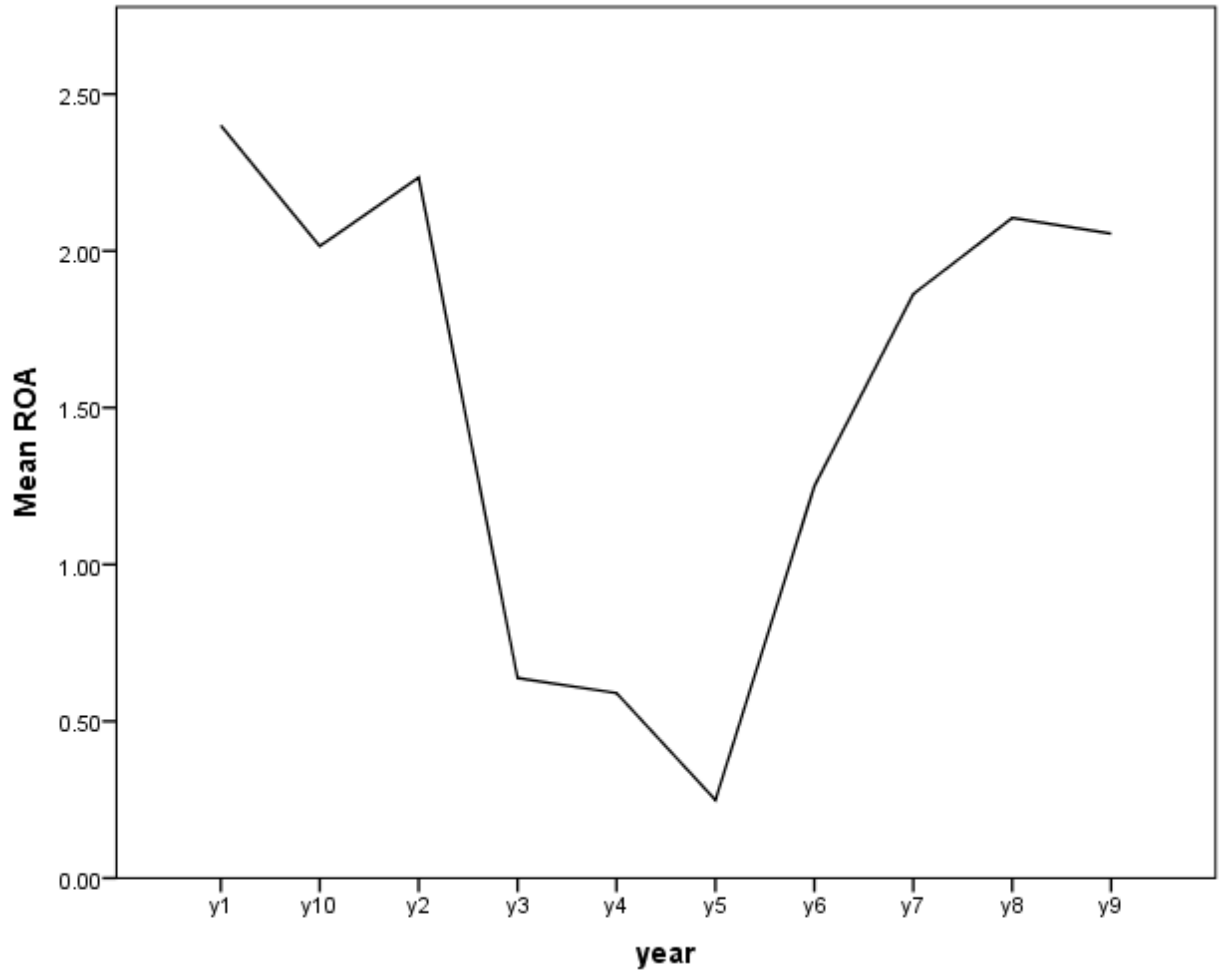
As per table 4.4 above, on average, the banks had positive ROA and ROE for all the years after merger. Both ROA and ROE seemed to have been improving with increase in the number of years after merger as can also be observed in fig 4.2



