OWNERSHIP STRUCTURE AND BANK FINANCIAL PERFORMANCE IN KENYA
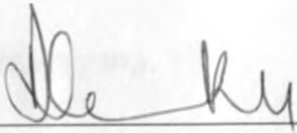
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DECLARATION

This Management Research Project is my original work and has not been presented for any degree at the University of Nairobi or any other university.

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This Management Research Project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

This study is dedicated to my uncle Perminas Kagwa who from my very early childhood has consistently instilled the thirst for knowledge in me; as well as my late father Harris Thuku who always wished he had the opportunity to climb the academic tree to its very top.

ABSTRACT

This study examined ownership structure of commercial banks in Kenya and also established whether a relationship exists between ownership structure and bank financial performance. Various forms of ownership structure (foreign vs. local, institutional vs. individual, non-government vs. government and listed on NSE vs. un-listed) were examined and their relationship with bank financial performance determined. Data on ownership structure was compiled from records available at the Registrar of Companies. The basic statistical method employed to establish the relationship between ownership structure and financial performance was the Chi-square test of independence.

The study established the following about ownership of commercial banks in Kenya:-

- 67% are wholly locally owned, 23% partially foreign and partially locally owned and 10% are entirely foreign owned,
- 42% are wholly institutionally owned, 52% partially institutionally and partially individually owned while none are entirely individually owned,
- 86% have no government ownership, 10% are partially government and partially non-government owned and only 4% are entirely government owned,
- 85% of the banks in Kenya are not listed on the NSE, 13% are partially listed and only one bank representing 2% is entirely listed

Further, only foreign vis-à-vis local ownership was found to have a significant relationship with financial performance.

It is expected that results of the study will offer useful insight as to what aspects of ownership structure have some significant relationship to bank financial performance; information that is important to guard against financial crises in the Kenyan banking system.

LIST OF ABBREVIATIONS

ABC	African Banking Corporation
AMH	Active Monitoring Hypothesis
CBK	Central Bank of Kenya
EPS	Earnings Per Share
EVA	Extra Value Added
Kes	Kenya Shillings
MI	Market Intelligence
MVA	Market Value Added
NBFI	Non-Banking Financial Institution
NSE	Nairobi Stock Exchange
PVH	Passive Voters' Hypothesis
ROCE	Return on Capital Employed
ROE	Return on Equity
SOE	State Owned Enterprise
UK	United Kingdom
USA	United States of America

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CHAPTER 1 - INTRODUCTION

A healthy and vibrant economy requires a financial system that transfers funds from people who save to people who have productive investment opportunities. The financial system is complex in structure and function throughout the world. The system comprises of many different types of institutions such as banks, insurance companies and mutual funds, all of which are regulated by the government.

1.1 Structure of the Financial System

A financial system may be perceived from the perspective of **financial markets** and **financial institutions** that comprise the system. Financial markets are markets in which funds are transferred from people and institutions with an excess of available funds to those who have a shortage. These include the money markets, capital markets and foreign exchange markets (Beecham, 1986).

Financial markets may be structured along several frameworks (Beecham, 1986):

- Debt and equity markets
- Primary and secondary markets
- Exchanges and over the counter markets
- Money and capital markets.

The main instruments traded in financial markets include:

- **money market instruments** such as treasury bills, bank certificates of deposits, banker's acceptances and repurchase agreements,

- **capital market instruments** such as stocks, mortgages, corporate bonds, treasury bonds, municipal bonds and bank loans.

Financial institutions are what make financial markets work. Generally they fall into three categories as follows - depository institutions, contractual savings institutions, investment intermediaries.

Depository institutions are financial intermediaries that accept deposits from individuals and make loans. The main depository institutions in Kenya are:

- commercial banks,

- non-bank financial institutions (NBFIs),

- mortgage finance companies, and

- building societies

The first two are registered under the Banking Act while the last two are registered and governed under the Building Societies Act. The Banking Act defines a bank as a *"company which carries on, or proposes to carry on, banking business in Kenya and includes the Co-operative Bank of Kenya but does not include the Central Bank of Kenya."* By the end of October 2001, the Kenyan banking system comprised of 48 commercial banks; 1 of which was under statutory management; 4

NBFls, 4 building societies, 2 mortgage finance companies and 47 foreign exchange bureaux. (CBK, 2001).

- **Contractual savings institutions** are financial intermediaries that acquire funds at periodic intervals on a contractual basis. Examples are insurance companies and pension funds. Unlike their depository counterparts, these institutions can predict with reasonable accuracy how much they will have to pay out in benefits into the future. Liquidity of their assets is therefore not as important a consideration, and hence tends to invest their funds primarily in long term securities such as corporate bonds, stocks, and mortgages.

- **Investment intermediaries** include finance companies, mutual funds and money market mutual funds.

1.2 The Role of Banks in the Economy

As prime movers of economic life, banks occupy a significant place in the economy of every nation. Policy makers, economists and monetary authorities recognise that the ability of banks to achieve the desired results and continue to play the role earmarked for them depends not only on the existence of an enabling (regulatory) environment and the number of operating banks but more importantly on their performance from one financial year to the other (Olugbenga and Olankunle, 1998). The performance of banks attracts considerable attention from many players in any economy, especially regulators and monetary authorities. This is

because of the adverse implications that bank failures have on public confidence in the banking system.

Banks largely depend upon public confidence and any indication that a bank may not meet its liability obligations can quickly lead to panic withdrawals. This would consequently lead to suspensions of payments due to inability of the concerned institution to meet liquidity demands. This insolvency state of the bank can easily spill over to banks that transact business with the affected one leading to a **contagion effect**. The inter-bank payment system, which is the major trading mechanism, exposes banks to the contagion risk as a result of liquidity pressure vulnerability (Kane and Rice, 1998).

Additionally, the banking sector interacts with all other sectors of the economy. The sector's performance, therefore, may very well be a reflection of the entire economy's performance and will definitely be of concern to national economic planners. It is in this context that certain classifications to distinguish the performance have emerged. These include:-

- problem vs. no problem (Sinkey, 1975)
- vulnerable vs. resistant (Korobow and Stuhr, 1975; Hunter and Srinivasan, 1990)
- financially successful vs. non-financially successful (Arshadi and Lawrence, 1987)
- failed vs. surviving (Siems, 1992)

1.3 Ownership Structure and Banks' Performance

This study investigates the ownership structure of the various banks operating in Kenya and its relationship with the respective banks' financial performance.

Ownership structure covers both

- The ownership mix, and

- Ownership concentration

Ownership mix refers to the composition of shareholders of the firm. Broad spectrum of ownership includes foreigners, institutions, individuals, state and the general public. **Ownership concentration** on the other hand refers to the degree in which ownership of the firm is concentrated among the various categories of owners. Olayinka and Ayonrinde (2001) define ownership concentration as the proportion of shares held by the top 10 shareholders.

Firms are different both in terms of ownership mix and also in terms of ownership concentration. The resultant distribution of ownership among different groups can impact on managerial opportunism, which subsequently has implications for managerial behaviour and corporate performance. This study provides a detailed analysis of ownership structure of Kenyan banks in terms of:

- foreign vs. Local,

- institutional vs. Individual,

- Government vs. non-government;

- Listed vs. unlisted on the Nairobi Stock Exchange (NSE),

and the assessment of the implications of the ownership structure on the banks' financial performance.

1.4 Statement of The Research Problem

The following news item titled *"Chaos as move on banks is opposed"* appearing in the Daily Nation newspaper of 12th January 2002 illustrates the explosive impact that banking crises potentially have not only on an economy but also on the political and social order of a country.

> Banging pots and chanting, thousands of Argentines poured onto the streets after the government froze more savings accounts to protect banks from a run by panicked depositors.
>
> With national finances crumbling, the government tightened its grip on the banking system yesterday announcing that amounts over $10,000 in checking accounts and $3,000 in savings accounts will be switched into fixed-term deposits that will be off-limits to deposits for at least a year.
>
> Gathering in the streets of Buenos Aires as night fell yesterday, angry demonstrators shouting insults against authorities cut off traffic on half a dozen main avenues in the capital - the latest in a series of protests that have gripped Argentina over the past several weeks.
>
> In the fashionable Palermo District, around 2,000 locals congregated and vented their anger.

It is a basic assumption of this research that better performing banks are at minimal risk of experiencing a run by their customers. Bank financial performance will thus be used as a surrogate for banking crises - the better the performance the less the likelihood of banking crises.

In spite of its importance on corporate performance in general, only recently has there been a systematic attempt to document differences in ownership structures

across various countries. Analysis has been made to see how variations on ownership concentrated across firms affect performance. Moreover most of the research studies so far undertaken have been conducted in the developed countries, with very limited evidence for developing countries particularly in sub-Saharan Africa. This study seeks to fill this gap in literature; with specific reference to banking institutions in Kenya.

There are two contending schools of thought on the impact of ownership structures on performance. The first school argues that ownership does not really matter. This school, for instance, attributes the failure of state owned enterprises (SOEs) not strictly to ownership but the absence of enabling environment for them to operate efficiently. The proponents of this school contend that if the markets for products; for factors of production, and for corporate control are created and function well, SOEs would perform just like their privately owned counterparts (Xu and Wang, 1997).

Proponents of the other school of thought, however, argue that ownership structure is critical to performance. To this school for instance, private ownership is a necessary condition for enterprise efficiency. SOEs by their ownership structure are not imbued with the essential factors needed for efficiency and that there is no strong motivation to hold management accountable for performance since no one clearly benefits from SOEs efficient operation. Hence, managers of SOEs are not

subject to the strict control and discipline that the markets impose and demand from managers of private enterprises.

Given the non-unanimity in the literature, it is therefore an empirical matter whether ownership structure has a significant relationship with corporate performance. This is particularly important, especially, in light of the recurrent banking crisis in Kenya and more so as to whether ownership structure could be used to minimise banking crisis. This study will provide a justification for or otherwise.

The study aims at answering the following pertinent questions:

- Is foreign ownership necessary for bank financial performance? In other words is the financial performance of banks with foreign parentage better than those with indigenous ownership?

- Is institutional ownership necessary for bank financial performance? In other words is the financial performance of institutionally owned banks better than those owned by individuals?

- Similarly; do the following factors have a significant relationship with bank financial performance:
  → Extent of non-government vis-à-vis government ownership?
  → Extent of public (quotation on NSE) vis-à-vis private ownership?

1.5 Objectives of the Study

The objectives of the study are as follows:

- To examine the ownership structure of banking institutions in Kenya.

- Determine whether there is a significant relationship between ownership structure and the financial performance of banking institutions in Kenya.

