THE EFFECT OF MERGERS AND ACQUISITIONS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED ON THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this is my original work, and it has not been presented to any other institution of higher learning.

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SUPERVISOR

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

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DEDICATION

This research project is dedicated to my husband Wilson Mwangi and my parents Mr. Stanley Mwangi & Isabella Wanjiru for their unconditional love and support.

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I would like to thank Almighty God for taking me through this journey and successful completion of this program.

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ABSTRACT

In the past decade, two commercial banks have been placed under receivership in Kenya: Chase Bank and the Imperial Bank. The Imperial Bank was placed under receivership due to poor banking practices that led to declining financial performance. Five years later, the Central Bank of Kenya (CBK) approved KCB bank to acquire Imperial Bank in 2020. The main objective of the study was to determine the effects of mergers and acquisitions on financial performance of Kenyan commercial banks listed in Nairobi Securities Exchange. Gibrat's theory of growth, financial synergy theory and Modigliani-Miller Theory (M&M Theory) guided the study. The researcher adopted and used a cross-sectional research design for this study. The study population consisted of the six relevant cases for listed commercial banks on NSE that have merged or/and acquired others for the study period. The study focused on all these six cases, three years preceding the merger and three years' post-merger. The study relied on open-access secondary data derived from published audited financial reports of the selected banks. Other sources were financial statements filled to the Capital Markets Authority, and the Nairobi Securities Exchange as obtained from their online databases. Quantitative data analysis was undertaken. The study concludes based on the data presentations in chapter four and the summary of the findings above that commercial bank financial performance improves with the merger and acquisition. Based on the data presented in Chapter 4 and the summary of the conclusions above, the study indicates that mergers and acquisitions increase commercial banks' financial performance. According to the findings, the firm size of publicly traded commercial banks has grown because of mergers and acquisitions. Based on the facts, it can also be stated that when corporations join forces, they accumulate more assets. The study found that after a merger and acquisition, the net interest margin improved dramatically. Improved operational performance can be the outcome of initiatives such as improving banking personnel's competence and professionalism, as well as increasing management efficiency to boost banking institutions' competitiveness. Mergers and acquisitions result in a larger bank and a pool of experience, both of which are critical factors in a company's success. On organization synergy, the study concluded that the cost-to-income ratio improved by registering a huge reduction after merger and acquisition. The lower cost-to-income ratio is due to increased efficiency and economies of scale within

commercial banks, both of which are critical to properly managing a bank's financial situation. Financial synergy has also improved resource use and financial resource mobilization within banks, according to the study. Commercial banks with a weak and unstable capital base should strive to integrate their operations through mergers and acquisitions, according to this report. Commercial banks will be able to increase their profitability by expanding their market share and revenue base through mergers and acquisitions.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The concept of mergers and acquisitions has been associated with companies' competitive advantage and high financial performance across the world. According to Novickytė and Pedroja (2015), mergers and acquisitions are happening in the banking, insurance, and gas and energy sectors in almost all countries. The concept has been associated with the enhancement in the financial performance of companies. Memmel and Schertler (2009) noted that mergers and acquisitions are increasing worldwide because they encourage competition among industry firms and help firms reduce business risk, leading to low financial losses and increased market shares. As such, mergers and acquisitions are types of strategic decisions made by topmost management, affecting the business's long-term performance. However, Dang (2011) argued that mergers and acquisitions require proper analysis to avoid challenges and huge firms' losses.

This study was anchored on different theories. Specifically, the study was guided by Gibrat's theory of growth, indicating that the firm development and stability depend on its growth rate and size. The study also relied on the financial synergy theory, which indicates the cost benefits of internal financing versus external financing (Mooney & Shim, 2015). It implies that firms that have different investment opportunities and cash flow positions that combine to form a larger entity may produce a financial synergy higher enough to promote the financial stability of the resultant firm (Abbas et al., 2014). Additionally, the study adopted the Modigliani-Miller Theory, which stipulates that the capital structure does not influence the market value of an entity which is dependent on other factors such as the company's assets.

The banking sector in Kenya is expanding, which has led to higher mergers and acquisitions in the sector. Many banks have adopted mergers and acquisitions to increase their brand value, market share, and financial performance, including the recent merger between KCB and National Bank. However, the past mergers in the country, especially among the banks, have resulted in different challenges. There is a need to determine how mergers and acquisition impact the financial performance of banks in the country.

1.1.1 Mergers and Acquisitions

Sharma (2010) denotes that pure merger can be described as two firms' coming together: their operations network, their management teams, their clientele base, and technical teams. In pure mergers, none of the firms is said to have the upper hand in the transaction over the other; thus, none end up taking control of the other (Creighton, 2015). However, cases of pure mergers rarely exist. Acquisitions are the combination of two businesses where one, the acquirer, offers to take over the share capital of the other company, target company. To compensate for the acquisitions, the acquirer may settle the consideration through a cash offer, through the issuance of shares to the target, giving a loan stock, or using a combination of the above. The nature of acquisitions differs in different jurisdictions and is defined by the target company's articles of association on majority ownership (Roberts et al., 2010). Acquisitions can also be referred to as the takeover of the target company by the acquirer (Creighton, 2015). In takeovers, the negotiations involve an aggressive strategy where the acquirer seeks to acquire control of the target firm without mutual understanding with the target's management (Savella, 1999). The acquisition is referred to as a hostile takeover.

Creighton (2015) noted that mergers are the consolidation of two businesses on an equal platform basis; while acquisition is where one company absorbing the other and making it wholly part of it or it is subsidiary and taking total control of its assets and liabilities and in most cases leading to loss of identity of the acquired company. In theory and for this paper, mergers, acquisitions, and takeovers are generally referred to as mergers and acquisition (M&A) activities. In other parts of this paper, the terms have been used interchangeably.

There are various reasons why companies engage in M & M&A, which includes change in the operating environment, such as entry of new competitors pushing the existing firms to merge. It could also be due to regulatory induced consolidation to reduce industry-wide systematic risks. In 2004, the Central Bank of Nigeria began a sector-wide consolidation of the banks in Nigeria that led to a spate of mergers and acquisitions, leading to a reduction of the number of regulated commercial banks in Nigeria from 23 by the year 2019 in comparison to 89 in 2004. The main drive for this regulatory induced consolidation was to improve the capital structure of the lenders. Mergers are also driven by changes in the technology landscape in an industry forcing the players to merge to accelerate technology adoption or reduce the cost of technology acquisitions. The acquirer could also be targeting a technology that is already in use by the target. Kenya has experienced the largest leap in financial technology, commonly referred to as fintech, in the past decade. Some financial institutions that were quick to adopt fintech have seen a huge rise in customer base, rolling out new financial products and reducing costs of operations. The events set the stage for fintech led acquisitions this decade.

1.1.2 Financial Performance

The concept of financial performance refers to the measurement of how well an entity utilizes its assets during its primary business operations to create value through generation of revenues. The term provides an all-inclusive financial health position and helps comparison of similar firms operating in the same industry over a given specific period. According to Mooney and Shim (2015), the concept of financial performance is used to measure the standards by which commercial banks use their assets for revenue generation.

While various ways may be used to measure financial performance, they need to be taken in aggregation (Weston et al., 2010). The goal of many growing firms is to increase their profits, and this makes it imperative to become well-versed with the process of measuring the profitability of banks. One of the main ways of determining financial performance includes using the net profit margin to measure profit. The method considers all costs, including overheads, interests, and taxes.

Singh et al. (2015), holds the existence of different methods of measuring financial performance and posits the need for aggregating them. Firms target profits as a measure of growth, and thus the importance of knowing how to measure profitability in banks. The main measures of financial performance include calculation of the net profit margin, which is a measure profitability after considering all costs such as the fixed and variable overheads, interest payments and tax.