**Fig 4.2 Trends in financial performance after merger/acquisition**

*Source: Researcher (2017)*

The findings in figure 4.2 show that there was a general trend of financial performance improvement over time as the number of years after merger increased. However, ROE was affected by merger more than ROA. There was a sharp and consistent improvement in ROE while ROA had just a slight increase in the first year of merger after which it remained almost constant. In fig 4.3, the researcher presents the performance (ROA) before and after merger/acquisition

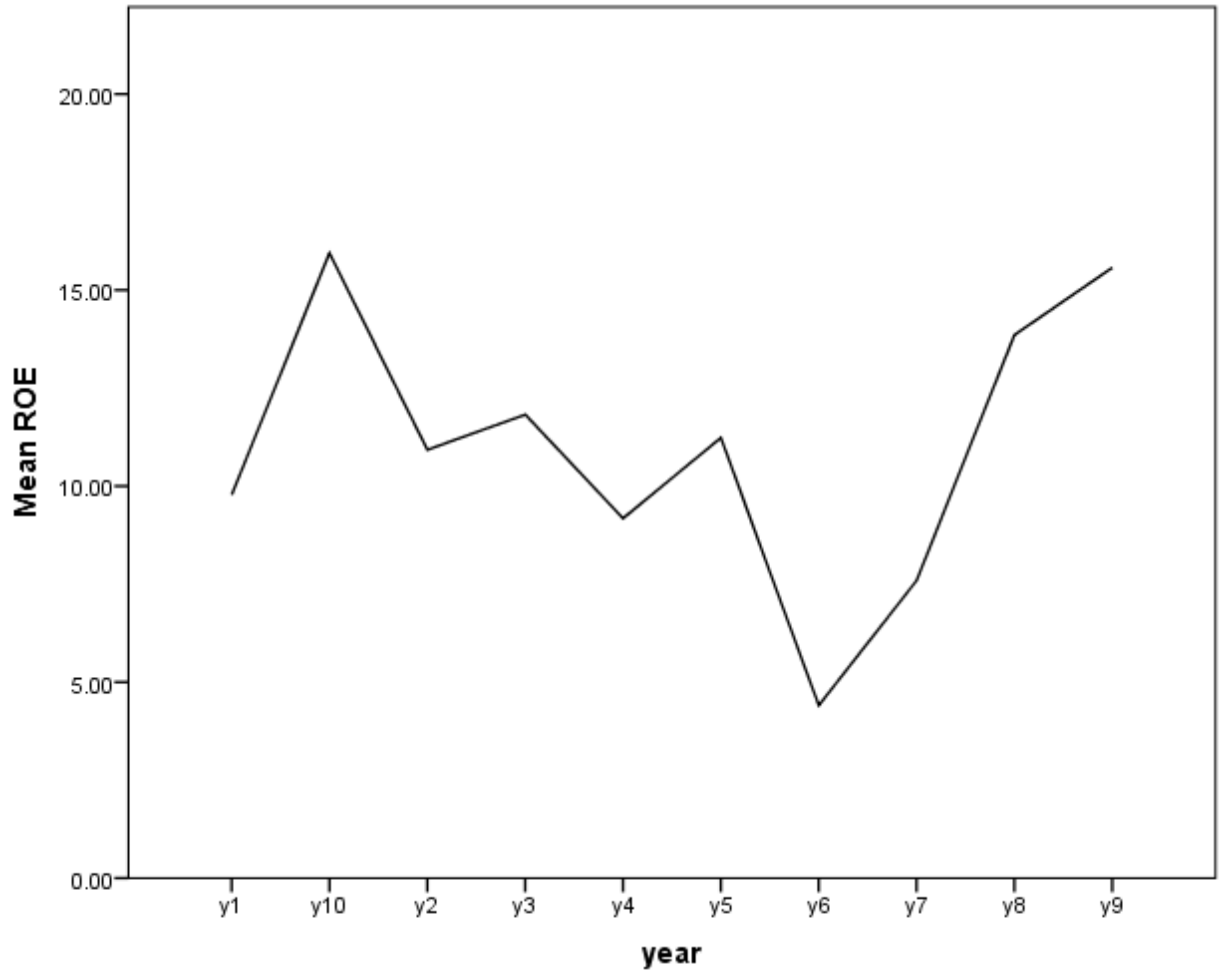


**Fig 4.3 Mean ROA of the banks before and after the merger**

*Source: Researcher (2017)*

Comparing the two periods, before and after merger, it can be observed that ROA had declined drastically towards the year of merger (y5) before it picked constantly between year 5 and 8 after which it seems to have started to drop. It can therefore be explained that though ROA may have been affected positively in the short-term after merger/acquisition, there is no guarantee in the long run that the trend would continue.

For ROE, the trend was as displayed in fig 4.4



**Fig 4.4 Mean ROE before and after merger/acquisition**

*Source: Researcher (2017)*

The general trend in figure 4.4 shows that ROE had a general decline before merger. After merger, the first year (y5 to y6) the decline continued before a general improvement was recorded from year 6 (second year after merger). In general, it can be explained that merger/acquisition was responsible for the observed improvement in ROE

The study further sought to establish whether there a significance difference in financial ratios in the period before merger and the period after merger. In this endeavor, the researcher employed independent t-test to test the hypothesis that there was no significance difference in financial ratios before and after merger/acquisition.

**Table 4.5 Means of ROA before and after merger/acquisition**

**Group Statistics**

	Merger	N	Mean	Std. Deviation	Std. Error Mean
ROA	before merger	5	1.2222	1.01230	.45272
	after merger	5	1.8575	.35148	.15719

*Source: Researcher (2017)*

Basically, in table 4.5 the mean of ROA after merger/acquisition (m=1.86) was higher than that of before merger/acquisition (1.22). The study therefore intended to establish whether the observed difference was statistically significant (table 4.6).