1.6 Importance of the Study

The study will be of importance to the following groups of users:

- Commercial banks as it will give an indication of what aspects of ownership structure would have an impact on their financial performance

- Regulators and policy makers who may wish to incorporate findings of the research as they formulate legislation and policy on ownership structure for banks in Kenya

- Academicians as it will fill a knowledge gap and lay foundation for further research.

CHAPTER 2 - LITERATURE REVIEW

2.1 Agency Theory

The relationship between ownership structure and performance can be conterxtualised under the Agency Relationship. Narrowly defined, agency relationship is a contract in which one or more persons [the principal(s)] engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority. Spence and Zeckhauster (1971) and Ross (1973) provide early formal analyses of the problems associated with structuring the compensation of the agent to align his incentives with the interests of the principal. Jensen and Meckling (1976) argue that agency problems emanating from conflicts of interest are general to virtually all co-operative activity among self-interested individuals whether or not it occurs in the hierarchical fashion suggested by the principal agent analogy.

The goal of the firm is to maximise shareholders value. Agency problems arise because corporations are legal functions which serve as a nexus for a set of contracting relationships among individuals. These relationships include management and shareholders, bondholders; employees, customers, suppliers etc. It is a basic assumption in principal agent literature that hired managers will not have the same objectives as profit oriented private owners. It presents a scenario whereby conflicts of interest of managers seeking to use firm-specific

rents to satisfy their own maximeds and the wealth maximisation goals of shareholders are the norm rather than the exception.

In financial markets, one party does not have enough information about the other party to make accurate decisions; an inequality that is referred to as **asymmetric information**. This lack of information creates problems in the financial system on two fronts:- before the transaction is entered into and after.

Adverse selection is the problem created by asymmetric information before the transaction occurs. Adverse selection occurs when, for example, potential borrowers who are most likely to default on repayments (*adverse outcome*) are the ones who most actively seek out a loan and are thus most likely to be selected.

Moral hazard is the problem created by asymmetric information after the transaction occurs. In the financial market, moral hazard is the risk (*hazard*) that the borrower might engage in activities that are undesirable (*immoral*) from the lender's point of view because they make it less likely that the loan will be repaid back.

Limitations on the manager's discretionary behaviour, which will otherwise reduce efficiency and profitability, depend in part on the external constraints imposed by product and capital markets and also on internal constraints imposed via statutes and governance mechanisms by the owners themselves. This issue is entered on

the problems of asymmetric information because outside owners do not have access to full information on corporate performance. The separation of ownership and control, which occurs as a result of the introduction of external investors, bring to fore the agency problem: managers are expected to represent the interests of the external owners of the enterprise; however, it is difficult for owners to ensure that managers do so.

Scheifer and Vishny (1997) argue that Managers and equity investors should be capable of entering into a binding contract, which would ensure that investors' interests are fully represented. However, the difficulty here lies in the possibility of specifying the contract exante that accommodates all possible future contingencies. If unforeseen circumstances arise, managers assume contingent control rights that provide them with the potential to operate against investors best interests by, for example, expropriating investors' funds or engaging in assets stripping. The discretionary control rights of managers are further increased by the existence of asymmetric information between themselves and external investors. As their agents, thus allows managers to conceal information from external investors. Such action serves to increase the costs of monitoring and therefore enables their position of engaging in behavior that is sub-optical for the equity investor. The possibility of higher monitoring costs is particularly strong if there are large number of dispersed external investors.

2.2 Financial Crises

Financial crises are "major disruptions in financial markets that are characterised by sharp declines in asset prices and the failure of many financial and non financial firms" (Mishkin and Eakins 1995). Financial crises occur when there is a disruption in the financial system that causes a sharp increase in adverse selection and moral hazard problems in the financial system that the markets are unable to function efficiently from savers to people with productive investment opportunities. As a result of this inability of financial markets to function efficiently, economic activity contracts sharply.

Mishkin and Eakins (1995) identify four types of factors that lead to financial crises: **Increase in interest rates**:- individuals and firms with the riskiest investment projects are willing to pay the highest interest rates. If market interest rates are driven up sufficiently because of increased demand for credit or because of a decline in the money supply, good credit risks are less likely to borrow, while bad credit risks are still willing to borrow. With the increase in adverse selection, lenders will be less willing to make loans. The substantial decline in lending will lead to a substantial decline in investment and economic activity.

Increases in uncertainty:- A dramatic increase in uncertainty in financial markets, due to perhaps the failure of a prominent financial or non-financial institution, a recession, or a stock market crash makes it harder for lenders to screen good from bad credit risks. The resulting inability of lenders to solve the adverse selection

problem makes them less willing to lend which leads to a decline in lending, investment and aggregate economic activity.

Asset market effects on balance sheet:- the state of the firms' balance sheet has important implications for the severity of asymmetric information problems in the financial system. A sharp decline in the stock market, for example, can cause a serious deterioration in firms' balance sheets that can increase adverse selection and moral hazard problems in financial markets thus provoke a financial crisis. A decline in the stock market means that the networth of corporates has fallen because share prices are the valuation of a corporation's networth. This translates to less willingness for lenders to avail credit to the corporations; which in turn causes investment and aggregate output to decline.

Bank Panics:- banks perform an important financial inter-mediation role by engaging in information-producing activities that facilitate productive investment for the economy. Consequently a financial crisis in which many banks go out of business reduces the amount of financial inter-mediation undertaken by banks and so leads to a decline in investment and aggregate economic activity.

Kane and Rice (1998) contend that understanding the phenomena of bank runs and bank closures begins with the understanding of three points:

- What it means for a bank to become insolvent

- What incentives govern how bankers, regulators and auditors respond to insolvency; and

- The ways in which adverse information that insiders have about a bank's unbooked losses spreads across its customer base.

2.2.1 Bank Insolvency

A bank becomes insolvent when, without outside aid, the discounted present value of its assets can no longer cover the present value of the obligations it has incurred on and off it's balance sheet. A bank is liquid as long as it can cover whatever part of its objectives is currently falling due. A bank that can prove its solvency can always raise liquidity from outside sources. Even when a bank is mildly insolvent it can usually raise liquid funds by selling off its good assets or pledging them as collateral.

In practice, by the time an insolvent bank becomes illiquid enough to force government intervention, its networth consists almost entirely of tax payers risk capital supplied in the form of explicit or implicit government guarantees. Kane and Rice (1998) instructively describe such a bank as being a *"zombie"* institution. They describe a zombie bank as being an insolvent institution whose existence has been unnaturally prolonged by managerial and supervisory efforts to rely on accounting sleight of hand to cover up the depth of its accrued losses and by offering the *black magic* of formal and informal government guarantees to depositors and other creditors. Depositors seldom run a bank when it first becomes

a zombie. This is because zombie institutions can issue deposits that trade on the basis of the credit standing of their chartering government. The result is that a run seldom occurs unless depositors begin to doubt that the government can mobilise enough funds to give the bank the support it needs to keep its repayment prospects credible.

The Central Bank of Kenya, besides regulating the banking sector is charged with the responsibility of supervising banks and raising the red flag at the first sight of danger in slightly over a century of its existence in Kenya, the formal banking industry has witnessed the collapse of thirty eight institutions (see Appendix 1). The first casualty in the history of Kenya's collapsed banks was Rural Urban Credit Finance Ltd which was placed under receivership in 1984. The institution was owned by an indigenous individual Kenyan, the late Andrew Kimani Ngumba.

The deliberate government policy in the 1980s of encouraging local entrepreneurs to venture into banking saw the number of NBFIs increase by almost 100% from 23 to 43 in the period 1980 to 1985 (Market Intelligence, 2000). Banks on the other hand had only increased by 5 from 18 to 23 in the same period. The phenomenal growth in NBFIs was mainly due to the relaxed licensing requirements for NBFIs. In 1981, for example, capital requirements for NBFIs was only Kes 1m compared to the Kes 5m required to license a bank.

More recently, 1998 was seen as another year of banking crisis. In a record three months five banks namely Trust Bank, City Finance Bank, Prudential Bank, Reliance Bank and Bullion Bank were placed under the Central Bank of Kenya's statutory management.

2.2.2 Incentive Structure

This incentive structure implies that the probability that a country's banking system will experience widespread distress increases not with the depth and breadth of individual banking insolvency as with perceptions of fiscal weaknesses and corruptibility in its government. The weaker a government appears on these fiscal and ethical dimensions, the lower the level of depositor trust and the more easily banking distress can trigger an intervention-forcing customer run. Similarly the fewer fiscal and ethical resources a government possesses, the more difficult it is for officials to negotiate a workable plan for setting a distressed banking system permanently back on its feet.

2.2.3 Information Spread

What journalists perceive as a banking crisis is typically a public surfacing of very bad news about the value of a nation's banking assets. This news signals the need to restructure a country's banking markets to effect the exit, outside take-over, or recapitalisation of a multitude of severally damaged local banks. In a crisis, taxpayers are exposed to losses from the damaged banks and would benefit from changes in the country's regulatory strategy. The changes needed are more

extensive; the deeper and broader are the losses that the regulators have allowed to accumulate in the zombie banks.

Often a zombie bank's most worrisome losses do not show on its accounting statements. A Zombie's survival depends not on the bank's own profitability, but on the government's ability to pass responsibility to taxpayers for the opportunity cost value of the bank's accumulated losses. As long as taxpayers cannot or do not resist this pass-through, a country's banking industry can (as in China) tolerate a deep and broad degree of insolvency without undergoing open crisis. Open crisis can be avoided as long as the particular government has the power to transfer responsibility for covering bank losses implicitly onto the balance sheets of its taxpayers. In China, the memory of Tiananmen Square has to be very much on the mind of any taxpayer who might think of organising a movement to challenge government banking policy.

Many countries find themselves confronted with a zombified banking system at one time or another. This is because three strategic elements characterise the banking policies of almost every country in the world.

- The policy framework either requires or induces domestic banks to make credit available to governmentally designated classes of borrowers at a subsidised rate. Consequently, interest rates amount to politically directed (and often, at least partially, corrupt) subsidies that are routed through the banking system to government-favoured bank borrowers

- The policy framework commits government officials to provide either explicitly or conjecturally a series of repayment guarantees to bank creditors. Because the price the government makes the banks pay for these guarantees is seldom commensurate with the risks the banks pursue, the guarantee systems ends up generating government subsidies to bank risk-taking. The more portfolio and operational risks a bank can take on, the greater its aggregate subsidy becomes.