1.1.3 The M&A and Financial Performance

Previous research on measuring the effects of mergers and acquisitions in Kenyan banks has focused on financial performance after the deal closes. Ombaka & Jagongo (2018) held that operational synergies created by the merger drove improvements in financial performance, differential efficiencies gained, risk diversification strategies adopted, and the market share gained from the merger. Ogada et al. (2016) reported similar findings that M&A results in improved financial performance. A positive relationship exists between financial synergy, operation synergy, and good performance. The performance of the banks improved significantly in the period after the merger (Ogada et al., 2016). In essence, a strategic assessment of an institution's capability upon an M & M&A should be performed for success to be realized. A critical evaluation of an M&A deal is important to capture the potential financial synergies and subsequently impact the overall institutional performance.

Abbas et al. (2014) demonstrated no performance improvement in the financials of Pakistan banks upon their mergers and acquisition. Most of the financial ratios of the banks assessed declined in the period after the mergers and acquisition. Mergers and acquisition are significant in the institution's combined value, which is higher than an independent organization. Organizations target the economies of large scale associated with M&A. Unfortunately, M&A does not always lead to the perceived economies of large scale. Some of the reasons for poor financial performance in post-M&A include increased operational cost (Abba et al., 2014). Besides, some investors and customers are often not comprehensively engaged in the M&A strategy leading to declined organizational profitability.

Kouser & Saba (2011) found out; M&A does not enhance the financial performance of the organizations. The operating financial performance for banks listed in the Karachi stock exchange declined after the M&A executed between 1999 and 2010 (Kouser & Saba, 2011). The study examined six banks, where profitability ratios, return on the network ratio, capital invested, and the debt-to-equity ratios declined upon the M&A. The financial performance upon M&A depends on myriad factors. Besides, the results of M&A largely rely on contextual factors.

Sinha et al. (2010) found out, while M&A led to changes in the shareholder earnings, there were no significant changes in the liquidity positions. Merges and acquisitions deals resulted in improved financial performance for banks in India. Notably, the acquiring firms gained value from the M&A deals in the long run instead of the short run. The strategic approaches to an M&A deal significantly influence the financial performance in the post M&A period. More outbound M&A deals are being evident in India for banks seeking to enhance their value.

1.1.4 Commercial Banks Listed in Nairobi Securities Exchange

By the 4thquarter of 2019, the CBK, the regulator of financial entities in the country, had licensed 41 commercial banks. The country also had one mortgage finance institution and eight office representatives of international banks. There were also 14 licensed microfinance banks. Out of the 41 banks, three had the government as the majority shareholder. Of the remaining 38 private banks, 24 were locally owned while 15 were foreign owned. In terms of total net assets, the local banks had a share of 3.2%, the local private banks 63.8%, and the foreign-owned banks had a market share of 33% (Central

Bank of Kenya, 2018). The local banking industry had total net assets amounting to Ksh. 4.416 trillion as per CBK's Banking Supervision Annual Report of 2018.

According to a survey done by the CBK, there was a significant rise in access to formal financial services rising from 27% in the year 2006 to 83% in 2019 (CBK; KNBS; FSD Kenya, 2019). Kenya currently ranks 3rd in financial access in Africa, behind Seychelles and South Africa. The progress has contributed to significant growth in the banking sector, with the number of deposit accounts rising by 1560.53% from 3.329 million in 2006 to 55.279 million in 2018 (Central Bank of Kenya, 2019). While most people and corporates have multiple bank accounts, the number of adults with bank accounts rose from 2.6 million in 2006 to 10.2 million in 2019.

In the wake of the implementation of the interest rate cap law in Kenya in 2016, a sector-wide call for more consolidation of financial institutions in the country. The event was coupled with the Central Bank of Kenya requirement that banks raise their minimum core capital to Ksh. 5 billion. Since 2017, corporate restructuring activities in the banking sector have increased. In December 2018, NIC Group PLC announced a merger with CBA Group to form NCBA Group PLC. The event was swiftly followed by the KCB Group PLC acquisition of the National Bank of Kenya, where it issued one share for every 10 National Bank shares. Equity Group Holdings also went on a regional expansion spree and announced its intent to acquire Banque Commercial du Congo in the largest cash offer transaction in the financial sector in Kenya. The Cooperative Bank of Kenya announced in February 2020 its intent to acquire Jamii Bora Bank.

Kimetto (2019) studied the financial performance of Sidian Bank in Kenya after M&A. Some of the findings were a strong correlation between operating synergies and the financial performance upon the M&A deal. Besides, the M&A deal resulted in improved managerial synergy leading to the enhanced financial performance of the Bank. Ngare (2013) reported similar findings of the financial performance of Kenyan Banks upon M&A. Merger and acquisitions activities had been a hallmark of the financial sector in Kenya, and most of the large notable names in the banking sector were borne through a series of such deals. A vast majority of successful financial institutions in Kenya are results of M&A (Cherono, 2019). This research study seeks to determine the effects of Mergers and Acquisitions on the financial performance of Kenyan banks listed on the Nairobi Securities Exchange.

1.2 Research Problem

The development of research work on mergers and acquisitions in Kenya is still at the emergent stage (Igecha, 2018). Mbae (2014) noted that 14 M&A's deals for commercial banks in Kenya between 2000 and 2013 led to increased financial performance. The improvements were identified in the M&A Kenyan commercial banks on the ROA, ROE, and a reduction in the cost-to-income ratio in the post-merger transactions. On the other hand, Ombaka & Jagongo (2018) reported that the huge risk diversification, differential efficiency, and operation synergies have financial performance improvement. Ogada, Njuguna, & Achoki (2016) denied the existence of a positive harmonious relationship between operational and financial synergy with the financial performance of a firm upon M & M&A.

In the past decade, two commercial banks have been placed under receivership in Kenya: Chase Bank and the Imperial Bank. The Imperial Bank was placed under receivership due to poor banking practices that led to declining financial performance. Five years later, the Central Bank of Kenya (CBK) approved KCB bank to acquire Imperial Bank in 2020 (International Finance, 2020). On the other hand, the Chase Bank of Kenya was placed under receivership by the CBK on 16th April 2016 (Mukami, 2017). Often, M&A deals are considered by organizations to avert them from declining financial performance leading to liquidation or being put under receivership. If the Imperial Bank and the Chase bank embraced M&A deal, would they get alienated themselves from receivership by the CBK? The M&A does not always lead to the increased financial performance of an institution (Coase theory Coase, 1937). The institutions emanating from M&A may be too complex to manage, leading to a trade-off between large and management economies. Inoti & Monica (2015) denoted that merger may lead to mixed results, with some firms thriving while others register negative returns. Arasa (2020) reported the effects of M&A's on shareholders' wealth of firms listed on the NSE, explaining that announcement of M&A deals did not create wealth for both bidding and acquired entity shareholders; the return on stock performance was insignificant. In addition, Sharma (2010) found out that mergers of banks have a mixed effect on shareholder’s wealth in the USA, with some not affect while some have an X effect. This study shall endeavor to contextualize the impacts of M&A of commercial banks in Kenya through post-M&A data synthesis.

Notably, the existing literature fails to explicitly show how mergers and acquisitions influence the financial performance of the banks. This study therefore sought to fill this gap and enumerate the role that mergers and acquisitions have contributed to the overall improved performance of the commercial Banks in Kenya.

1.3 Objectives of the study and Research Question

1.3.1 Research Objective

To determine the effects of mergers and acquisitions on Kenyan commercial banks' financial performance listed in Nairobi Securities Exchange.

1.4 The Study Significance

The study forms a significant focal point of future research literature on how factors those catalysts for improvement in performance of commercial banks have contributed to the growth of the banking industry in Kenya. The study shall demystify the role of M&A in contemporary commercial banks in Kenya. The study will also be of great importance to managers, shareholders, and board members of commercial banks as they make corporate decisions and map outgrowth strategies. It will act as a resource tool on how mergers and acquisitions have shaped the banking industry, the synergies they can get and the positive externalities that such deals bring on board that lead to the improved financial performance of the banks. As such, it acts as a fountain of knowledge for bank managerial teams in evaluating growth prospects.