**Table 4.6 Independent t-test for mean difference in ROA before and after merger/acquisition**

Independent Samples Test										
		Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the	
									Lower	Upper
ROA	Equal variances assumed	17.320	.003	-1.326	8	.222	-.63530	.47923	-1.74040	.46980
	Equal variances not assumed			-1.326	4.951	.243	-.63530	.47923	-1.87090	.60030

*Source: Researcher (2017)*

The findings in table 4.6 show that there was no significant difference in ROA before and after merger ( $p=0.222 > 0.05$ ). Though there was an improvement in ROA after merger, the study finds the improvement not statistically significant.

**Table 4.7 Means of ROE before and after merger/acquisition****Group Statistics**

	Merger	N	Mean	Std. Deviation	Std. Error Mean
ROE	before merger	5	10.5890	1.08411	.48483
	after merger	5	11.4735	5.18417	2.31843

*Source: Researcher (2017)*

The findings in table 4.7 above show that the period after merger/acquisition (m=11.47) had higher ROE than the period before merger (m=10.59). The researcher therefore, sought to establish whether there was a significant difference in the ROE of these two different periods (table 4.8)

**Table 4.8 Independent t-test for mean difference in ROA before and after merger/acquisition**

Independent Samples Test										
		Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the	
									Lower	Upper
ROE	Equal variances assumed	19.829	.002	-.373	8	.719	-.88450	2.36858	-6.34646	4.57746
	Equal variances not assumed			-.373	4.349	.726	-.88450	2.36858	-7.25766	5.48866

*Source: Researcher (2017)*

The findings in table 4.8 show that there was no significant difference in ROE even after merger/acquisition ( $p=0.719 > 0.05$ ) at 95% confidence interval. Basically, though ROE improved after merger, the ratio was not significantly different to that of before merger. The findings therefore indicate that mergers and acquisition may not necessarily lead to improved Return on Assets.

#### 4.4 Regression of financial ratios against ROE

In order to establish the financial ratios (capital base, liquidity and asset quality) that had greatest impact on financial performance (ROE) after mergers and acquisition, the researcher conducted a multiple regression analysis at 95% confidence interval ( $p < 0.05$ ) to ascertain statistical significance.