- Taxpayers fail to effect institutional arrangements designed to effectively monitor and control the linked subsidies. The contracting and reporting framework under which government regulatory officials work does not make them directly accountable for measuring and controlling the size of either subsidy.

2.3 Ownership Structure

The free rider problem is minimised and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hands or large block shareholders, be they individuals or investment funds. In this event, returns to monitoring activity are substantial and may also be subject to economies of scale. Moreover, large block-holders will more likely be able to utilise their voting power to influence managerial behaviour, although, as Schleifer and Vishny (1986) noted, this does not require shareholding-voting rights. This leads to the proposition that blockholders will exercise more effective corporate governance, a

finding that has been supported by a host of studies on developed market economies.

Using the agency framework, several of the literature on the relationship between ownership structure and performance has come testable hypotheses that are relevant to this study. The Active Monitoring Hypothesis (AMH) suggests that external block shareholders have incentives to monitor and influence management appropriately in order to safeguard their significant investment (Friend and Lang, 1988). This monitoring role of the external block investor lowers direct agency conflicts with the management by reducing the scope of managerial opportunism. Shone and Singh (1995) provide empirical support for this position. Similarly, Bethel et al (1998) find that long term operating performance of firms improves sequel to the acquisition of block shares by activist shareholders.

Pound (1988) challenged the AMH; arguing that large shareholders might be passive voters who instead of protecting the interests of general shareholders may actually collude with management against the best interest of dispersed shareholders. This is called the Passive Voters' Hypothesis (PVH). McConnel and Servaes (1996) obtained empirical Support for this hypothesis.

2.4 Measures of Performance

Apart from controversy on the impact of ownership structure on corporate performance, questions have also been raised on the appropriate measure of performance. An analysis of a banks income statement is usually a good start to understand how well the bank is doing. A banks income statement has the following basic structure:

Operating Income: This is the income that comes from a bank's ongoing operations. Most of a bank's operating income is generated by interest on its assets; particularly loans. Interest income fluctuates with the level of interest rates and so its percentage of operating income is highest when interest rates are at peak levels. Non-interest income is generated by service charges and off balance sheet activities which generate fees and commissions for the banks.

Operating Expenses: These are expenses incurred in conducting the bank's ongoing operations. Interest expense is the interest payments that the banks must make on its liabilities, particularly on its deposits. Like interest income, interest expense varies with the level of interest rates. Provisions for loan losses are the other major component of operating expenses.

Operating Profit: This is the difference between the operating income and operating expenses. Bank managers, shareholders and regulators closely watch it because it indicates how well the bank is doing on an ongoing basis.

Financial performance has traditionally been evaluated using two approaches or methods:

1. accounting data based methods
2. market based methods

2.4.1 Accounting Data Based Methods

The conventional measures are accounting ratios and these include those that measure the size of the company, e.g. turnover (or sales revenue), profit, or market capitalisation. There are also measures of return or profitability which relate profit to sales (profit margin), capital employed (return on capital employed - ROCE) or even equity (return on equity - ROE). The third category measures growth of sales or of profit while the fourth measures corporate efficiency in terms of sales per staff or per unit of pay.

Ratios are quantified concepts that allow an entity to be evaluated against its peers (likes) and its own historical performance (Lysons, Intractor and Probber 1980). Evaluation of financial performance of banks largely employ the skills of financial analysts who have the art of interpreting financial statements; and ratio analysis is a major tool in this task.

Ratios can be classified in various categories. Lysons, Intractor and Probber (1980) classified ratios as either being *time* or *snapshot*. Time ratios measure

period to period measures of a single item, for example earnings; while snapshot ratios measure a relationship between two items in a single period (for example earnings to assets both in 2001). A second approach of categorising ratios by Lysons et al (1980) is classifying them as either being *normative* or *descriptive*. Normative ratios are those which permit value judgement (for example return on assets and net charge-off to loans). Descriptive ratios, on the other hand, do not permit immediate value judgement, but will tell more about the kind of entity one is analysing (for example net interest margin and break-even yield).

However, what is important in ratio analysis is the **level** as well as the **trend**. For example, apart from establishing earnings as being say 22% of the assets level, one would want to know whether that ratio has been on a rising or falling trend over time.

Cargill (1991) argues that a bank is a business that has a revenue and cost function like any other business; a point that can be illustrated by the expression.

$$Profit = R(Q) - C(Q)$$

Where Q is the output of the bank

R is the revenue to the bank from selling the output.

C is the cost of producing and selling the output.

Revenue and costs are both functions of output. The amount of revenue earned by banks depend on the amount of output produced and sold. Lending activities by way of loans, overdrafts, purchase of various financial claims or IOUs in the financial market, are the primary output of a bank. Bank costs, on the other hand, consist of interest and other expenses used to attract deposits as well as the costs of making administering the lending activities.

Profit is the difference between revenue and cost and the basic objective of banks is to make a profit (Cargill, 1991). Majority of applied studies on developed economies makes use of profitability indicators in two ways.

1. Return to the total capital of the firm, that is, the return to both equity holders as well as debt holders (the entire liability side of the balance sheet). In this case profit is measured before deducting interest. The standard accounting measure used in this case is the operating profit (earnings before interest and tax and depreciation) as a percentage of either sales, or total assets (ROA).

2. Return accruing only to equity holders. In this case interest charges are reflected as a cost (cost of debt). The usual accounting ratio adopted is profit after interest and depreciation as a percentage of equity.

Arguments for Accounting Based Measures

1. Accounting numbers will reflect any actions that are taken by managers. This means whenever managers take any actions that do not work towards improving shareholders wealth then the same will be reflected in accounting earnings figure and on any other accounting based figures or ratios.

2. Accounting ratios can be used to predict effects of some firm's position in future. Altman (1968) used accounting ratios to discriminate between bankrupt and non-bankrupt firms where he established that the firms could have been predicted correctly two years before bankruptcy. Similarly Wansley's studies of 1983 showed that the price earnings ratio and other accounting ratios could be used to discriminate between firm's that were takeover targets and those that were not. He concluded that a correct prediction could have been made a year before takeover. Beaver used 30 different financial ratios and he concluded that investors use the information content of ratios in predicting corporate sickness or failure and suggested that ratios can be used to predict failure five years prior to failure. These studies show that investors and other financial decision makers can base their decisions and actions on ratio analysis.

3. Accounting measures act as a better assessment tool on managerial performance or actions than market based measures (Kaplan, 1988). This is because market based measures are more prone to external factors that are outside managers control, for example government actions, labour shortage, general business conditions and stock price.

4. Accounting figures are based on the standard generally accepted rules that can be used by auditors to verify their accuracy. Thus they are better measures because both independent partners (auditors); and any users who are familiar with such rules will check them.

5. Accounting measures are simple to compute and the information required is always readily available. For example banks and financial institutions are legally required to publish their annual balance sheet and profit and loss at least once a year in any public daily newspaper. This means that some accounting information for the sector is readily available to any interested party through the press.

Arguments against Accounting Based Measures

Financial statements have inherent limitations, and it follows that ratios inherit some limitations from them. Miller (1966) argued that earlier studies were theoretically and practically wrong because they emphasised individual ratios as opposed to a combinations of highly reflective or multi-variate ratios that were studied by Altman.

Accounting numbers are based on ad-hoc rules specified by the accounting profession. Lack of consistency of these rules within and between firms is a problem in arriving at true comparative analysis. Institutions being compared, for example, may have drawn their accounts using different accounting policies.

When accounting numbers reflect an increased performance it is not automatic that shareholders wealth also increases correspondingly. Rappaport (1981) identified this feature in USA between 1974 and 1979 when EPS grew by 15% while in the same period return to ordinary shares was below inflation rate or negative. This means that in some situations there may be some inconsistency between accounting measures and shareholders wealth. This feature would be more significant in periods of high inflation.

Management can increase accounting earnings by using actions that do not benefit the stockholder or even decrease the firm's value. For example management may sell off assets whose market value is well in excess of book value, or change accounting policies like depreciation methods.

Window dressing of accounts is another disadvantage. This is serious in the banking sector as it is easily employed to derive some desired balance sheet appearance. It is mainly used to conceal poor or deteriorating financial position.

2.4.2 Market Based Measures

The accounting based measures of performance have been challenged as suffering from bias brought about by historical cost accounting conventions as well as inflation. Out of such challenges and the above negative arguments, other non accounting based methods have developed, the most prominent being the **market based**. Shareholders are interested in what they can fetch in case they sell their share now or in future. This means market values would be of more relevance to them than accounting based or book values.

2.4.2.1 Advantages of Market Based Measures

Managers cannot easily manipulate share price values as compared to accounting numbers that can easily be manipulated through change of accounting policies.

Share prices are derived from market forces (demand and supply) by investors, or brokers who act on any information related to the firm. This process makes it a more objective measure than the accounting measures which are based on arbitrary accounting principles agreed by managers.

Measuring shareholder wealth using market based information is simple. Change in shareholders wealth is equal to change in share price over a period plus dividends over the period (, that is, after making adjustments for inflation).

Market share price is seen to be a better estimate of future cashflows than book values.

2.4.2.2 Disadvantages of Market Based Measures

1. A share price may not really reflect the real value of the firm because it considers only that information which is available to the public and may not include any inside information. "*The people within the firm do not want to tell the world about all those transactions, partly because it would be costly and partly because it would give out information the firm might regard as proprietary*" (Fisher Black, 1980). This means the conditions of inadequate disclosure of information forces users of financial statements to manipulate what is reported to get out the best estimates of a firm's value.

2. It may be unfair to use share prices to evaluate financial performance of managers because share prices incorporate external market factors that are beyond the managers control. If used it may cause some unfavorable transfer of wealth between shareholders and managers.

3. Kenyan capital market may not be well developed and even some publicly available information is not adequately processed. This is because for share prices to reflect true shareholders wealth there must be a mature and efficient capital market.

2.4.3 Contemporary Measures of Corporate Performance

In the literature, due to the growing dissatisfaction of many managers and investors with conventional measures of corporate performances, attention has shifted to more contemporary measures. These include Tobin's Q and Extra Value Added (EVA).

2.4.3.1 Tobin's Q

Estimates of expected firm performance are also indicated by the valuation in which financial markets place upon the use of Tobin's Q as a performance indicator. This indicates the value of the firm in terms of its replacement value, and can be calculated:

Tobin's Q = <u>Market value of the enterprise</u>

Replacement value of its assets

Higher values indicate that the firm is more valuable as a going concern rather than a collection of assets.