The study will also be useful to policymakers in both private M&A advisory firms and public regulators. The public policymakers will use it to improve their knowledge on mergers and acquisitions; their effects on commercial banks performance, and how that affects their growth. This will help guide the formulation of policy frameworks associated with mergers and acquisitions in the country and beyond.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the appraisal of previous works on the research problem stated in the chapters above. It begins with a theoretical review of growth and theories on mergers and acquisitions. It then delves into a conceptual review of capital requirements in banks. The final part proceeds to enumerate empirical research work relevant to this study.

2.2 Theoretical Literature Review

According to Bryman and Bell (2003), a theoretical framework mainly refers to a structure to support a theory in a research study. The theories in a study are formulated to explain, understand, and help predict phenomena under study. In most cases, a theoretical framework help describes the theory, which explains the research problem. This study presents various theories that inform the study findings, as shown below.

2.2.1 Gibrat's Theory of Growth

Robert Gibrat (1904–1980) founded this theory in 1931. The theory is also referred to as the law of proportionate effect, and it stipulates that a firm’s rate of growth does not depend on its size at the onset of the review period (Santarelli et al., 2006). Mansfiled (1962), in the research work on entry of firms, innovation and growth in an industry, emphasized Gibrat's theory that in each industry over a specified period, the probability of their proportionate change in size is equal in all firms regardless of their specific size at the beginning.

The validity of Gibrat's laws varies considerably across different firms, with some studies rejecting the law, while others have mixed results (Fiala & Hedija, 2019). The validity of Gibrat's theory and laws are industry specific. For example, the law may get validated in bigger industries with a concentration on big markets and greater brand equity. In addition, the firm profitability and financial constraints may significantly influence the validity of Gibrat's laws. Santarelli et al. (2006) further tested the theory's validity and denoted that the law abided in Dutch industries but not the Italian industries. The size and age of a firm are statistically related (Stam, 2010). The rate of growth of an institution should, however, be independent of the firm size. The law might have been relevant to the firms tested when the law was drafted. Further, Gibrat's law may apply to entities big enough to effectively override the minimum efficient production scale in each sector.

Audretsch & Mahmood (1994) showed that the survival of firms is affected by the size of the firm, capital intensity and the growth of that industry. This bears the need for M&A activities to push for the firm's growth should any of the three be hindrances. With the theory, banks can influence their size through mergers and acquisition. The theory shall inform the basis for M&A of commercial banks to create value through enhanced brand equity and, hence, success prospects. Further, the financial performance of the commercial banks shall be assessed before and after the M&A to tell effects on the overall performance. The theory shall demonstrate how M&A impacts the size and growth rate of their financial performance.

2.2.2 The Financial Synergy Theory

Buckminster Fuller, who fully analyzed its implications, coined the term synergy. The synergy theory was founded on the Gestalt theory that was advanced by Max Wertheimer (1880–1943), and Wolfgang Köhler (1887–1967); they held the belief that "the whole is more than the sum of its parts" (Benecke et al., 2007). Synergy is systematic and ought to be viewed as such from the perspective of processes. There is not an integrative definition of the term synergy.

The synergy theory stipulates how low costs associated with internal financing in comparison to those of external financing contribute to creation of financial synergies (Tian et al., 2010). A synergistic financial effect is produced when firms operating on a different cash flow position and possess investment opportunities combine, the effect is the reduction on the cost of capital. Tax saving through debt interest payment is another consideration; when two firms merge, the resultant firm's ability to absorb more debt may be higher than the summation of their individual capacities before they combined (Mooney & Shim, 2015). The financial synergy theory also holds that investment opportunities improve because of capital reallocation to the acquired firm when the cash flow yield of the acquiring firm is higher than that of the acquired entity. Mergers and acquisition promote the financial synergy of firms within the banking sector.

The foundation of mergers and acquisition is the inability of a firm to marginally finance profitable, short-horizon projects alone, given pertinent agency problems between claim holder and manager (Tia et al., 2010). Institutions often seek merger if they cannot qualify for a loan on their own. In essence, financial synergy is among the key motivators of M&A.

Rahatullah (2014) demonstrated that contemporary firms seek M&A as a growth strategy. Firms consider M&A to increase sales, purchase assets, accumulate higher profits, and improve their market share. Ray and Ray (2014) reported similar findings where they established that firms seek M&A to create value. Other studies that supported the financial synergy theory are Chatterjee (1986), Pillania et al. (2008), and Ogada et al. (2016). Financial synergy is derived from the merger's coinsurance effect and asset liquidity.

The synergy theory will help demonstrate the basis for M&A for commercial banks in Kenya. The theory shall establish the features for assessing the commercial banks to define pre- and post-M&A impacts.

2.2.3 Modigliani-Miller Theory (M&M Theory)

The M&M theory was advanced by the economists Merton Miller and Franco Modigliani in 1958. The theory's primary proposition is that an entity's capital structure does not affect its value (Brusov et al., 2018). Some of the pertinent concepts, in theory, are asymmetric information, bankruptcy cost and tax. According to them, present value of future earnings determines the value of a firm. Modigliani & Miller (1958) first proposition of the irrelevance of capital structure stipulated that its capital structure does not influence its market value. Under an assumption of perfect capital markets where taxes and transaction costs do not exist, and information asymmetry exists, then the firm's debt to equity ratio does not generate any effect on its value (Bose, 2010). For the acquiring firm, the payment method influences its capital structure (Harris & Raviv, 2007). Firms tend to adjust their capital structures before mergers with overleveraged firms seeking to maximize their value through the M&A's (Leary & Roberts, 2005). Large firms are biased in making defensive acquisitions leading to negative net present value (NPV) acquisitions. This is in comparison to acquisitions by medium-sized firms that make both positive and negative NPV. Small firms are generally inclined to generate positive NPV's in their acquisitions (Tuwei & Barno, 2016). The implications are that between a firm's size and its capital structure, there exists a negative correlation.

Tuwei & Barno (2016) studied the merger of National Insurance Credit Limited and Africa Mercantile Banking Corp to observe how capital structure influences various balance sheet items of banks after mergers. The interbank lending practices between merging firms reduced the capital structure ratio due to decreased debts in the capital structure. The balance sheet items of firm size (net assets), non-performing loans, and income from services positively affected the capital structure after the merger. The M & M theory is relevant to our study. It shows how banks looking to grow by strengthening their capital structures can use a mix of target balance sheet items to measure the value of the merger in achieving their target.

2.3 Determinants of Financial Performance of Banks

Broadly, factors determining the commercial banks' financial performance can be categorized into three: bank-specific factors, industry-specific factors, and macro-economic factors (Antoun et al., 2018). The M&A deals significantly influences the pertinent financial performance determinant either directly or indirectly. The following is a comprehensive discussion of the financial performance determinants of the commercial banks.

2.3.1: The bank-specific factors

The bank-specific factors are primarily deposits, size, diversification, bank business mix, and operational efficiency. The size and scale of a bank's operations are determined by a mixture of various factors, including the demand for its services, the economies of scale and the regulatory environment (Bies, 1971). Banks play a significant role in developing the communities they serve by augmenting growth through mobilization of resources from the economic agents who hold surpluses to those suffering from deficits. They serve the purpose through credit creation. When demand for banking services increases in an area, the Bank mobilizes more deposits even outside to meet the demand.

Pesa & Muturi (2015) described deposits mobilization as how financial institutions collect and consolidate funds from their clients. However, deposit mobilization for smaller banks is most challenging and costly (Singh et al., 2015). Brand perception of a bank's size plays a huge role in local deposits mobilization efforts (Tuyishhime et al., 2015). Smaller banks may need to merge with other banks or acquire other banks serving a different demographic to grow their deposit mobilization capacity.