**Table 4.9 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.880 <sup>a</sup>	.775	.755	.75559

a. Predictors: (Constant), capital base, asset quality, liquidity

Source: Researcher (2017)

From the results in table 4.9 the model summary, the researcher can explain that: capital base, asset quality, liquidity predicts 77.5% of the ROE of the commercial banks after merger/acquisition. The findings further show that other factors that were beyond the scope of this study predicted 22.5%

**Table 4.10 ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	88.329	4	22.082	38.679	.000 <sup>b</sup>
	Residual	25.691	45	.571		
	Total	114.020	49			

a. Dependent Variable: ROE

b. Predictors: (Constant), capital base, asset quality, liquidity

Source: Researcher (2017)

The results in the ANOVA table 4.10 show that the independent variables: capital base, asset quality, liquidity significantly predicted the financial performance of these commercial banks ( $p = 0.000 < 0.05$ ). The findings further indicate that the model was fit

and hence linear relationship existed between the independent variables and the dependent variable.

**Table 4.11 Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.914	1.667		3.547	.001
capital base	.403	.042	.754	9.517	.000
Asset quality	.325	.076	.356	4.270	.000
Liquidity	.600	.077	.581	7.785	.000

a. Dependent Variable: ROE

$$Y=5.914 + 0.403X_1+0.325X_2+0.600X_3+e$$

*Source: Researcher (2017)*

From the findings in table 4.11 all the independent variables had a significant prediction of banks financial performance after they decided to merge. Capital base ( $p=0.01<0.05$ ), asset quality ( $p=0.000<0.05$ ) and liquidity ( $p=0.000<0.05$ ) all contributed to ROE of the banks after the merger.

#### **4.5 Interpretation of findings**

The study confirmed mixed results on the effect of Mergers and Acquisitions on banks performance. Banks that showed an increase in their Return on Assets, (ROA) after the merger confirmed that they were able to efficiently utilize their assets to generate profits.

On the other hand, banks that showed a relative decrease in their ROA after the merger indicated inefficient utilization of their resources to improve performance.

Analysis of the effects of Mergers and Acquisition on the Return on Equity, (ROE) also confirms mixed results for the period after the merger. The results indicated that some bank's ROE decreased after the merger while others it increased for the period after the merger. An increase in ROE confirms that the banks were able to efficiently utilize the shareholders' funds at their disposal thereby encouraging them to invest more in the bank. On the other hand, a decrease in ROE confirms that the banks were not able to efficiently utilize the shareholders' funds, This is in accordance with (Kemal Ko zaric , 2015) when they carried out a similar study in Bosnia and Herzegovina.

From the data presented above, the mergers and acquisitions that occurred in Kenya posted mixed performance and with reasons. Some led to improved performance while others led to a smooth entry of a new commercial bank in the local market. For example, the merger between prime bank Kenya limited and Prime Capital & Credit Ltd posted improved performance of the newly formed commercial bank as compared to the average for the two commercial banks operating separately.

As per the SPSS generated table 4.11, the equation  $(0/1) = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$  ).This regression equation shows that taking all the factors into account (capital base, asset quality and liquidity) at constant zero then performance is 5.914.However taking all the independent variables at zero, then a unit increase in capital base will lead to 0.403 increase in performance, the same way a unit increase in asset quality will lead to 0.325 increase in performance and finally, a unit increase liquidity will increase performance by 0.600. This depicts that liquidity continues to have the leading effect on commercial banks performance followed by capital base then asset quality, this is in accordance with (Olalekan, 2012) who conducted a similar study in Nigeria.

At 5% level of significance and 95% level of confidence, then capital base, asset quality and liquidity are significant in explaining the relationship between mergers and acquisitions and the performance of commercial banks in Kenya since their levels of significance are below 0.05 which is the significance level.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This section entails the summary and synopsis of the study findings, the conclusion from the analysis of statistical results as well as future recommendations as observed from the study. The chapter finally presents areas for further research.