One shortcoming of the Tobin's Q tool that is pertinent to this study is the fact that its reliability is highly dependent on financial markets being well developed; since it derives from a market valuation of the firm. Furthermore inflation has a differential impact on the components of market to book ratio. It will artificially reduce the book value but not the market value of capital.

Even simple measures of performance such as labour productivity or profitability may be hard to apply in the Kenyan context. First although the relevant accounting legislation has been enacted there are shortcomings in its enforcing for financial reporting purposes. Comparisons of financial performance over time are also problematic because of substantial inflation and exchange rate fluctuation of the Kenya Shilling.

Traditional accounting systems do not accurately measure real economic income. The accounting measures do not reflect changes in risk or the cost of capital employed with a particular project. Earnings growth can also be a misleading indicator of value adding performance. For example, growth can simply be achieved by pumping in additional capital into a business. The creation of value, however, depends on the ability to earn an acceptable return on that additional

capital. Thus traditional measures of performance like ROI and ROE are insufficient in determining value creation.

2.4.3.2 Extra Value Added

EVA was introduced by S. Stewart to assist corporations to pursue their prime financial objective - the maximisation of shareholders wealth. According to Walbert (1995), EVA is defined as a company's net operating profits after tax less its cost of capital. The major advantage of EVA is that it can be used to measure performance of a firm for which no market value data exists.

Extra Value Added (EVA) serves as a good alternative to traditional accounting earnings for use not only in valuation but also in incentive compensation. Whereas traditional accounting net income measure both "profits" net interest expense on debt capital, residue income measures "profits" net of the full cost of both debt and equity capital.

Residue income = traditional accounting   -   charge for cost of equity capital
                          net income

The strength of EVA lies in its ability to closely mimic the trends in market value (Tully, 1994). This implies that over time a company that increase/decrease EVA will also increase/decrease its market value added (MVA).

Manning and McCartney (1996) identify the benefits and use of EVA to include:

1. Its simplicity, its concepts and underlying principal is easy to understand and hence could serve as a powerful, motivational and communication tool.

2. It's a powerful measure of corporate performance. It provides managers with extremely insightful information and can allow the manager to identify areas of weaknesses in performance with a view to improving on them.

Perhaps the strongest strength of EVA in the present context is its ability to align both the interests of managers and shareholders. EVA motivates managers to increase shareholders value by providing them with incentives for improving investment performance by linking executive compensation to value creation. It has been argued that EVA encourages managers to make efficient inter-temporal investment decisions (Rogerson, 1977).

2.5 Bank Ownership and Performance

The notion that the general characteristics of a firm's ownership structure can affect performance has received considerable attention in recent literature (Morck et al 1988, McConnel and Sevaes, 1990, Hermalen and Weisbach, 1991, McConnel and Sevaes, 1995, Himmerlberg et al, 1999; and Cho, 1998). In particular, recent developments in agency theory suggest that the structure of corporate ownership can affect firm performance by mitigating agency conflicts between management and shareholders (Putterman, 1993). This study narrows down specifically to the performance of banks and its relationship; if any to ownership structure.

CHAPTER 3 – RESEARCH DESIGN

This study is an empirical approach to the investigation of whether there exists a significant relationship between ownership structure and bank financial performance in Kenya. The research design is detailed under the following categories:

- Population and sample
- Sources of data
- Period of study
- Hypotheses
- Method of data analysis

3.1 Population and Sample

The population of interest for this study comprised the institutions that form the banking sector of the Kenyan financial system. A census of commercial banks operational in Kenya was taken.

3.2 Sources of Data

The study made entire use of secondary data. Financial performance data was obtained from annual reports of the commercial banking institutions as well as summaries compiled in various editions of Market Intelligence. Ownership structure data was obtained from file records at the Registrar of Companies. Appendix 2 details the ownership for the various banks.

3.3 Period of Study

The period of the study was the five years 1996 to 2000.

3.4 Hypotheses

The research focused mainly on testing the following hypotheses:

H_o: There is no significant relationship between bank financial performance in Kenya and ownership structure

H_1: There is a significant relationship between bank financial performance in Kenya and ownership structure

3.5 Method of Data Analysis

This research set out to determine if there is any relationship between ownership structure and bank financial performance in Kenya. The hypothesis being tested is thus re-stated as:

H_o: Ownership structure and bank financial performance are independent

H_1: Ownership structure and bank financial performance are not independent

The **chi-square** (χ^2) test of independence was used to test the hypothesis. The sample banks were ranked in ascending order of each of the ownership structure variables e.g. foreign ownership. They were grouped under three categories:

- Lowest amount of foreign ownership
- Moderate amount of foreign ownership

- Highest amount of foreign ownership

Similarly, for each of the five years, the banks were ranked in ascending order of performance. Return on Capital Employed (ROCE) was adopted as the indicative measure of performance. Appendix 3 shows a summary of the ROCE ratios for the various banks over the five years considered.

The data were summarised in 3x3 contingency tables as per the format shown below:

| Financial Performance | Foreign Ownership | | | |
	Low	Moderate	High	Total
Poor				
Average				
Good				
Total				

The threshold cut-off points for both ownership structure and bank financial performance were set as follow:

Ownership structure (Percentage)		Financial Performance (ROCE)	
Low	Below 40%	Poor	Below 20
Moderate	40% to 74%	Average	20 to 54
High	75% +	Good	55 +

The level of significance was set at 5% and with (3-1)(3-1), that is, 4 degrees of freedom, $\chi^2_{0.05,4} = 9.488$. The Decision rule was therefore:

do not reject the null hypothesis if $\chi^2 < 9.488$;

reject the null hypothesis if $\chi^2 > 9.488$.

The data collected was analysed using the SPSS application software to compute the value of χ^2 for each of the ownership structure parameter for each year. The value obtained was then compared with the critical value of 9.488 and the reject vs. fail to reject decision made in each scenario.

The same procedure was repeated for other forms of ownership structure:- institutional vs. individual; non-government vs. Government and listed on NSE vs. non-listed.

CHAPTER 4 – DATA ANALYSIS AND FINDINGS

The primary objectives of this study were to examine the ownership structure of banking institutions in Kenya; and determine whether there is a significant relationship between ownership structure and the financial performance of banking institutions in Kenya.

4.1 Ownership Structure of Kenyan Banks

The first objective was to answer the basic question "*who owns banks operating in Kenya?*" To achieve this data on ownership structure was collected for 48 banks. The data collected included the names of the shareholder and number of shares held. The proportionate percentage of each shareholding was then computed for each shareholder. This is detailed in appendix 2.

The data was then categorised and analysed along the four perspectives that form the framework of this study, that is, foreign vs. local, institutional vs. individual, non-govt vs. government and listed vs. non listed. This is detailed in appendix 3.

4.1.1 Foreign vs. Local Ownership

Analysis of the collected data shows that two thirds or 67% of the banks in Kenya are wholly locally owned; 23% are partially locally owned and partially foreign owned while only 10% of the banks are entirely foreign owned.

	No of Banks	%	Cum.%
100% Foreign Owned	5	10	10
100% Locally Owned	32	67	77
Partially Owned	11	23	100
Total	**48**	**100**	

Table 1:- Foreign vs. Local Ownership

The proportionate foreign ownership for the eleven banks is summarised in Table 2 below.

	No of Banks	%	Cum.%
Over 75% Foreign	3	27	27
50 - 74% Foreign	2	19	46
25 - 49% Foreign	3	27	73
Under 25% Foreign	3	27	100
Total	**11**	**100**	

Table 2:- Proportionate Foreign Ownership

As indicated in Table 2 above, 3 out of the 11 banks representing 27% have more than 75% foreign ownership; while 27% of the banks have less than 25% of foreign control. On average about 46% of the partially foreign owned banks have over 50% foreign control.

4.1.2 Institutional vs. Individual Ownership

No bank was found to be fully individually owned; while twenty of the banks were found to be fully owned by institutional investors.

	No of Banks	%	Cum.%
100% Institutionally Owned	20	42	42
100% Individually Owned	0	0	42
Partially Owned	28	58	100
Total	**48**	**100**	

Table 3:- Institutional vs. Individual Ownership

Though it was not within the objectives of the study to investigate the ultimate ownership of the institutional shareholders that are listed as being the owners, in some of the cases where this was attempted it emerged that the ultimate owners were mostly individuals. Available records, for example, show Euro Bank as being 85% institutionally owned by four institutions, namely Abbey Investments Ltd, Adifa Investments, Banc Shares Ltd and Penmain Ltd. All these institutions, however, are individually owned and hence it may be argued that ultimately the bank is 100% individually owned. This study, however, made use of the primary shareholders without investigating the ultimate owners.

Twenty-eight banks were found to be partially institutional and partially individually owned. Their proportionate institutional ownership is summarised in Table 4 below.

	No of Banks	%	Cum.%
Over 75% Institutional	13	46	46
50 - 74%	3	11	57
25 - 49%	9	32	89
Under 25%	3	11	100
Total	**28**	**100**	

Table 4:- Proportionate Institutional Ownership

As indicated in Table 4 above thirteen of the partially institutional and partially individual owned banks representing 46% have institutional ownership of over 75%. Further more than 50% of the partially institutionally owned banks have more than 50% institutional ownership. This implies that a great proportion of banks in Kenya are owned by institutions.

4.1.3 Non-government vs. Government Ownership

Out of the forty-eight banks examined, forty-one banks representing 86% are 100% non-government owned. None of the banks was found to be entirely owned by the government of Kenya. The two that are entirely government owned, Bank of India and Habib Bank, are owned by the Government of India.

	No of Banks	%	Cum.%
100% Non-govt. Owned	41	86	86
100% Govt. Owned	2	4	90
Partially Owned	5	10	100
Total	**48**	**100**	

Table 5:- Non-govt vs. Govt Ownership

Five banks are partially non-government owned in the following proportionate percentages:

	No of Banks	%	Cum.%
Over 75% non-government	0	0	0
50 - 74%	1	20	20
25 - 49%	2	40	60
Under 25%	2	40	100
Total	**5**	**100**	

Table 6:- Proportionate Non-government Ownership

As indicated in Table 6 above, only one bank out of the five partially government owned banks representing 20% has government control over 50%. Thus 80% of the partially government owned banks have government control of less than 50%. The general observation is that about 94% of the banks in Kenya have no or limited government ownership.

4.1.4 Listed vs. Non-Listed Ownership

Only one bank, CFC, was found to have its entire shareholding listed on the Nairobi Stock Exchange, NSE. Most of the banks, forty-one in number representing 85%, have no portion of their shareholding listed on the NSE.