As banks push for more growth, the costs of operations and expansion pile up, reducing the Bank's margins. The costs of funds also tend to be high. For banks to enjoy economies of scale, their expansion strategies must be commensurate with the growth of their asset book. A large asset book allows banks to reduce their overall cost of deposits as they can competitively offer market deposit rates without compromising so much on their margins. The market perception of them being a large bank helps in deposit mobilization. It also manages to absorb expansion costs over a larger funded income book. Novickytė & Pedroja

(2015) hold that in behavioral theory of M & M&A's and economies of scale, banks would acquire their competition to reduce target client base competition, reduce operations costs, and gain extra market share.

Banks with widened product offerings are more likely to achieve better financial performance (Stiroh, 2000). Diversification in the range of products offered enables a bank to broaden its revenue generation portfolio. Mergers and acquisition have positive impacts on the range of the products offered by the commercial banks hence improved financial performance. On the other hand, the interest income to operating expense ratio defines the banks' operation efficiency (Rashid & Jabeen, 2016). Fortunately, the operational efficiency does not influence the financial performance despite the view that it would have negative impacts.

2.3.2: The Industry-Specific Factors

The regulatory environment plays a significant role in commercial banks' growth decisions (Memmel & Schertler, 2009). The regulatory authority's guidelines or restrictions on issuing new banking licenses may force a firm looking to enter the market to result in acquisitions of already established market players. This acts as an advantage to the local players acquired, especially if it gets a capital injection. Other regulatory guidelines, especially on capital requirements, also push for consolidation of the banking sector. In 2003, the CBK raised the minimum core capital of a deposit-taking commercial Bank to Ksh. 250 million. The sum was later increased to Ksh. 1 billion in 2009, with banks given up to 2012 to meet this new requirement. The same as revised further up to Ksh. 5 billion.

This has resulted in consolidation among the local banks, with others opting to be acquired by other larger local banks or foreign banks looking to enter the country.

Besides, the industry competition may lead to the poor financial performance of some banks. Often, M&A are sought to enhance the competitiveness of the banks. While the effect of market structure on financial performance is unknown, inter-bank competition negatively impacts financial performance (Berger, 1995). The structure-conduct hypothesis posits that commercial banks in concentrated markets collude to enhance their odds from the high-interest rate on loans, the interest rate on the deposit decreases.

2.3.3: Macro-economic Factors

Expansions and recessions in the economy undermine the financial performance of commercial banks (Căpraru & Ihnatov, 2014). Bank lending declines during recessions and increase during an economic boom. Besides, the risks of default loans increase during recessions. Bourke (1989) demonstrated that inflation has positive implications on the bank financial performance. However, Djalilov & Piesse (2016) and Klomp & Haan (2012) reported contrary findings, inflation results in negative impacts on the financial performance of a bank. M&A deals may be embraced to influence the macro-economic factors for improved bank financial performance directly.

2.4 Empirical Studies

There are numerous studies that have been carried out on the impact of mergers and acquisitions on companies' financials around the world. Zheng et al. (2016) conducted a study searching for strategic assets through Chinese cross-border mergers and acquisitions. They used evidence-based research on Chinese multinational enterprises operating in developed economies and noted a connection between incentives on tax direct foreign investment in mergers and acquisitions in cross-border business. The implication of the study of using tax as an incentive for foreign direct investments driven M&A activities is beyond the scope of our comparatively smaller corporate activities and more regional and locally centric M&A activities and thus cannot work in our case.

Girma et al. (2011) determined how mergers and acquisitions affect employee remuneration and profitability in manufacturing industries in the UK. The study findings revealed that both salaries and profitability rise after acquisitions and that companies merging in the same division of experience have profitability rates and greater salaries for their employees than those employed in unrelated acquisitions. The study was done in the UK within the manufacturing industries in UK. Its recommendations cannot work in the banking sector in the country where there have been observed redundancies and cost rationalization post-merger.

Akinbli and Kelilume (2013), in their study on how mergers and acquisitions affect Nigeria's corporate growth and profitability revealed that the process of merging and acquisitions could not primarily control a solution to the issue of corporate financial distress. Furthermore, the researchers discovered that while mergers and acquisitions in some organizations can enhance profitability and growth, operating efficiency in the post-merger and corporate entity acquisition are negatively affected in the short run. The proof also demonstrates that mergers and acquisitions only offered provisional solutions to financial strain and did not solve the working indiscipline.

Studies carried out on mergers and acquisition in Kenya specifically have been few and in the emergent stages leading to inconclusive findings. Mugo (2017) indicated a positive effect on banks' performance when they merger or make acquisitions. Research studies in the banking and financial industries have shown improvement of financial performance after a merger. This leads to the expectation that a firm's performance will improve after merging.

Tuyishhime et al., (2015) researched on the effects of mergers and acquisitions on banks performance in Kenya noted that mergers improve the overall performance of the banks. However, the study failed to consider how to evaluate financial performance using modern metrics. Society largely focussed on non-financial performance. Thus, the current study will focus on financial performance.

From the analysis of these studies, most of the studies were done outside the country. Some of these studies were done outside the banking industry and were based on the case study method. Additionally, some of these studies provided conflicting information and findings.

2.5 Conceptual Framework

This conceptual framework depicts the link and interdependence of independent and dependent variables. The dependent variables used was the measures of financial performance. While the Return on Assets (ROA) and Return on Equity (ROE) are the two variables considered in measuring financial performance, the study used ROE. The ROE measures the return to shareholders of a company on the utilization of their capital employed. The ROE is preferred in this research as it represents a result of a well-structured financial ratio analysis (Stowe et al., 2016). It can also be analyzed by breaking it down further into components ratios measuring the profitability, the financial structure, and the asset management of a company.

ROE = (Earnings/Sales) * (Sales/Assets) * (Assets/Equity)

The independent variables that help promote firm financial performance and will be used in this research are broadly categorized in operating performance, operating synergy (efficiency), and size multiplier. They were measured using net interest margin (NIM), cost-to-income ratios (CIT) and rate of growth of assets respectively, as shown in figure 1 below.

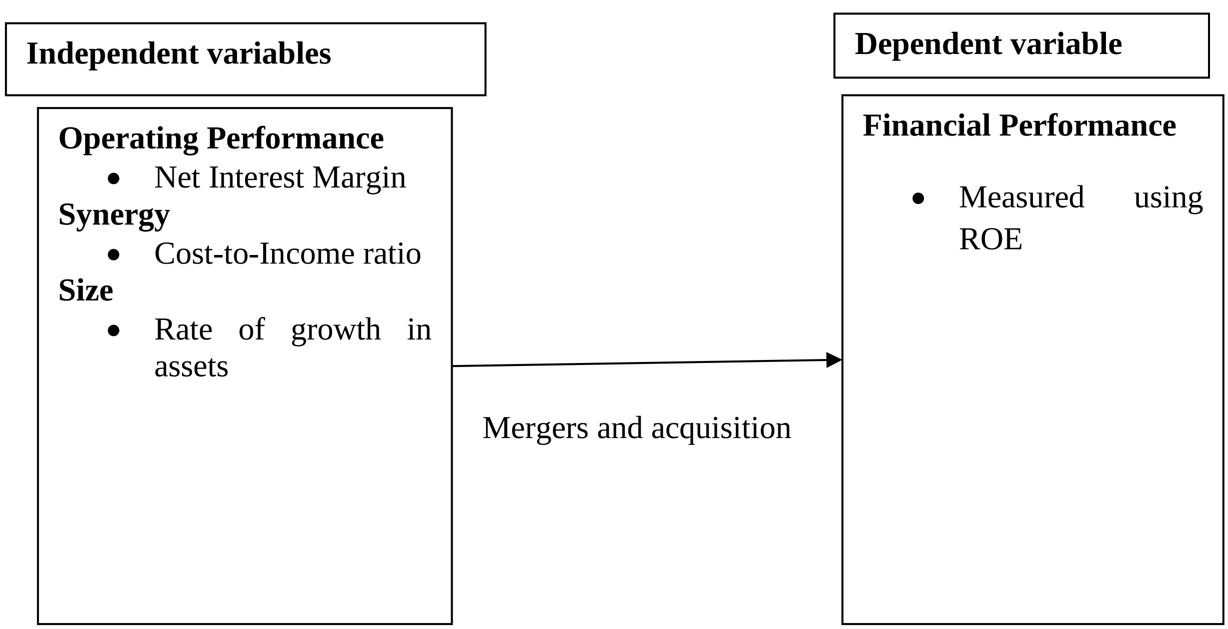

Figure 2.1: M & A Conceptual Framework (Source; Author, 2021)