#### **5.2 Summary of the study**

The objective of the study was to establish the effect of mergers and acquisitions on the financial performance of commercial banks in Kenya. The study adopted a descriptive survey research design. The population of this study was all the 19 commercial banks that merged or were involved in acquisitions in the period of 2000-2010.

The regression analysis revealed that (77.50%) of the mergers and acquisition on financial performance of commercial banks prior to the merger/acquisition. This therefore means that there are other factors not studied in this research which contributes 22.50% of the impact of mergers and acquisition on the financial performance of commercial banks in Kenya.

The findings also revealed that the banks were able to efficiently utilize the shareholders' funds at their disposal thereby encouraging them to invest more in the bank which translated to an increase in ROE. This indicated that the banks were prudent in liquidity management upon mergers or acquisitions.

### **5.3 Conclusion**

From the study findings it shows that commercial banks performed better in the post-merger and acquisition era as compared to the pre-merger/acquisition era. This is supported by the fact that merging/acquisition had a significant impact on the ROA, which is the overall standard measure of financial performance due to the statistical significance it has on ROA.

The study concluded that mergers and acquisitions led to an improvement in asset quality and quality, capital base and liquidity management and adequacy.

The commercial banks financial performance improves with the merger and acquisition. This is because the merger brings about higher capital and customer base which important ingredients in firm performance. With increased commercial banks' stability and ability to lend, the commercial banks in turn make higher profits.

### **5.4 Recommendations**

The study recommends that the banks management should not only undertake mergers and acquisitions in order to improve operation and sustain failing businesses but also improve their competitiveness and financial standing. Management should come up with a sound strategy towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced.

It is therefore necessary for those banks already in a mergers and acquisitions to deal with the challenges in order to realize profitability. Careful choice of the mergers is also important so as to avoid conflicts of any sort. This can also ensure a sustainable relationship where the partners can complement each other in more synergistic manner.

The significant factors that determine success in mergers and acquisitions should also be established in order to provide critical insight to the merging and acquiring organizations before, during and after the process.

### **5.6 Suggestion for Further Research**

From the study findings the researcher recommends that further studies should be done on other industries sectors such as insurance companies, manufacturing companies, IT and communications firms to enable to determine whether mergers and acquisitions do have a significant impact on the financial performance of firms. This will enable drawing a parallel with the effects in the banking sector. In addition, it is significant to look at factors that led mergers and acquisitions in commercial banks and also the implication they face.

### **5.7 Limitations of the study**

Time will be a major factor limiting the researcher, as the study will require more time in giving out the questionnaires, collection and analysis of the data collected. Some Commercial banks may as well not trust the researcher with the required information, hiding of the information from the researcher who desired it is expected to take place; this may make it difficult to gather information essential for this research. However, this will to some extent be restrained through acquisition of a letter of data collection from the University.

Financing is expected to be a major limiting factor since some trend data will be purchased from the Nairobi securities exchange (NSE). Due to this, the researcher will be forced to work closely with data obtained from the central bank and some cooperating commercial banks in studying and observing the trends.