	No of Banks	%	Cum.%
100% Listed	1	2	2
100% Unlisted	41	85	87
Partially Listed	6	13	100
Total	**48**	**100**	

Table 7:- Listed vs. Un-listed Ownership

The listed proportionate percentage of the 6 partially listed banks is detailed below:

	No of Banks	%	Cum.%
Over 75% Listed	0	0	0
50 - 74%	2	33	33
25 - 49%	4	67	100
Under 25%	0	0	100
Total	**6**	**100**	

Table 8:- Proportionate Listed Ownership

As indicated in Table 8 above non of the 6 partially listed banks has more than 75% of its ownership listed on the NSE; while only 2 of the banks representing 33% have more than 50% of the shareholding listed. It was observed that 45 banks representing about 94% have no or minimal of their shareholding listed on the NSE.

4.2 Ownership Structure and the Financial Performance of Banks in Kenya

Financial performance of the banking sector in Kenya was found to have been on a downward trend during the period under review. Returns declined steadily from a peak net industry profit before tax of Kes 15.8 billion in 1997 to Kes 2.6 billion in 2000.

A close analysis of the financial results showed that while some banks were doing well, the loss making ones were indeed in bad state. In 2000, for example, the combined pre-tax profits for Standard Chartered and Barclays were over Kes 6 billion, in contrast to the Kes 2.6 billion net for the entire industry.

This study made use of statistical analysis to determine whether a significant relationship exists between ownership structure and the financial performance of banking institutions in Kenya. The financial performance data as represented by ROCE was available for 51 banks as summarised in appendix 4.

Co-relation of the data on ownership structure and financial performance was summarised in the 3 X 3 contingency tables detailed in Appendices 6 to 8. The Pearson's Chi Square, χ^2, values were computed under each of the four perspectives considered in this study. The χ^2 values obtained under each perspective, compared to the critical value, as well as the decision to reject or fail to reject the hypothesis for each of the years considered are detailed in Tables 9 to 12 below.

4.2.1 Foreign vs. Local Ownership

Year	1996	1997	1998	1999	2000
χ^2 Value	10.926	16.379	27.177	7.490	15.749
Critical χ^2 Value	9.488	9.488	9.488	9.488	9.488
Reject/Fail to Reject?	Reject	Reject	Reject	Fail to Reject	Reject

Table 9:- Foreign Ownership and Financial Performance

In 4 out of the 5 years the study came up with the decision **to reject** the null hypothesis that *"there is no significant relationship between bank financial performance in Kenya and ownership structure"*.

The study therefore establishes that a significant relationship exists between extent of foreign ownership and financial performance of banks in Kenya. Banks with a higher proportion of foreign ownership were found to perform relatively better than those with a lower proportion of foreign ownership. This is probably because of the following:

- a strong performance culture generally tends to be evident in foreign owned banks than in locally owned ones. The foreign "head office" tends to set very stretching financial targets for their management teams of the Kenyan business. The Kenyan management teams are then held responsible for the achievement of these results. Achievement is rewarded appropriately by way of bonuses pegged to performance and staff share schemes. Failure to achieve the financial targets has negative consequences that include no bonus

payment, no annual salary reviews, no promotions and de-hiring on non-performance basis.

- The management teams of the foreign owned banks are therefore bound to ensure more efficient utilisation of resources at their disposal and employ more prudent risk management policies and processes.

- Foreign owned banks also generally have a wide global representation in different parts of the world. The local management thus benefits from "migration of best practice" from other markets where the particular bank operates. The managers in these institutions also benefit from international exposure to the operations in other market where the particular bank is represented. Thus managers in Standard Chartered, for example, will have a chance to work in more developed financial markets like Singapore, Hong Kong and the UK. Such exposure that widens the manager's scope of efficient business management would be difficult for a local bank, say Daima Bank to facilitate for its managers.

- Additionally, foreign banks tap into their international reputation and earn the trust and confidence of their customers and potential customers. They have a strong brand that customers are able to identify with. Citibank, Barclays, Standard Chartered, for example, are strong internationally recognised brands that customers are able to relate with and entrust their business with. This is contrast to banks like Fina, ABC, Victoria Commercial Bank which do not enjoy

the global reputation. This international reputation reduces the cost of funds for the international banks and increases potential for large volume business especially from multinational corporate clients.

4.2.2 Institutional vs. Individual Ownership

Year	1996	1997	1998	1999	2000
χ^2 Value	2.688	0.435	2.114	0.142	6.516
Critical χ^2 Value	9.488	9.488	9.488	9.488	9.488
Reject/Fail to Reject?	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject

Table 10:- Institutional Ownership and Financial Performance

In all the 5 years the study came up with the decision **not to reject** the null hypothesis that "*there is no significant relationship between bank financial performance in Kenya and ownership structure*".

In other words no significant relationship was found to exist between financial performance of Kenyan banks owned by institutions versus those owned by individuals. This is probably because, as discussed above, financial performance of the banks is dependent on the extent to which the management teams are made accountable for the performance of their institutions. Such accountability for performance does not appear to be different for institutionally vis-à-vis individually owned banks in Kenya. The same was found to be the case for non-government vis-à-vis government ownership as well as listed vis-à-vis unlisted banks as detailed below.

4.3 Non-government vs. Government Ownership

Year	1996	1997	1998	1999	2000
χ^2 Value	3.429	3.129	4.188	2.875	1.823
Critical χ^2 Value	9.488	9.488	9.488	9.488	9.488
Reject/Fail to Reject?	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject

Table 11:- Non-government Ownership and Financial Performance

In all the 5 years the study came up with the decision **not to reject** the null hypothesis that "*there is no significant relationship between bank financial performance in Kenya and ownership structure*".

The study therefore established that no significant relationship exists between extent of government ownership and financial performance of Kenyan banks. Banks with a lower proportion of non-government ownership were not found to perform relatively any better than those with a lower proportion of government ownership.

4.4 Listed vs. Non-Listed Ownership

Year	1996	1997	1998	1999	2000
χ^2 Value	5.095	6.591	3.340	5.334	1.546
Critical χ^2 Value	9.488	9.488	9.488	9.488	9.488
Reject/Fail to Reject?	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject	Fail to Reject

Table 12:- Listed Ownership and Financial Performance

In all the 5 years the study came up with the decision **not to reject** the null hypothesis that "*there is no significant relationship between bank financial performance in Kenya and ownership structure*".

The study therefore established that the extent of listed shareholding has no significant relationship with the financial performance of Kenyan banks. Banks with a higher proportion of listed ownership were not found to perform relatively any better than those with a lower proportion of listed ownership.

CHAPTER 5 – SUMMARY AND CONCLUSIONS

5.1 Summary of Findings

This study determined if a relationship exists between ownership structure and banks' financial performance in Kenya. Various forms of ownership structure were examined and the chi-square test of independence employed to establish independence or otherwise with the banks' financial performance.

Four forms of ownership structure were examined. These were:

- Foreign vs. local ownership,
- Institutional Vs individual ownership,
- Non-government Vs. government ownership,
- Listed Vs. non-listed ownership.

The following is the summary of the findings of this research:

- 67% of the banks in Kenya are wholly locally owned, 23% partially foreign and partially locally owned and 10% are entirely foreign owned.

- Foreign ownership and banks financial performance in Kenya are not independent. In other words a significant relationship was found to exist between the level of foreign ownership and the banks financial performance.

- 42% of the banks in Kenya are wholly institutionally owned, 52% partially institutionally and partially individually owned while none are entirely individually owned. 57% of the partially institutionally owned have more than 50%

institutional ownership, implying that a great proportion of the Kenyan banks are institutionally owned.

- Institutional ownership and bank financial performance in Kenya are independent. In other words no relationship was found to exist between the extent of institutional ownership and bank financial performance.

- 86% of the banks in Kenya have no government ownership, 10% are partially government and partially non-government owned and only 4% are entirely government owned.

- Non-government ownership and banks financial performance in Kenya were found to be independent. The extent of government ownership was found to be un-related to bank financial performance.

- 85% of the banks in Kenya are not listed on the NSE, 13% are partially listed and only one bank representing 2% is entirely listed.

- Listed ownership and banks financial performance in Kenya were found to be independent. In other words the proportion of ownership quoted on the Nairobi Stock Exchange was found to be unrelated to the bank's financial performance.

5.2 Conclusions

Banks in Kenya exhibit various forms of ownership structures in relation to the extent of:-

- foreign ownership
- institutional ownership
- government ownership

- listed ownership

Only the extent of foreign ownership was found to have a significant relationship to financial performance of the banks.

5.3 Limitations of the Study

The results of this study should be interpreted in light of the following limitations. Ownership structure was held constant throughout the five-year period considered in the study. Though there may have been slight variations in ownership structure during the period, the information was not readily available. The variations however were deemed insignificant for purposes of this study.

Further, the information obtained on ownership structure may not be entirely accurate. Biashara Bank, for example, is 48% institutionally owned by Anam Holdings Ltd, Minard Ltd and Minard Holdings Ltd. These institutions however are themselves individually owned.

Return on Capital Employed (ROCE) was adopted as a measure of the Banks' performance. Financial statements have inherent limitations and it follows that ratios inherit some limitations from them. The financial statements, for example, have been prepared under different accounting policies. The study is thus constrained by the limitations of such financial statements' preparation.

ROCE is one of many measures that may have been adopted to gauge financial performance. It is likely that the use another measure of performance may yield different results.

5.4 Suggestions for Further Research

Further research could be carried out using a different measure of performance and test independence or otherwise with ownership structure. Further a weighted basket of measures may be adopted.

Research could also be carried out to establish the nature of relationship between foreign ownership and banks' financial performance. This could be extended to establish if there exists an optimal foreign-local ownership mix that would maximise a bank's performance in Kenya.

The ownership structure of the failed banks in Kenya could be studied to establish commonality or otherwise between these institutions.

Further research may be carried out to establish specific factors that explain the source of differences in financial performance of banks in Kenya.