2.6 Summary of Literature Review

Prudent management of the asset book where assets such as those held to maturity assets and placements with other institutions match the maturing obligations of depositors' funds helps optimize the asset book leading to improved financial performance. Such banks avoid penalties and short-term borrowings through the discount window at low costs, while on the other side bargaining for long-term funds at low costs. The capital structure of a bank also influences the financial performance of the Bank. A strong capital base gives a bank a high cluster rating which allows it to launch more financial products and attract large deposits at low costs. The cost of funds of such banks is thus lower, which leads to better financial performance. The study also showed how merger and acquisition activities are geared to promoting firm performance based on past studies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the systematic design of the research to ensure it meets the laid-out objectives and addresses itself to the main aim of the research. The chapter delves into providing the research models adopted in the study in line with the key study objectives. The main aspects discussed include study design choices and justification, the analysis of the data collection method, the study population, and the data analysis method and justification the pertinent considerations

3.2 Research Design

It is described as the conceptual blueprint that anchors conduct of research, Akhtar (2016). He noted that a research design is formulated based on the type of data evidence required in answering the research questions (Akhtar, 2016). It is thus the action plan that outlines data collection, its measurement and analysis of the data.

In this study, the researcher adopted and used a cross-sectional research design for this study. It allowed thee researcher to collect data on different entities in a particular period, where the researcher observed the variables from those entities without influencing them in any way. The descriptive design of research entails discovering new factors underlying the study. The study used a cross sectional study design because it involves analyzing data gathered across an entire population to deliver an in-depth view of that population at a specific period. The design method was also cheap and helped the researcher collect data within the specified period.

3.3 Target Population

The study population consisted of all the listed commercial banks in the Nairobi Securities Exchange in Kenya. This means a census method was adopted in analyzing all listed banks. According to the NSE (2020), there are twelve listed commercial banks in the Nairobi bourse. An elimination method was used to focus on the listed commercial banks that have made acquisitions or merged with others over our study period. i.e., FY 2000-2020. There are six relevant cases for listed commercial banks on NSE that have merged or/and acquired others for the study period. The study focused on all these six cases, three years preceding the merger and three years' post-merger.

3.4 Data Collection

The study relied on open-access secondary data derived from published audited financial reports of the selected banks. The official financial results of the select banks were readily available on their websites Investor Relations sections. Other sources were financial statements filled to the Capital Markets Authority, and the Nairobi Securities Exchange as obtained from their online databases. The period of study was three (3) years preceding the merger and three years' post-merger. The study collected data of all the study variables for the study period, to assess whether there were significant changes to the variables after the merger or acquisition.

3.5 Data Analysis

The quantitative data analysis was deployed in the study where the data collected was assessed for completeness and correctness before was used in the analysis. The sorting of data was undertaken using Microsoft Excel Package. Similarly, IBM Statistical Packages for Social Scientists (SPSS) was used to undertake further analysis, where the event study was undertaken. An event study examines the behavior of specific asset prices and changes experienced in variables after or around a major corporate or economy-wide event taking place. It is based on the efficient market hypothesis as advanced by the pioneers of events study; Fama, Fisher, Jensen, and Roll (FFJR), in their paper on adjusting stock prices to new information (Fama et al., 1969). Its four basic pillars are the information content of the event, the efficiency of markets in synthesizing that information, a model evaluation of market reaction and metrics analyzing abnormality in returns resulting from that event.

The Comparison Period Mean Adjusted Model was applied in the study. This is because the abnormal returns realized in the event window is the return of observation i on day t minus the average return of the observations i in the event window:

Step 1:

The first step was to determine the actual returns of the period under study. The ROE's of the specific study years was calculated first. Abnormal financial returns in the event window was then calculated to determine any significance change in financial performance (ROE) than can be attributed to the M&A.

$$AR_i = \frac{(FP_1 - FP_0 + \varepsilon)}{FP_0} \qquad (1)$$

Where:

R_i = Actual returns

FP_0 = Financial performance before merger

FP_1 = Financial performance after merger

ε = Exogenous factor

The abnormal returns was measured using the equation (2) below:

$$AR_{it} = R_{it} - R_{mt} \qquad (2)$$

Where:

R_{it} = the actual return (factor value) on security (factor) i for period t,

R_{mt} = the market returns for period t,

AR_{it} = Abnormal return security i for period t

Step 2:

A firm can maximize its ROE through improvement of operational performance to increase its profitability, increase in efficiency to create synergies and better utilization of its assets. As such, a quantitative data analysis was undertaken in this the study to determine how merger and acquisitions of commercial banks affected the independent study variables in affecting the ROE as found in step 1. This therefore entailed an analysis of the variables before the merger and acquisition and compare them with the period post-merger and/or acquisition.

The study variables that comprised of financial performance were denoted by Return on Equity (ROE), Synergy was denoted by Cost-to-Income ratio (CIT), and company size denoted by the rate of growth of total assets. This formed two populations of each variable (pre- and post-merger) which the mean of each variable pre-merger, was compared with the mean after merger. The significance t-test was used in the study to determine whether the means of the variables before merger are equal to the means of the variables after merger.

H_0 = the means of the two groups are equal.

The null hypothesis is rejected if the p-value is less than 0.05 that implies that the test is undertaken at 95% confidence level. Rejecting the null hypothesis means that the means of the two groups are not equal and therefore there was a significant effect of mergers and acquisition on the variable.

Table 1.0: Operationalization of the Study Variables

	Variable	**Measurement**
	Financial Performance	Return on Equity (ROE)
	Operation Performance	Net Interest Margin (NIM)
	Synergy	Cost-to-Income ratio (CIT)
	Size	The rate of growth in assets

3.6 Study Scope and Limitations

Macroeconomic factors were used as control variables, since significant changes in macroeconomic factors such as improved economic growth in the country, increased bank lending rates, may also influence performance of commercial banks.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter analyses six commercial banks listed that have made acquisitions or merged within financial years 2000 to 2020. There are six relevant cases for listed commercial banks on NSE that have merged or/and acquired others for the study period. The study focused on all these six cases, three years preceding the merger and three years' post-merger. The banks included CFC Bank Limited & Stanbic Bank, Diamond Trust and Habib Bank, KCB and S&L, Investment and Mortgage Bank and Giro Bank, KCB & National Bank, and finally Commercial bank of Africa and NIC.

4.2 Descriptive Statistics

The descriptive statistics was based on aggregated ratios from 6 Listed Commercial Banks that had merged and or made acquisitions for the period between 2000 and 2020. The descriptive statistics were based on the aggregated financial ratios for three year's pre-merger/acquisition and three year's post-merger/acquisition. The study had 128 data points.