## REFERENCES

- Hillier, D. I., Ross, S. A., Westerfield, R. W., Jaffe, J., & Jordan, B. D. (2010). *Corporate finance: 1st european edition*. McGraw-Hill.
- Hsieh, D., Xia, Y., Wray, L., Qian, D., Pal, A., Dil, J. H., ... Kane, C. L. (2009). *Observation of unconventional quantum spin textures in topological insulators*. *Science*, 323(5916),919-922.
- James, A. D. (2006). *The I' & strategic management of mergers and acquisitions in the pharmaceutical industry: developing a resource-based perspective*. *Technology Analysis & Strategic Management*, 14(3), 299-313.
- Javaid, S., Anwar, J., Zaman, K., & Gafoor, A. (2011). *Determinants of Bank Profitability in Pakistan: Internal Factor Analysis*. *Mediterranean Journal of Social Sciences*, 59.
- Joshua, O. (2011). *Comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria*. *Journal of Accounting and Taxation*, 3(1), 1-7.
- Kaviraj, S., Peirani, S., Khochfar, S., Silk, I., & Kay, S. (2009). *The role of minor mergers in the recent star formation history of early-type galaxies*. *Monthly Notices of the Royal Astronomical Society*, 394(4), 1713-1720.
- Kithinji, A. M., & Waweru, N. M. (2007). *Merger Restructuring and Financial Performance of Commercial Banks in Kenya*. *Journal of Economics, Management and Financial Markets*, 2(4), 10-32.
- Kosmidou, K., Pasiouras, F., & Tsaklanganos, A. (2007). *Domestic and multinational determinants of foreign bank profits: The case of Greek banks operating abroad*. *Journal of Multinational Financial Management*, 17(1), 1-15.
- Kothari, S. P., Ramanna, K., & Skinner, D. I. (2010): *Implications for GAAP from an analysis of positive research in accounting*. *Journal of Accounting and Economics*, 50(2), 246-286.
- Lambkin, M., & Muzellec, L. (2008). *Rebranding in the banking industry following mergers and acquisitions*. *International Journal of Bank Marketing*, 26(5), 328-352.
- Libra, J. A., Borchert, M., & Banit, S. (2003). *Competition strategies for the decolorization of a textile-reactive dye with the 'white-rot fungi Trametes*

*versicolor under non-sterile conditions. Biotechnology and bioengineering, 82(6), 736-744.37*

- Lin, L. H. (2009). *Mergers and acquisitions, alliances and technology development: an empirical study of the global auto industry. International Journal of Technology Management, 48(3), 295-307.*
- Malatesta, P. H. (1983). *The wealth effect of merger activity and the objective functions of merging firms. Journal of Financial Economics, 11(1), 155-181.*
- McDonald, J., Coulthard, M., & Lange, P. (2015). *Planning for a successful merger or acquisition: Lessons from an Australian study. Journal of Global Business and Technology, 1(2), 1.*
- Morris, T. (2014 ). *Bank Mergers under a Changing Regulatory Environment. Sociological Forum, 19(3),435-463.*
- Norback, P.-J., & Persson, L. (2008). *Globalization and Profitability of Cross-Border Mergers and Acquisitions. Economic Theory, 35(2), 241-266.*
- Odeck, J. (2008). *The effect of mergers on efficiency and productivity of public transport services. Transportation Research Part A: Policy and Practice, 42(4), 696-708.*
- Olalekan, O. A. O. (2012). *An Analysis of the Impact of Mergers and Acquisitions on Commercial Banks Performance in: Nigeria. Research Journal of Finance and Accounting, 3(7),91-101.*
- Olusola, O. A., & Olusola, O. J. (2012). *Effect of Mergers And Acquisition On Returns To Shareholders Of Conglomerates In Nigeria. Research Journal of Finance and Accounting, 3(7), 86-90.*
- Panagiotakopoulos, A. (2012). *Greek manufacturing firms: low skills, low wages and low profitability. Journal of Business Strategy, 33(2),31-37.*
- Pandey,!. (2011). *Capital Structure and the Firm Characteristics: Evidence from an Emerging Market.*
- Pasiouras, F., & Kosmidou, K. (2007). *Factors influencing the profitability of domestic and foreign commercial banks in the European Union. Research in International Business and Finance, 21(2), 222-237.*
- Pike, R., & Neale, B. (2006). *Corporate finance and investment: decisions & strategies. Financial Times/Prentice Hall*