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1. Rural Urban Credit & Finance Ltd
2. Continental Bank
3. Continental Credit & Finance
4. Capital Finance Ltd
5. Business Finance Co Ltd
6. Estate Finance
7. Home Savings and Mortgages Ltd
8. Nationwide Finance Co Ltd
9. Union Bank of Kenya Ltd
10. Jimba Credit Corp Ltd
11. Kenya Savings & Mortgage Ltd
12. Nairobi Finance (K) Ltd
13. International Finance (K) Ltd
14. Exchange Bank
15. Post Bank Credit Ltd
16. Inter Africa Credit Finance Ltd
17. Central Finance (K) Ltd
18. Middle Africa Finance Corp. Ltd
19. Trade Bank
20. Trade Finance Co Ltd
21. Diners Finance Ltd
22. Allied Credit Ltd
23. United Trustee Finance Ltd
24. Pan Africa Bank Ltd
25. Pan African Credit & Finance Ltd
26. United Bank Ltd
27. Thabiti Finance Co Ltd
28. Meridian Biao (K) Ltd
29. Heritage Bank (K) Ltd
30. Kenya Finance Bank Ltd
31. Ari Banking Corp Ltd
32. Reliance Bank Ltd
33. Bullion Bank Ltd
34. Prudential Bank Ltd
35. Prudential Building Society Ltd
36. City Finance Bank Ltd
37. Fortune Finance Ltd
38. Trust Bank Ltd

Appendix 1:- Failed Banks and NBFIs in Kenya

Source:- Marketing Intelligence, Banking Survey 2000

Bank	Shareholder	No of shares	%age
African Banking Corporation	Ashraf Savani	7,084,704	23.62
	Madatali S Chatur	6,136,366	20.45
	Shamaz Savani	3,272,728	10.91
	Yasmin Bhura	5,454,543	18.18
	Rajvin Shah	551,659	1.84
	Queen Holdings	7,500,000	25.00
	Total	**30,000,000**	**100.00**
Akiba Bank Ltd.	East African Building Society	3,200,000	64.00
	Ramjuk Investments Ltd	655,132	13.10
	Emperor Holdings	435,000	8.70
	Tala Investments Ltd	709,868	14.20
	Total	**5,000,000**	**100.00**
Bank of Baroda (K) Ltd.	Bank of Baroda (India)	10,877,651	86.71
	Others (41 shareholders)	1,667,815	13.29
	Total	**12,545,466**	**100.00**
Bank of India	Govt of India		100.00
Barclays Bank of Kenya Ltd.	Barclays Bank PLC	126,725,000	68.50
	Kenyan Public	58,275,000	31.50
	Total	**185,000,000**	**100.00**
Biashara Bank Ltd.	Anam Holdings Ltd	67,835,500	23.26
	Minard Ltd	36,450,000	12.50
	Minard Holdings Ltd	36,450,000	12.50
	Others (1067 members)	150,864,500	51.74
	Total	**291,600,000**	**100.00**
CFC Bank Ltd.	**Kenyan Public**	**120,000,000**	**100.00**
Charterhouse Bank Ltd.	Foreman Corporation	2,775,000	18.50
	Proud View Investments	2,775,000	18.50
	Seiko	2,700,000	18.00
	Ciko Investments	2,895,000	19.30
	Nakumatt	1,500,000	10.00
	Mutual Trustees	1,335,000	8.90
	Mehraz Ehsani	510,000	3.40
	Hamed Ehsani	510,000	3.40
	Total	**15,000,000**	**100.00**
Chase Bank Kenya Ltd.	Penta Enterprises	27,000	9.00
	Balst Investment Holdings Ltd	51,000	17.00
	Shegas	75,000	25.00
	Festuca Investments Ltd	45,000	15.00
	Scarp Holdings	3,000	1.00
	Orbit Chemicals Ltd	30,000	10.00
	Carlo Van Wageningen	69,000	23.00
	Total	**300,000**	**100.00**
Citibank N.A.	Citigroup Incorporation, NY		100.00
City Finance Bank Ltd.	Vithlabhai R Patel	93,100	6.18
	Pankaj H Shah	44,400	2.95
	Naiken Holdings	36,000	2.39
	D Juthalal & V Shah	35,300	2.34
	S N Patel	34,800	2.31
	P Premchand & K Savla	33,200	2.20
	Ajay Shah	30,000	1.99
	Ciem Investments Ltd	30,000	1.99
	Jaswant Singh Rai	27,500	1.83
	Public Trustees Admin	25,100	1.67
	Others	1,116,600	74.14
	Total	**1,506,000**	**100**

Commercial Bank of Africa Ltd.	Coopers & Lybrand Trust Corp	10,603,986	21.21
	Queensway Trustees	7,499,995	15.00
	Yana Investments	6,367,622	12.74
	Enke Investments	12,454,232	24.91
	Livingstone Registrars Ltd	10,603,986	21.21
	Others (18)	2,470,185	4.94
	Total	**50,000,006**	**100**
Consolidated Bank of Kenya Ltd.	Deposit Protection Fund	10,000,000	50.20
	NSSF	2,225,000	11.17
	Kenya National Assurance	1,930,000	9.69
	Others	5,765,000	28.94
	Total	**19,920,000**	**100**
Cooperative Bank of Kenya Ltd.	Various Co-op Societies	**12,100,000**	**100.00**
Co-operative Merchant Bank	Co-operative Bank of Kenya	**2,025,000**	**100.00**
Credit Agricole Indosuez	Caisse National Credit Agricole de Paris		**100.00**
Credit Bank Ltd.	Sansora Group	720,000	24.00
	Sanama Investments	690,000	23.00
	Ceebee Investments Ltd	570,000	19.00
	Keti Investments Ltd	300,000	10.00
	Ketan Devram Morjaria	360,000	12.00
	Rajnikant V Karia	300,000	10.00
	J Rajnikant Karia	60,000	2.00
	Total	**3,000,000**	**100**
Daima Bank Ltd.	Chrisam Ltd	1,875,000	25.00
	Mazuma Ltd	1,875,000	25.00
	Reynolds & Co Ltd	937,500	12.50
	Christopher Musau	937,500	12.50
	Bombil Holdings	937,500	12.50
	Kiomut Ltd	937,500	12.50
	Total	**7,500,000**	**100**
Delphis Bank Ltd.	Driscoll Investments	6,249,999	25.00
	Fifth Avenue Ltd	5,624,998	22.50
	Teekay Investments	2,666,670	10.67
	Sag Investments	3,333,331	13.33
	Pasha Investments	3,333,331	13.33
	Pendula Finance Ltd	3,791,671	15.17
	Total	**25,000,000**	**100**
Development Bank of Kenya Ltd.	ICDC	5,307,500	30.55
	Commonwealth Devt Corp	1,855,000	10.68
	Deutch Investitious	5,000,000	28.78
	FMO of Netherlands	3,962,500	22.81
	International Finance Corp	1,250,000	7.19
	Total	**17,375,000**	**100**
Diamond Trust of Kenya Ltd.	Aga Khan Fund for Econ Dev	72,281,400	22.73
	International Financial Corp	31,990,800	10.06
	Others	213,727,800	67.21
	Total	**318,000,000**	**100**
Dubai Bank Ltd.	Hassan bin Hassan Trad. Co	25,395	20.00
	World of Marble & Granite	31,744	25.00
	Abdul Hassan Ahmed	6,349	5.00
	Salim Abubakar Zubeidi	19,046	15.00
	Abdalla Omar Ahamed	19,046	15.00
	Moammed Ahmed Zubeidi	25,395	20.00
	Total	**126,975**	**100**

Equatorial Commercial Bank	M N Omar	765,398	25.00
	M H Da Gama Rose	765,399	25.00
	A H Butt	765,399	25.00
	N N Merali	1	0.00
	Yana Investments	306,150	10.00
	Yana Towers	459,236	15.00
	Total	**3,061,583**	**100**
Euro Bank Ltd.	Abbey Investments Ltd	937,500	25.00
	Adifa Investments	562,500	15.00
	Firdosh E Jamal	375,000	10.00
	Harry Kathurima	187,500	5.00
	Banc Shares Ltd	937,500	25.00
	Penmain Ltd	750,000	20.00
	Total	**3,750,000**	**100**
Fidelity Commercial Bank	Barakat Investments Ltd	3,796,317	18.60
	African Overseas Devt	4,065,557	19.92
	Bharat Kantilal Thakrar	2,076,824	10.18
	Amin Mohamed R Bhamji	1,359,630	6.66
	Premji Mavji Khoda	1,200,050	5.88
	Nanalal P Sheth	956,550	4.69
	Tasneem Padamshi	367,520	1.80
	Lancia Investments	834,620	4.09
	Farida Bhanji	1,000,000	4.90
	Others	4,748,660	23.27
	Total	**20,405,728**	**100**
Fina Bank Ltd.	Dhabaria Ltd	87,500	25.00
	Rare Ltd	78,750	22.50
	Sirus Ltd	70,000	20.00
	Snow Point Ltd	43,750	12.50
	Harupa Ltd	17,500	5.00
	Reena Ltd	17,500	5.00
	Kushan Ltd	17,500	5.00
	Vispar Ltd	8,750	2.50
	Opportunity Knocks Ltd	8,750	2.50
	Total	**350,000**	**100**
First American Bank Ltd.	Sairmar	86,450	9.10
	Hassanali Ali Mohammed D	19,474	2.05
	Grange Ltd	19,476	2.05
	Akif Hamid Butt	237,500	25.00
	Syndicate Nominees	283,290	29.82
	Yana Holdings	109,060	11.48
	Sameer Investments	194,750	20.50
	Total	**950,000**	**100**
Giro Commercial Bank	Blanford Invest Ltd	3,367,048	21.76
	Laxmi Fibres Ltd	2,481,068	16.03
	Sunshelli	2,481,068	16.03
	Sentinel Inv	2,545,906	16.45
	Lombard Hold	2,710,906	17.52
	Gilt Investments	1,889,000	12.21
	Total	**15,474,996**	**100**