4.2.1 Descriptive Statistics before Merger/Acquisition

Table 4.1: Descriptive Statistics before Merger/Acquisition

	Median	Minimum	Maximum	Mean	Std deviation
Synergy (CIT)	0.13	0.031	1.31	0.3353	0.11063
Operational Performance (NIM)	0.039	0.019	0.051	0.02927	0.013479
Size (Assets Growth)	10.97	1.88	22.97	11.52187	4.16574

Financial Performance (ROE)	2.3	-2.13	7.89	2.606724	3.069685

The above results show ratios for three years before merger and acquisition of commercial banks listed in Kenya. From the findings, the financial performance, which was measured in terms of return on assets, had mean and standard deviation of 2.60 and 3.06 respectively. Organisation size had a mean and standard deviation 11.52 and 4.16 respectively. Operation performance measured in terms of net interest margin had a mean and standard deviation of 0.029 and 0.013 respectively. Synergy, which was measured in terms cost-to-income ratio, recorded a mean and standard deviation of 0.33 and 0.11 respectively.

4.2.2 Descriptive statistics after merger/acquisition

Table 4.2: Descriptive statistics after merger/acquisition

	Median	Minimum	Maximum	Mean	Std deviation
Synergy (CIT)	0.28	0.039	1.56	0.517449	0.062212
Operational Performance (NIM)	0.29	0.012	0.41	0.01756	0.13628
Size (Assets Growth)	16.03	3.38	32.21	16.31716	5.739211
Financial Performance (ROE)	2.75	-3.1	12	3.139248	2.857301

The after acquisition and merger outcomes are presented in Table 4.2. The study revealed a huge return on equity as compared to the pre-merger with a mean of 3.13 and a standard deviation of 2.85. Further a huge asset growth which was the measure of asset size was recorded as well with a mean of 16.31 and a standard deviation of 5.73. Operational performance also registered a ration decline as compared to the pre-merger results (mean=0.01, SD=0.13). Synergy measured in terms of Cost-to-Income ratio also had a mean of 0.51 and a standard deviation of 0.062.

4.3 Inferential Statistics on mergers/acquisitions of Commercial Banks

The study used inferential statistics to make inferences based on the variables of the study. This involved both correlation and multiple regression analysis.

4.3.1 Correlations Analysis

Pearson correlation analysis was employed to deduce the variables relationship as represented by the financial ratios. This test is useful in providing the model strength or for providing information on the variables that give the best explanation of the variable's relationship.

Table 4.3: Correlation before Merger for the Commercial Banks

		Financial Performance	Synergy	Operational Performance	Size
Financial Performance (ROE)	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	128			
Synergy (CIT)	Pearson Correlation	.233*	1		
	Sig. (2-tailed)	0.002			
	N	128	128		
Operational Performance (NIM)	Pearson Correlation	.319*	0.336	1	
	Sig. (2-tailed)	0.023	0.177		
	N	128	128	128	
Size (Assets Growth)	Pearson Correlation	.188*	0.714	0.225	1
	Sig. (2-tailed)	0.025	0.34	0.093	
	N	128	128	128	128

Before the merger, a significant weak positive correlation (0.233) was established between financial performance and synergy. A weak positive correlation (0.319) was found between operational performance and financial performance A weak correlation coefficient of 0.188 was established between financial performance and firm size measured in terms of assets growth. All the variables were significance since the significance levels were $p<0.05$.

Table 4.4: Correlation after Merger for the Commercial Banks

		Financial Performance	**Synergy**	**Operational Performance**	**Size**
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	128			
Synergy	Pearson Correlation	.513**	1		
	Sig. (2-tailed)	0			
	N	128	128		
Operational Performance	Pearson Correlation	.530**	0.218	1	
	Sig. (2-tailed)	0.005	0.223		
	N	128	128	128	
Size	Pearson Correlation	.620*	0.341	0.287	1
	Sig. (2-tailed)	0.01	0.137	0.124	
	N	128	128	128	128

After the merger, a significant strong positive correlation (0.513) was established between synergy and financial performance. A strong positive correlation (0.530) was found between financial performance and operational performance. A strong correlation coefficient of 0.620 was established between financial performance and firm size. The relationships were found to be significant as $p<0.05$.

4.3.2 Regression Analysis

The effect of the predictor factors on the dependent variable was investigated using a multiple regression analysis. The multiple regression data was entered, coded, and computed using SPSS. The study was performed on pre-merger/acquisition aggregated ratios as well as post-merger/acquisition aggregated ratios.

Table 4.5: Pre-merger Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612[a]	0.374	0.337	4.0221

The average R^2 of the model was 0.337 which implies that 33.7% of the variations in financial performance are explained by synergy, operational performance, and size. 66.3% of the change in financial performance remains unexplained by the factors considered in the study.

Table 4.6: Pre-merger ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	59.4668	3	19.8223	3.21762	.016[b]
1	Residual	763.2108	124	6.1605		
	Total	823.3689	127			

Critical value =2.67

The pre-merger regression model was significant from the value that was lower than 0.05, indicating that the data and model were significant, according to the ANOVA test results. The computed value of F (3.21762) was higher than the crucial value of 2.67, indicating that synergy, operational performance, and size all had a considerable impact on return on return on equity in the time prior to the merger.

Table 4.7: Pre-merger regression coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
	(Constant)	5.634	1.822		3.092	0.003
	Synergy	0.278	0.117	0.312	2.376	0.013
1	Operational Performance	0.343	0.123	0.836	2.788	0.004
	Firm size	0.232	0.077	0.21	3.012	0.021

According to the regression model, a unit increase in synergy prior to a merger enhanced financial performance by 27.8%. By a coefficient of 0. 343, an improvement in operation performance improves financial performance by one unit. Finally, a unit increase in firm size would result in a 23.2 percent rise in financial performance. Furthermore, p0.05 indicates that there was a substantial influence in the pre-merger period.

Table 4.8: Post-Merger Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768[a]	0.589	0.553	2.3064

The average R^2 of the model was 0.553 showcasing that 55.3% of the changes in Financial Performance are explained by synergy (CIT), operational performance (NIM) and Size (assets growth) in the merged firms. 47.7% of the change in ROE remains unexplained by the factors considered in the study.

Table 4.9: Post-merger ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.501	3	12.83367	5.677259	.001[b]
	Residual	280.307	124	2.26054		

	Total	318.808	127

Critical value =2.67

The regression model was significant according to the ANOVA results since the value achieved was less than 0.05, indicating that the data employed was significant. The computed value of F (5.677) was greater than the crucial value of 2.67, indicating that synergy, operational performance, and firm size all had a positive impact on financial performance in the post-merger period.

Table 4.10: Post-Merger Regression Coefficients for the Commercial Banks

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.469	0.244		6.02	0.000
	Synergy	0.541	0.153	0.231	3.53	0.002
	Operational Performance	0.432	0.186	0.846	2.32	0.003
	Firm size	0.767	0.109	0.197	7.03	0.002

From the regression model above, a unit increase in synergy before merger improved financial performance by 54.1%. A 0.432 increase in operation performance would result in a 0.432 rise in financial performance. Finally, a 767 percent increase in business size would improve financial performance. Furthermore, p0.05 indicates that there is a substantial influence.

4.3.3 Test of Significance of ROE

Paired t-test of significance was calculated, and the findings were as below.

Table 4.11: Paired Samples Statistics of ROE

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	ROE before	1.663	128	3.33397	0.68054
	ROE after	2.1788	128	2.35741	0.4812

Table 4.11 shows that the mean ROE was 1.663 for the period before the merger and 2.1788 for the period after the merger. This means that the average ROE significantly increased after the merger period.

Table 4.12: Paired Samples Test of ROE

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ROE before ROE after	0.51579	2.3565	0.47101	-0.4792	1.5117	1.873	127	0

From Table 4.12, the t- test value was 1.873 which lies on the rejection area which is beyond the lower limit -0.4793 and upper limit of 1.5117. As a result, the null hypothesis that there is no difference in financial performance before and after the merger and acquisition is rejected. As a result, the study adopts the alternative hypothesis that financial performance varies before and after the merger.