## APPENDICES

### APPENDIX I: LIST OF THE BANKS TO BE STUDIED

<b>No.</b>	<b>Institution</b>	<b>Merged with</b>	<b>Acquired by</b>	<b>Name after Merger</b>	<b>Date Approved</b>
<b>1</b>	Universal Bank Ltd	Paramount Bank Ltd		Paramount Universal Bank	<b>11.01.2010</b>
<b>2</b>	Mashreq Bank Ltd		Dubai Bank Ltd	Dubai Bank Ltd	<b>01.04.2010</b>
<b>3</b>	Citibank NA	ABN Amro Bank Ltd		Citibank NA	<b>16.10.2011</b>
<b>4</b>	Bullion Bank Ltd	Southern credit Banking Corp.Ltd		Southern Credit Banking Corp. Ltd	<b>07.12.2011</b>
<b>5</b>	Co-operative Merchant Bank Ltd	Co-operative Bank Ltd		Co-operative Bank of Kenya	<b>28.05.2002</b>
<b>6</b>	Biashara Bank Ltd	Investment & Mortgage Bank Ltd		Investment & Mortgage Bank Ltd	<b>01.12.2002</b>
<b>7</b>	Credit Agricole Indosuez (K) Ltd		Bank of Africa Kenya Ltd	Bank of Africa Ltd	<b>30.04.2014</b>
<b>8</b>	First American Bank Ltd	Commercial Bank of Africa ltd		Commercial Bank of Africa ltd	<b>01.07.2015</b>
<b>9</b>	East African Building Society	Akiba Bank Ltd		EABS Bank Ltd	<b>31.10.2015</b>
<b>10</b>	Prime Capital & Credit Ltd	Prime Bank Ltd		Prime Bank Ltd	<b>01.01.2008</b>
<b>11</b>	CFC Bank Ltd	Stanbic Bank Ltd		CFC Stanbic Bank Ltd	<b>01.06.2008</b>
<b>12</b>	EABS Bank Ltd		Ecobank Kenya Ltd	Ecobank Bank Ltd	<b>16.06.2008</b>
<b>13</b>	Kenya Commercial	Kenya Commercial		Kenya Commercial Bank	<b>21.03.2011</b>

	Bank Ltd	Finance Co.		Ltd	
<b>14</b>	Savings and Loan (K) Ltd	Kenya Commercial Bank Ltd		Kenya Commercial Bank Ltd	<b>01.02.2010</b>
<b>15</b>	City Finance Ltd	Jamii Bora Kenya Ltd		Jamii Bora Ltd	<b>11.02.2010</b>
<b>16</b>	Equatorial Commercial Bank Ltd	Southern Credit Banking Corp Ltd		Equatorial Commercial Bank Ltd	<b>01.06.2010</b>

*Source: Central Bank of Kenya, (2017)*

**Appendix II: Secondary data collected**

**Kenya Commercial Bank Limited**

ROA

		P	R	E		P	O	S	T	
Inst/Year	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
KC Fin Co.	1.14	1.18	0.97	1.25						
KCB	1.32	0.98	1.16	1.24						
Average	1.23	1.08	1.07	1.25						
KCB Ltd						0.19	1.35	0.9	1.32	1.83

ROE

		P	R	E		P	O	S	T	
Inst/Year	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
KC Fin Co.	5.58	12.54	9.68	4.29	5.98					
KCB	-21.37	-5.29	2.9	2.67	3.21					
Average	-7.95	3.63	6.3	3.48	4.6					
KCB Ltd						2.65	-7.41	10.6	13.5	19.2

*Source: Research findings (2017)*

## 2 Commercial Bank of Africa

### ROA

Inst/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American Bank	1.62	2.71	2.3	2.23	2.23					
Com Bank of Africa	2.55	2.34	1.8	1.8	1.94					
Average	2.085	2.525	2.05	2.015	2.085					
CBA Ltd						1.68	2.9	3.5	3.3	3.4

*Source: Research findings (2017)*

### ROE

Inst/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
First American Bank	19.87	15.9	15.6	16.18						
Com Bank Of Africa	29.02	22.4	15.6	16.18						
Average	23.95	19.2	19.1	19.57						
Com Bank of Africa Ltd					2.36	9.17	9.15	5.9	6.25	

*Source: Research findings (2017)*

### 3 Southern Credit Banking Corporation

#### ROA

Institution/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Bullion Bank	7.2	4.27	-11.7	-12.3	-15					
Southern Credit Bank	1.57	1.25	1.42	0.65	-0.7					
Average	4.385	2.76	-5.14	-5.825	-7.85					
Southern Credit Bank Corp Ltd						1.63	0.4	0.92	1.37	0.62