Appendix 2:- Ownership of Kenyan banks

Bank	Shareholder	Shares	%
Guardian Bank Ltd.	M M Chandaria	112,594	0.50
	Dinesh M Chandaria	195,838	0.87
	Mahesh M Chandaria	195,833	0.87
	Conifers Trading	3,377,813	15.00
	Chandaria Holdings Ltd	4,503,750	20.00
	Dima Ltd	3,999,484	17.76
	Goldera Ltd	4,503,750	20.00
	Kevis Investments Ltd	5,629,688	25.00
	Total	22,518,750.00	100.00
Habib A.G. Zurich	Hyder M Habib		0.53
	Muhamed H Habib		0.53
	F A D Schaft		4.94
	Gejan Finanz A G		55.00
	M A Holding A G		39.00
	Total		100.00
Habib Bank Ltd.	Government of Pakistan		100.00
Imperial Commercial Bank Ltd.	Abdumal Investments Ltd	49,000	14.00
	East african Motor Indusatries	24,500	7.00
	Janco Investments Ltd	47,250	13.50
	Rex Motors Ltd	43,750	12.50
	Simba Motors Ltd	49,000	14.00
	Westfield Investment Ltd	49,000	14.00
	Kenblest Ltd	43,750	12.50
	Momentum Holdings Ltd	43,750	12.50
	Total	350,000	100
Industrial Development bank	Government of Kenya	7,495,000	58.19
	ICDC	1,560,000	12.11
	Kenya Re	1,275,000	9.90
	KNAC	1,275,000	9.90
	National Bank of Kenya	1,275,000	9.90
	Total	12,880,000	100
Invest.& Mortgages Bank Ltd.	Tecoma Ltd	157,200	20.96
	Ziyungi Ltd	157,200	20.96
	Minard Holdings	131,400	17.52
	Mnana Ltd	121,200	16.16
	Suresh B R Shah	24,000	3.20
	Sarit S Shah	24,000	3.20
	Sachit S Shah	24,000	3.20
	City Trust Ltd	111,000	14.80
	Total	750,000.00	100.00
Kenya Commercial Bank	Kenya Govt	52,360,000.00	35.00
	Public	97,240,000.00	65.00
	Total	149,600,000.00	100.00
K-Rep Bank Ltd.	K Rep Holdings Ltd	143,901,896	28.78
	Shorecank Corporation	66,899,604	13.38
	Kwa Multipurpose Co-op Soc	50,000,000	10.00
	International Finance Corp	83,498,500	16.70
	The African Devt Bank	75,700,000	15.14
	Stitching Triodos Doen	55,000,000	11.00
	Nenderlands Financierings	25,000,000	5.00
	Total	500,000,000	100

Bank	Shareholder	Shares	%
Middle East Bank (K) Ltd.	Baumann Mgt Services Ltd	2,934,551	11.58
	Good Fortune Ltd	2,934,551	11.58
	MEB Holdings	2,934,551	11.58
	Primecorp Holdings	4,429,702	17.48
	B Belgolaise S A Canterstan of Brussels	6,342,989	25.03
	Mustang Ltd	2,622,850	10.35
	Others	3,142,352	12.40
	Total	**25,341,546.00**	**100.00**
National Bank of Kenya Ltd.	Treasury	45,000,000	22.50
	NSSF	96,105,519	48.05
	Public	58,894,481	29.45
	Total	**200,000,000**	**100**
National Industrial Credit Ltd.	Financial Trust Ltd	11,829,231	14.35
	First Chartered Securities	11,300,838	13.71
	Public	59,284,481	71.93
	Total	**82,414,550**	**100**
Paramount Universal Bank Ltd.	Anwarali Merali	32,493	12.50
	Winceby Dev Ltd	32,493	12.50
	Tormount Holdings Ltd	32,493	12.50
	Tasneem Padamshi (Mrs)	14,297	5.50
	Estate of Padamshi	12,997	5.00
	Audrie Mathiu	5,199	2.00
	Excalibur Ltd	8,666	3.33
	Real Sterling Ltd	37,907	14.58
	All well Ltd	11,914	4.58
	Viking Industries Ltd	45,489	17.50
	Villa Holdings	25,995	10.00
	Total	**259,943.00**	**100.00**
Prime Bank	Crason Ltd	46,250	12.50
	Jamson Ltd	46,250	12.50
	Nasa Ltd	46,250	12.50
	Nason Ltd	46,250	12.50
	PBM Nominees	46,250	12.50
	Casa Ltd	46,250	12.50
	Jamar Ltd	46,250	12.50
	PBM Trust Co Ltd	46,250	12.50
	Total	**370,000.00**	**100.00**
Southern Credit Banking Corp.	Southern Shield holdings	44,795,857	19.70
	Transport Investments Ltd	23,858,318	10.49
		35,266,931	15.51
		11,755,644	5.17
		19,230,967	8.46
	Fincity Investments Ltd	52,922,086	23.27
	Others	39,612,668	17.42
	Total	**227,442,471**	**100**

Bullion Bank Ltd.	Mansukhlal K Haria & H Haria	3,282,840	14.63
	Prime Capital & Credit Ltd	277,834	1.24
	Shamash Charania	254,440	1.13
	Fortune Finance	745,270	3.32
	Jamnadas Ruparel & D Ruparel	541,730	2.41
	Pravin Shah	449,893	2.00
	Rajesh Kothari & J Kothari	355,506	1.58
	Orient Pharmaceuticals Ltd	300,570	1.34
	Atul Shah & Hirani Harji	291,301	1.30
	Nazir Manji	271,373	1.21
	Manji V Maru & Indira Maru	260,793	1.16
	Sarte Ltd	236,692	1.05
	Hitesh Haria	400,000	1.78
	Tanuj Raja	207,655	0.93
	Silver star Manufacturers Ltd	400,000	1.78
	Harleys Ltd	242,769	1.08
	Zahir Manji	194,734	0.87
	NP Mohamed	187,672	0.84
	Stanford Investments Ltd	183,798	0.82
	Others	766,666	3.42
		12,589,443	56.10
	Total	**22,440,979**	**100**
Stanbic Bank Ltd.	Stanbic Ltd Africa Holdings	58,500,000	92.86
	Kenya Govt	4,500,000	7.14
	Total	**63,000,000**	**100**
Standard Chartered Bank Ltd.	Standard Chartered Plc	182,501,214	73.81
	Local public	64,742,250	26.19
		247,243,464	**100**
Transnational Bank Ltd.	Modern Kondoo Farm	1,545,466	6.14
	Losupuk Ltd	857,108	3.40
	Sovereign Group Ltd	3,986,005	15.83
	Simbi Investors	956,839	3.80
	Columna Ltd	3,674,219	14.59
	Europa Holdings	3,906,724	15.51
	Duggan Ltd	3,986,005	15.83
	Archer & Wilcock Nominees	4,550,164	18.07
	Others	1,723,570	6.84
	Total	**25,186,100**	**100**
Trust Bank Ltd. (In Liquidation)	Agricultural Fin Corporation	31,753,510	1.47
	Kenya Post Off. Sav. Bank	28,861,876	1.33
	Guardian Bank Ltd	20,350,684	0.94
	T S Nandhra	20,767,847	0.96
	Virji Investments	15,262,099	0.71
	Peter George H Koeneckle	12,817,797	0.59
	Jayesh Kotecha/J Kotecha	12,000,000	0.55
	Hardeep Singh	10,816,215	0.50
	G S Nayar	9,841,677	0.45
	Manibhai S Patel & BM Patel	9,660,333	0.45
	Jiten & Moona Shah	9,614,637	0.44
	Samvir Trustees	20,000,000	0.92
	Trustar Ltd	40,000,000	1.85
	Highgrive Ltd	50,000,000	2.31
	Trustgold Ltd	50,000,000	2.31
	Praful shah	20,000,000	0.92
	Nitin Chandaria	20,000,000	0.92
	Others	1,782,458,285	82.36
	Total	**2,164,204,960**	**100**

Victoria Commercial Bank Ltd.	Kingsway Investments	3,278,362	16.43
	Monetary credit Holdings ltd	1,328,250	6.66
	Nyando produce Ltd	929,775	4.66
	Jong-Chul Kim	2,157,137	10.81
	Kanji Danji Patel	1,032,409	5.17
	Godfrey C Omondi	1,207,500	6.05
	Yogesh K Pattni	632,554	3.17
	Maxwell Oteno Odongo	456,918	2.29
	Premchand H Gudkas	644,000	3.23
	A W Black & Company	398,475	2.00
	West Star Investment Ltd	560,280	2.81
	Rochester Holdings Ltd	2,023,207	10.14
	Rrajani Jani & Kalapi-J	1,138,270	5.70
	Orchid Holdings Ltd	1,162,778	5.83
	Premchand K Shah & SP Shah	468,152	2.35
	Others	2,539,360	12.72
	Total	**19,957,427**	**100**

		OWNERSHIP STRUCTURE						
Bank	Local	Foreign	Not Listed	Listed	Non Govt	Govt	Institutions	Indivuduals
African Banking Corporation	100	-	100	-	100	-	25	75
Akiba Bank Ltd.	100	-	100	-	100	-	100	-
Bank of Baroda (K) Ltd.	13	87	100	-	13	87	87	13
Bank of India		100	100	-	-	100	100	-
Barclays Bank of Kenya Ltd.	32	69	69	32	100	-	100	-
Biashara Bank Ltd.	100	-	100	-	100	-	48	52
CFC Bank Ltd.	100	-	-	100	-	100	100	-
Charterhouse Bank Ltd.	100	-	100	-	100	-	93	7
Chase Bank Kenya Ltd.	77	23	100	-	100	-	90	10
Citibank N.A.		100	100	-	100	-	100	-
City Finance Bank Ltd.	100	-	100	-	100	-	6	94
Commercial Bank of Africa Ltd.	100	-	100	-	100	-	95	5
Consolidated Bank of Kenya Ltd.	100	-	100	-	29	71	100	-
Cooperative Bank of Kenya Ltd.	100	-	100	-	100	-	100	-
Co-operative Merchant Bank	100	-	100	-	100	-	100	-
Credit Agricole Indosuez		100	100	-	100	-	100	-
Credit Bank Ltd.	100	-	99	-	100	-	76	24
Daima Bank Ltd.	100	-	100	-	100	-	87	13
Delphis Bank Ltd.	75	25	100	-	100	-	100	-
Development Bank of Kenya Ltd.	100	-	100	-	100	-	100	-
Diamond Trust of Kenya Ltd.	90	10	67	33	100	-	33	67
Dubai Bank Ltd.	20	80	100	-	100	-	45	55
Equatorial Commercial Bank	100	-	100	-	100	-	25	75
Euro Bank Ltd.	100	-	100	-	100	-	85	15
Fidelity Commercial Bank	100	-	100	-	100	-	43	57
Fina Bank Ltd.	100	-	100	-	100	-	100	-
First American Bank Ltd.	100	-	100	-	100	-	64	36
Giro Commercial Bank	100	-	100	-	100	-	100	-
Guardian Bank Ltd.	100	-	100	-	100	-	98	2
Habib A.G. Zurich	-	100	100	-	100	-	94	6
Habib Bank Ltd.	-	100	100	-	-	100	100	-
Imperial Commercial Bank Ltd.	100	-	100	-	100	-	100	-
Industrial Development bank	100	-	100	-	22	78	100	-
Invest. & Mortgages Bank Ltd.	100	-	100	-	100	-	90	10
Kenya Commercial Bank	100	-	35	65	65	35	35	65
K-Rep Bank Ltd.	52	48	100	-	100	-	100	-
Middle East Bank (K) Ltd.	52	48	100	-	100	-	88	12
National Bank of Kenya Ltd.	100	-	71	29	29	71	100	-
National Industrial Credit Ltd.	100	-	28	72	100	-	28	72
Paramount Universal Bank Ltd.	100	-	100	-	100	-	75	25
Prime Bank	100	-	100	-	100	-	100	-
Southern Credit Banking Corp.	100	-	100	-	100	-	62	38
Bullion Bank Ltd.	100	-	100	-	100	-	22	78
Stanbic Bank Ltd.	7	93	100	-	100	-	100	-
Standard Chartered Bank Ltd.	26	74	74	26	100	-	74	26
Transnational Bank Ltd.	100	-	100	-	100	-	93	7
Trust Bank Ltd. (In Liquidation)	100	-	100	-	100	-	12	88
Victoria Commercial Bank Ltd.	89	11	100	-	100	-	49	51