4.3.4 Diagnostic tests

Table 4.13: multi-Collinearity

Model	Collinearity Statistics	
	Tolerance	**VIF**
Synergy	0.922	1.032
Operational Performance	0.881	1.174
Firm size	0.966	1.136
ROE	0.776	1.158

The Variance Inflation Factor (VIF) was used to test multicollinearity. This test determines the inflated levels of the variance. According to the results, the values of VIF was very close to one which means that the variables' inflated levels were insignificant. Low levels are indications of little multicollinearity.

Table 4.14: Tests of Normality

	Shapiro-Wilk		
	Statistic	**df**	**Sig.**
Synergy	0.741	127	0.448
Operational Performance	0.815	127	0.217
Firm size	0.643	127	0.323
ROE	0.834	127	0.114

Shapiro-Wilk tests were employed to check for normality. The null hypothesis was that the data was out of the ordinary. Because the crucial p-value for this test is 0.05, the researcher must reject the null hypothesis if the recorded p-value is greater than the critical value. Both tests yielded p-values greater than the critical point in our study, as shown in Table 4.14. As a result, the null hypothesis was rejected because the study's data was regularly distributed, making it eligible for tests such as Pearson's correlation, analysis of variance, and regression analysis.

Table 4.15: Heteroskedasticity Test

	LM	Sig
BP	0.955	0.6135

The Breusch–Pagan p-value was more than 0.05 based on the findings. The LM value was close to 0.95, indicating that the regression did not violate the homoscedasticity assumption. As a result, we assume that the data used in the study does not contain heteroskedasticity.

4.4 Discussion of the Findings

This study was carried on 6 Listed Commercial Banks that had merged and acquired for the period between 2000 and 2020. After acquisition and merger, study revealed a huge return on equity as compared to the pre-merger with a mean of 3.13 and a standard deviation of 2.85. Further a huge asset growth which was the measure of asset size was recorded as well with a mean of 16.31 and a standard deviation of 5.73. The findings are in line with those of Ogada (2016) who reported similar findings that M&A results in improved financial performance. A positive relationship exists between financial synergy, operation synergy, and good performance. The performance of the banks improved significantly in the period after the merger.

Before the merger, a significant weak positive correlation (0.233) was established between financial performance and synergy. A weak positive correlation (0.319) was found between operational performance and financial performance. A weak correlation coefficient of

0.188 was established between financial performance and firm size measured in terms of assets growth. All the variables were significance since their significance levels were $p<0.05$. After the merger, a significant strong positive correlation (0.513) was established between synergy and financial performance. A strong positive correlation (0.530) was found between financial performance and operational performance. A strong correlation coefficient of 0.620 was established between financial performance and firm size. The relationships were found to be significant as $p<0.05$. These findings were in line with those of Sinha (2010) who found out, that merges and acquisitions deals resulted in improved financial performance for banks in India. Notably, the acquiring firms gained value from the M&A deals in the long run instead of the short run.

Before merger and acquisition, R^2 of the model was 0.337 which implies that 33.7% of the variations in financial performance are explained by synergy, operational performance, and size. After the merger, the R^2 of the model was 0.553 showcasing that 55.3% of the changes in Financial Performance are explained by synergy (CIT), operational performance (NIM) and Size (assets growth) in the merged firms. The regression model was significant according to the ANOVA results since the value achieved was less than 0.05, indicating that the data employed was significant. The computed value of F (5.677) was greater than the crucial value of 2.67, indicating that synergy, operational performance, and firm size all had a positive impact on financial performance in the post-merger period.

Further, the t- test value was 1.873 which lies on the rejection area which is beyond the lower limit -0.4793 and upper limit of 1.5117. As a result, the null hypothesis that there is no difference in financial performance before and after the merger and acquisition is rejected. As a result, the study adopts the alternative hypothesis that financial performance varies before and after the merger. The findings go in line with those of Akinbile and Kelilume (2013), who revealed that mergers and acquisitions in some organizations can enhance profitability and growth. Further, that mergers and acquisitions offered provisional solutions to financial strain.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary conclusion and recommendation, the study sought to analyze the effects of mergers and acquisitions on Kenyan commercial banks' financial performance listed in Nairobi Securities Exchange.

5.2 Summary

The goal of the study was to see if mergers and acquisitions improve the financial performance of Kenyan commercial banks listed on the Nairobi Stock Exchange. The study determined that mergers and acquisitions result in synergy, enhanced operational performance, and greater business size based on the financial facts provided in Chapter 4 above. The analysis of the commercial banks firms before and after merger showed that the firm size improved for all the Commercial banks post-merger. Results showed that NCBA and Kenya commercial Bank realized the highest increase in total assets after merger. The results imply that firm size measured in total assets increases after merger. Regression results before and after merger and acquisition was presented. Before merger, synergy, operational performance, and firm size had a positive and significant relationship with financial performance of Listed Commercial Banks in Kenya. After post-merger and acquisition regression results showed that synergy, operational performance, and firm size the beta coefficients improved significantly.

5.3 Conclusion

Based on the data presented in Chapter 4 and the summary of the conclusions above, the study indicates that mergers and acquisitions increase commercial banks' financial performance. According to the findings, the firm size of publicly traded commercial banks has grown as a result of mergers and acquisitions. Based on the facts, it can also be stated that when corporations join forces, they accumulate more assets.

On operation performance the study concluded that net interest margin improved greatly after merger and acquisition. A positive result from the combination of two banks is that they pool their customer deposits creating a larger pool of low-cost financing. The combined entity can also attract new deposits at lower rates. As a result, their net interest margin, the difference between the rate of interest they earn from their assets (loans to customers, interest from government securities and interest earned from deposits with other banks) and their cost of funds (interest on customer deposits, borrowings, and interest on deposits from other banks), improves. Mergers and acquisitions result in a larger bank and a pool of funds, both of which are critical factors in a company's success.

On organization synergy, the study concluded that the cost-to-income ratio improved by registering a huge reduction after merger and acquisition. The lower cost-to-income ratio is due to increased efficiency and economies of scale within commercial banks, both of which are critical to properly managing a bank's financial situation. Financial synergy has improved resource utilization and financial resource mobilization among banks, according to the study.

5.4 Policy Recommendations

This study advises that commercial banks with a weak and unstable capital base strive to consolidate their operations through mergers and acquisitions, based on the data reported in chapter four and the summary above. Commercial banks will be able to increase their profitability by expanding their market share and revenue base through mergers and acquisitions.

Mergers and acquisitions should be used not only to enhance operations and sustain failing enterprises, but also to boost their competitiveness and financial status. To avoid the problem of mismatched investments, management should develop a good asset and liability management plan, and asset quality should be improved.

5.5 Limitations of the Study

The lack of data was a key weakness of our investigation. This study relied exclusively on secondary data sources. It was difficult to find secondary data on mergers and acquisitions that occurred more than a decade before the study. The majority of the data was not available on the companies' own websites since it had already been archived. The data was limited, and there was only a small amount of information, so the researcher had to work with fragmented records.

5.6 Recommendation for Further Studies

The impact of consolidations and acquisitions on the monetary exhibition of commercial banks recorded on the NSE was the subject of this review. Further exploration in different ventures that have occupied with consolidations and acquisitions ought to be done, as per the review, to acquire extra and various outcomes. The examination ought to be completed across a wide scope of areas. This is on the grounds that the business type can influence an organization's monetary exhibition both prior and after a consolidation.

Broad exploration has effectively been done on the impact of consolidations and acquisitions on the monetary exhibition of banking areas; notwithstanding, investigate different areas like oil, accommodation, IT, and interchanges firms to check whether consolidations and acquisitions altogether affect monetary execution of firms. It's additionally significant to research the effect of crossline consolidations and acquisitions on investor esteem.