*Source: Research findings (2017)*

#### ROE

Inst/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Bullion Bank	5.9	10.8	12.4	-11.2	-14.7					
Southern Credit Banking Corp	3.2	1.6	1.42	1.6	-0.7					
Average	4.55	6.2	6.91	-4.8	-7.7					
						-5.79	3.2	7.25	12.07	5.98

*Source: Research findings (2017).*

#### 4 CFC Stanbic Bank

ROA

Inst/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
CFC Bank	1.87	1.91	1.54	2.1	3.1				
Stanbic Bank	1.48	1.29	2.5	2.9	3.4				
Average	1.675	1.6	2.02	2.5	3.25				
CFC Stanbic bank Ltd						1.5	2.8	3.1	2.23

Source: Research findings (2017).

ROE

Inst/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
CFC Bank	23.65	20.77	15.4	19.4	27.59				
Stanbic Bank	12.4	8.7	21.6	24.3	33.48				
Average	18.025	14.73	18.5	21.85	30.535				
CFC Stanbic Bank Ltd						18.4	25.4	28.43	30.82

Source: Research findings (2017).

#### 5 Prime Bank Limited

ROA

Inst/Year	2003	P 2004	R 2005	E 2006	2007	P 2008	O 2009	S 2010	T 2011
Prime Capital Ltd	4.26	4.33	4.49	4.1	2.5				
Credit Ltd	1.92	1.71	1.4	1.5	2.2				
Average	3.09	3.02	2.95	2.8	2.35				
Prime Bank Ltd						2.3	2.8	3.42	3.07

Source: Research findings (2017).

ROE

		P	R	E		P	O	S	T
Institution/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Prime Capital and Credit Ltd	18.35	17.27	17.2	11.86	5.6				
Prime Bank Ltd	17.34	15.33	17.3	14.51	16.45				
Average	17.84	16.3	17.25	13.185	11.025				
Prime bank Ltd						15	17.36	21.03	28.88

Source: Research findings (2017).

**6 EABS Bank Limited**

ROA

Institution/Year	2004	2005	2006	2007	2008
East Africa Building Society	0.42				
Akiba Bank Ltd	-1.2				
Average	-0.39				
EABS Bank Ltd		0.07	0.4	1	0.5

Source: Research findings (2017).

ROE

Institution\ Year	2004	2005	2006	2007
East Africa Building Society	3.29			
Akiba Bank Ltd	-10			
Average	-3.36			
EABS Bank Limited		0.56	3.01	6.94

Source: Research findings (2017).



**Appendix IV: Work Plan**

ACTIVITY	MONTHS								
	SEP 2017	OCT 2017	NOV 2017	DEC 2017	FEB 2018	MAR 2018	MAY 2018	JUNE 2018	DEC 2018
DURATION									
PROPORSAL WRITING									
DESIGNING INSTUMENTS									
DATA COLLECTION									
DATA ANALYSIS									
REPORT WRITING AND SUBMISSION									
GRADUATION									

## Appendix V: Research Budget

<b>1</b>	<b>Proposal writing</b>			
	Item	Unit	Price/Unit	Kshs
	Typing and printing the proposal	1	4,000	4,000
	Photocopying and binding of proposal	5	300	2,000
	Miscellaneous			3,000
	<b>Sub-Total</b>			<b>9,000</b>
<b>2</b>	<b>Data collection and analysis</b>			
	Typing and photocopying tools for data collection			5,000
	Travelling and telephone and internet bundles expenses			10,000
	Data entry and analysis			15,000
	Research assistants training and wages			25,000
	Stationary			3,000
	<b>Sub-total</b>			<b>58,000</b>
<b>3</b>	<b>Production of final report</b>			
	Typing and printing final copy	1	4000	4,000
	Photocopy and binding of final copy	5	3000	15,000
	Miscellaneous			5,000
	<b>Sub-Total</b>			<b>24,000</b>
	<b>Total Budget</b>			<b>91,000</b>