Appendix 3:- Summary of Ownership Structure for Banks in Kenya

Source:- File Records at Company Registrars office

		BANK PERFORMANCE - ROCE				
	BANK	2000	1999	1998	1997	1996
1	Standard Chartered Bank Ltd.	68.18	49.73	57.35	54.54	63.46
2	Habib A.G. Zurich	36.81	31.27	54.84	62.65	82.05
3	Barclays Bank of Kenya Ltd.	33.90	38.46	54.99	57.85	63.59
4	Habib Bank Ltd.	29.89	36.30	47.97	55.71	18.54
5	Bank of India	29.47	29.18	24.74	20.21	28.78
6	Charterhouse Bank Ltd.	29.17	20.85	10.17	7.29	
7	Citibank N.A.	26.98	25.86	30.41	42.65	35.15
8	Imperial Commercial Bank Ltd.	24.67	26.58	24.84	31.86	(7.52)
9	Commercial Bank of Africa Ltd.	23.58	29.19	40.62	47.47	47.78
10	National Industrial Credit Ltd.	20.41	22.58	23.11	34.56	57.21
11	CFC Bank Ltd.	17.49	15.46	24.65	29.94	22.47
12	Middle East Bank (K) Ltd.	16.79	17.32	29.80	29.32	42.63
13	Biashara Bank Ltd.	16.57	17.19	18.93	28.63	45.50
14	Diamond Trust of Kenya Ltd.	16.34	13.62	18.82	34.46	(6.06)
15	Euro Bank Ltd.	13.89	51.92)	(8.97)	3.53	21.84
16	Bank of Baroda (K) Ltd.	12.91	13.10	17.59	2.68	(1.78)
17	Investment & Mortgages Bank Ltd.	12.83	0.87	22.10	30.29	23.26
18	First American Bank Ltd.	11.38	21.06	23.89	49.58	52.88
19	Prime Bank	11.33	12.47	10.10	18.92	27.88
20	Fina Bank Ltd.	10.74	12.24	17.69	20.11	14.06
21	African Banking Corporation	10.49	10.30	10.68	15.33	25.21
22	Credit Agricole Indosuez	10.39	25.62	26.17	12.28	(30.80)
23	Guardian Bank Ltd.	9.24	7.23	13.40	23.60	28.29
24	Chase Bank Kenya Ltd.	8.22	3.84	6.11	2.75	46.51
25	Credit Bank Ltd.	8.07	5.23	16.03	14.22	18.56
26	Equatorial Commercial Bank	7.96	5.59	10.09	30.09	49.69
27	Paramount Universal Bank Ltd.	6.54	17.07	0.92	(5.66)	(20.93)
28	Giro Commercial Bank	5.60	4.96	9.58	17.31	34.86
29	Transnational Bank Ltd.	5.01	(36.54)	1.94	6.36	3.45
30	Victoria Commercial Bank Ltd.	4.63	4.54	17.21	19.95	27.08
31	Akiba Bank Ltd.	4.41	4.40	7.16	8.25	2.60
32	Development Bank of Kenya Ltd.	3.38	4.92	6.59	7.26	4.56
33	K-Rep Bank Ltd.	2.66				
34	Fidelity Commercial Bank	0.92	9.50	18.00	16.25	6.90
35	Dubai Bank Ltd.	0.39				
36	Industrial Development bank	(1.39)	0.98	3.42	8.55	
37	Consolidated Bank of Kenya Ltd.	(4.18)	1.53	3.74	9.21	3.54
38	Southern Credit Banking Corporation	(4.81)	2.94	2.89	6.04	16.90
39	Kenya Commercial Bank	(8.73)	25.33	13.60	41.97	49.71
40	City Finance Bank Ltd.	(31.26)			(52.32)	11.30
41	Stanbic Bank Ltd.	(43.90)	3.45	(39.59)	12.53	11.15
42	Daima Bank Ltd.	(51.69)	(68.03)	14.44	36.18	20.51
43	National Bank of Kenya Ltd.	(75.14)	(163.96)	(66.94)	19.53	28.33
44	Bullion Bank Ltd.	(117.54)	(66.44)		18.02	9.09
45	Trust Bank Ltd. (In Liquidation)	(136.29)	(86.65)		1.56	6.03
46	Cooperative Bank of Kenya Ltd.	(140.31)	(3.52)	2.23	13.47	5.21
47	Delphis Bank Ltd.	(868.60)	6.09	5.72	11.33	0.54
48	Universal Bank		5.77	5.15	12.63	13.79
49	ABN AMRO	21.58	25.88	31.11	16.22	33.70
50	First National Bank Ltd.			0.22	1.16	
51	Guilders Bank			(11.73)	4.11	

Appendix 4:- Bank Performance as Measured by ROCE
Source: Marketing Intelligence April/May 2001

Year 2000 * Foreign Owned Crosstabulation

Count

		Foreign Owned			Total
		Low	Moderate	High	
Year 2000	Poor performance	32	2	3	37
	Average performance	5	1	3	9
	Good performance		1		1
Total		37	4	6	47

Year 1999 * Foreign Owned Crosstabulation

Count

		Foreign Owned			Total
		Low	Moderate	High	
Year 1999	Poor performance	28	1	2	31
	Average performance	7	2	4	13
Total		35	3	6	44

Year 1998 * Foreign Owned Crosstabulation

Count

		Foreign Owned			Total
		Low	Moderate	High	
Year 1998	Poor performance	29		2	31
	Average performance	8	1	4	13
	Good performance		2	1	3
Total		37	3	7	47

Year 1997 * Foreign Owned Crosstabulation

Count

		Foreign Owned			Total
		Low	Moderate	High	
Year 1997	Poor performance	25		4	29
	Average performance	13	1	2	16
	Good performance	1	2	1	4
Total		39	3	7	49

Year 1996 * Foreign Owned Crosstabulation

Count

		Foreign Owned			Total
		Low	Moderate	High	
Year 1996	Poor performance	17		3	20
	Average performance	16	1	2	19
	Good performance	2	2	1	5
Total		35	3	6	44

Appendix 5:- Foreign Ownership vs. Financial Performance Cross Tabulation

Year 2000 * Institutional Crosstabulation

Count

		Institutional			Total
		Low	Moderate	High	
Year 2000	Poor performance	7	8	22	37
	Average performance	2		7	9
	Good performance		1		1
Total		9	9	29	47

Year 1999 * Institutional Crosstabulation

Count

		Institutional			Total
		Low	Moderate	High	
Year 1999	Poor performance	6	6	19	31
	Average performance	3	2	8	13
Total		9	8	27	44

Year 1998 * Institutional Crosstabulation

Count

		Institutional			Total
		Low	Moderate	High	
Year 1998	Poor performance	7	6	18	31
	Average performance	3	1	9	13
	Good performance		1	2	3
Total		10	8	29	47

Year 1997 * Institutional Crosstabulation

Count

		Institutional			Total
		Low	Moderate	High	
Year 1997	Poor performance	7	5	17	29
	Average performance	4	2	10	16
	Good performance	1	1	2	4
Total		12	8	29	49

Year 1996 * Institutional Crosstabulation

Count

		Institutional			Total
		Low	Moderate	High	
Year 1996	Poor performance	5	4	11	20
	Average performance	4	2	13	19
	Good performance	1	2	2	5
Total		10	8	26	44

Appendix 6:- Institutional Ownership vs. Financial Performance Cross Tabulation

Year 2000 * Non Government Crosstabulation

Count

		Non Government			
		Low	Moderate	High	Total
Year 2000	Poor performance	6	1	30	37
	Average performance	3		6	9
	Good performance			1	1
Total		9	1	37	47

Year 1999 * Non Government Crosstabulation

Count

		Non Government			
		Low	Moderate	High	Total
Year 1999	Poor performance	5		26	31
	Average performance	3	1	9	13
Total		8	1	35	44

Year 1998 * Non Government Crosstabulation

Count

		Non Government			
		Low	Moderate	High	Total
Year 1998	Poor performance	7	1	23	31
	Average performance	6		7	13
	Good performance			3	3
Total		13	1	33	47

Year 1997 * Non Government Crosstabulation

Count

		Non Government			
		Low	Moderate	High	Total
Year 1997	Poor performance	10		19	29
	Average performance	3	1	12	16
	Good performance	1		3	4
Total		14	1	34	49

Year 1996 * Non Government Crosstabulation

Count

		Non Government			
		Low	Moderate	High	Total
Year 1996	Poor performance	6		14	20
	Average performance	4	1	14	19
	Good performance			5	5
Total		10	1	33	44

Appendix 7:- Non-government Ownership vs. Financial Performance Cross Tabulation

Year 2000 * Listed banks Crosstabulation

Count

		Listed banks			
		Low	Moderate	High	Total
Year 2000	Poor performance	35	1	1	37
	Average performance	8	1		9
	Good performance	1			1
Total		44	2	1	47

Year 1999 * Listed banks Crosstabulation

Count

		Listed banks			
		Low	Moderate	High	Total
Year 1999	Poor performance	30		1	31
	Average performance	11	2		13
Total		41	2	1	44

Year 1998 * Listed banks Crosstabulation

Count

		Listed banks			
		Low	Moderate	High	Total
Year 1998	Poor performance	30	1		31
	Average performance	11	1	1	13
	Good performance	3			3
Total		44	2	1	47

Year 1997 * Listed banks Crosstabulation

Count

		Listed banks			
		Low	Moderate	High	Total
Year 1997	Poor performance	29			29
	Average performance	13	2	1	16
	Good performance	4			4
Total		46	2	1	49

Year 1996 * Listed banks Crosstabulation

Count

		Listed banks			
		Low	Moderate	High	Total
Year 1996	Poor performance	20			20
	Average performance	17	1	1	19
	Good performance	4	1		5
Total		41	2	1	44

Appendix 8:- Listed Ownership vs. Financial Performance Cross Tabulation