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS LISTED AT NSE

1. Absa Bank Kenya PLC
2. Diamond Trust Bank
3. Equity Bank
4. Housing Finance Corporation
5. I&M Holdings
6. Kenya Commercial Bank
7. National Bank of Kenya
8. NCBA Bank
9. Standard Chartered Bank
10. Cooperative Bank of Kenya
11. CFC Stanbic Holdings
12. BK Group Plc

APPENDIX 2: List of Mergers and Acquisitions for Commercial Banks

Acquisitions

Institution	Acquired by	Current Name	Date Approved
National Bank of Kenya Limited (NBK)	KCB Group PLC	Operations continued under respective brand names.	02.09.2019
Faulu Kenya Deposit Taking Microfinance Ltd	Old Mutual Holdings Ltd	Faulu Kenya Microfinance Bank Ltd	25.11.2013
Mashreq Bank Ltd	Dubai Kenya Ltd	Dubai Bank Ltd	01.04.2000
Credit Agricole Indosuez (K) Ltd	Bank of Africa Kenya Ltd	Bank of Africa Bank Ltd	30.04.2004
EABS Bank Ltd	Ecobank Kenya Ltd	Ecobank Bank Ltd	16.06.2008
Fina Bank Ltd	Guaranty Trust Bank Plc	Guaranty Trust Bank (Kenya) Ltd	08.11.2013
K-Rep Bank Ltd	Centum Ltd	K-Rep Bank Ltd	29.10.2014
Equatorial Commercial Bank Ltd	Mwalimu Sacco Society Ltd	Equatorial Commercial Bank Ltd	31.12.2014
Giro Commercial Bank Ltd	I&M Bank Ltd	I&M Bank Ltd	13.02.2017
Fidelity Commercial Bank Ltd	SBM Bank Kenya Ltd	SBM Bank Kenya Ltd	10.05.2017
Habib Bank Kenya Ltd	Diamond Trust Bank Kenya Ltd	Diamond Trust Bank Kenya Ltd	01.08.2017

Mergers

Institution	Merged With	Current Name	Date Approved
9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	1989
Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
Transnational Finance Ltd	Transnational Bank Ltd	Transnational Bank Ltd	28.11.1994
Ken Baroda Finance Ltd	Bank of Baroda (K) Ltd	Bank of Baroda (K) Ltd	02.12.1994
First American Finance Ltd	First American Bank Ltd	First American Bank (K) Ltd	05.09.1995
Bank of India	Bank of India Finance Ltd	Bank of India (Africa) Ltd	15.11.1995
Stanbic Bank (K) Ltd	Stanbic Finance (K) Ltd	Stanbic Bank Kenya Ltd	05.01.1996
Mercantile Finance Ltd	Ambank Ltd	Ambank Ltd	15.01.1996

Delphis Finance Ltd	Delphis Bank Ltd	Delphis Bank Ltd	17.01.1996
CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996
Trust Finance Ltd	Trust Bank (K) Ltd	Trust Bank (K) Ltd	07.01.1997
National Industrial Credit Bank Ltd	African Mercantile Banking Corp	NIC Bank Ltd	14.06.1997
Giro Bank Ltd	Commerce Bank Ltd	Giro Commercial Bank Ltd	24.11.1998
Guardian Bank Ltd	First National Finance Bank Ltd	Guardian Bank Ltd	24.11.1998
Diamond Trust Bank (K) Ltd	Premier Savings & Finance Ltd	Diamond Trust Bank (K) Ltd	12.02.1999
National Bank of Kenya Ltd	Kenya National Capital Corp	National Bank of Kenya Ltd	24.05.1999
Standard Chartered Bank (K) Ltd	Standard Chartered Financial Service	Standard Chartered Bank (K) Ltd	17.11.1999
Barclays Bank of Kenya Ltd	Barclays Merchant Finance Ltd	Barclays Bank of Kenya Ltd	22.11.1999

Habib A.G. Zurich	Habib Africa Bank Ltd	Habib Bank A.G. Zurich	30.11.1999
Guilders Inter. Bank Ltd	Guardian Bank Ltd	Guardian Bank Ltd	03.12.1999
Universal Bank Ltd	Paramount Bank Ltd	Paramount Universal Bank	11.01.2000
Kenya Commercial Bank	Kenya Commercial Finance Co	Kenya Commercial Bank Ltd	21.03.2001
Citibank NA	ABN Amro Bank Ltd	Citibank NA	16.10.2001
Bullion Bank Ltd	Southern Credit Banking Corp. Ltd	Southern Credit Banking Corp. Ltd	07.12.2001
Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
Biashara Bank Ltd	Investment & Mortgage Bank Ltd	Investment & Mortgage Bank Ltd	01.12.2002
First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005

Prime Capital & Credit Ltd	Prime Bank Ltd	Prime Bank Ltd	01.01.2008
CFC Bank Ltd	Stanbic Bank Ltd	CFC Stanbic Bank Ltd	01.06.2008
Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010
City Finance Bank Ltd	Jamii Bora Kenya Ltd	Jamii Bora Bank Ltd	11.02.2010
Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010
NIC Group PLC	Commercial Bank of Africa Ltd	NCBA Bank Kenya PLC	30.09.2019

APPENDIX 3: DATA

CFC Bank Limited & Stanbic Bank	**Pre-merger**			**Post-merger**		
	2005	**2006**	**2007**	**2009**	**2010**	**2011**
ROE	2.75	3.21	4.22	2.72	0.3	4.71
Cost to Income Ratio	0.24	0.19	0.2	0.31	0.28	0.39
Net Interest Margin	0.23	0.34	0.46	0.17	0.21	0.17
Log of assets	5.4	5.31	4.79	3.74	2.38	3.38
NCBA Bank	**Pre-merger**			**Post-merger**		
	2016	**2017**	**2018**	**2020**		
ROE	7.9	6.8	7.8	6.7		
Cost to Income Ratio	0.021	1.03	1.11	1.3		
Net Interest Margin	0.046	0.132	0.19	0.22		
Log of assets	10.92	11.74	1.88	14.19		
Diamond Trust and Habib Bank	**Pre-merger**			**Post-merger**		
	2014	**2015**	**2016**	**2018**	**2019**	**2020**
ROE	6.4	5.4	6.11	4.921	4.61	4.55
Cost to Income Ratio	0.0789	0.0749	0.0456	0.0576	0.095	0.099
Net Interest Margin	0.11	0.04	0.01	0.089	0.087	0.091
Log of assets	11.46	11.37	12.13	14.79	17.94	20.42
KCB and S&L	**Pre-merger**			**Post-merger**		
	2007	**2008**	**2209**	**2011**	**2012**	**2013**
ROE	3.6	3.9	4.11	6.14	7.81	6.56
Cost to Income Ratio	0.51	0.55	0.62	0.94	1.21	1.56
Net Interest Margin	0.0064	0.017	0.004	0.003	0.032	0.013
Log of assets	12.34	13.68	14.89	16.46	15.75	18.43
Investment and Mortgage Bank and Giro Bank	**Pre-merger**			**Post-merger**		
	2014	**2015**	**2016**	**2018**	**2019**	**2020**
ROE	3.2	9.8	12	-2	-2.34	0.98
Cost to Income Ratio	0.14	0.09	0.13	0.19	1.09	1.05
Net Interest Margin	0.004	0.001	0.002	0.003	0.0012	0.0021
Log of assets	10.45	11.47	13.44	11.41	15.71	15.99
KCB & National Bank	**Pre-merger**			**Post-merger**		
	2016	**2017**	**2018**	**2020**		
ROE	6.21	6.17	6.32	7.14		
Cost to Income Ratio	1.01	0.93	0.82	1.23		

Net Interest Margin	0.0034	0.0039	0.003	0.0093		
Log of assets	7.05	7.43	7.56	8.96		