AN EVALUATION OF THE FINANCIAL PERFORMANCE OF NON BANKING FINANCIAL INSTITUTIONS THAT CONVERTED INTO COMMERCIAL BANKS IN KENYA

BY

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TABLE OF CONTENTS

CONTENT **PAGE**

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

CHAPTER FIVE
SUMMARY AND CONCLUSION

DECLARATION

THIS RESEARCH PAPER IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANOTHER UNIVERSITY.

GIDEON K. KOROS

THIS RESEARCH PAPER HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS THE UNIVERSITY SUPERVISOR

6/11/01

MOSES N. ANYANGU

DEDICATION

THIS STUDY IS DEDICATED TO OUR CHILDREN: KIPKOECH, CHEBET AND KIMUTAI.

ACKNOWLEDGEMENTS

In undertaking this study to its successful completion, I must express my deep gratitude to God Almighty for granting me good health and inspiration that are essential for a study so demanding as this.

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To them all I say thank you and may God, the source of all knowledge bless you most abundantly.

ABSTRACT

The focus of this study was to evaluate the performance of Non banking financial institutions (NBFIs) that converted to fully fledged commercial banks.

This was achieved by comparing various performance indicators of these institutions namely: Earnings and Profitability, Capital Adequacy, Liquidity and Asset Quality and Financing for the periods prior and after their conversion. A ten year period was chosen for this study; five years before and five years after conversion. Means of these performance indicators for each NBFI were computed and the differences compared to determine whether there were any significant differences in the means across the two periods. The t-test was used to test the null hypothesis that there existed no significant difference in performance of the NBFIS before and after conversion.

Out of the sample of 11 NBFIS whose data virtually all of the 13 performance measures of performance compared for each institution suggested no significant differences across the two periods.

From these research findings therefore, it is evident that the policy shift by the regulators of subjecting NBFIs to the same stringent conditions of cash ratio and capital adequacy ignored more fundamental issues that the NBFIs that failed prior to the shift of policy may have faced.

The findings have also brought the capacity of managements of financial institutions and banks in Kenya into sharp scrutiny considering that it was not mandatory to convert NBFIS to banks. While a few opted to retain their status quo, the bulk of them responded to the new regulations by choosing the easier, albeit more expensive, option with results that clearly could not justify the investments made.

It is hoped that this study will be a valuable addition to the scanty body of knowledge in banking in Kenya and a source of insight into prevailing trends and challenges in the industry.

CHAPTER ONE

INTRODUCTION

The Kenyan Financial sector has undergone numerous challenges and transformations during its relatively short span of its existence but none of them has elicited so much attention, pain and distress than the spectre of massive failures of institutions in the 1980s and early 1990s.

In 1989 alone, a total of fourteen institutions were placed under statutory management and the trend spilled over into the 1990s with no signs of lasting stability in sight.

Among some of the reasons that have been cited the world over as the main causes of bank failures include mismanagement, lack of/or poor supervision, political interference and under capitalization (Juan,1991).

The same reasons largely apply to the Kenyan situation and in their attempt to reverse the trend of failing institutions regulatory authorities established the Deposit Protection Fund (DPF) whose role was to act as a deposit guarantee or insurance scheme for depositors as per the provisions of part VIII of the Banking Act, 1989.

Further, the regulators specified the minimum capital required by both banks and non-banking financial institutions (NBFIs) as 8% of total assets {Central Bank of Kenya Circular No.1/86.1991}.

Section 19 of the Banking Act (1989) had earlier stipulated that banks and NBFIs need to maintain their liquidity levels at 20% and 24% of their total deposit liabilities respectively.

Yet another amendment to the Banking Act (Cap 488) was effected in 1994 to address the minimum capital level requirements of both banks and financial institutions.

Section 19 of the amended act of 1992 required banks to maintain a paid-up capital of at least seventy five million Kenya shillings in addition to ensuring that their paid-up capital and unimpaired reserves are not less than seven-and-a-half percent (7½) of its total deposits. The same requirement was to apply to the financial institutions except that the required paid-up capital was to be maintained at thirty seven million five hundred thousand shillings.

Prior to the amendments of 1989, the aforementioned provisions applied only to banks while NBFIs operated largely without regulation. Because of this absence of a regulatory control, many NBFIs become victims of various forms of malpractices that culminated in the collapse of many of them as illustrated in Appendix I.

However, with regulation now encompassing all the Financial institutions most NBFIs found themselves in relatively difficult circumstances. The new requirements were burdensome and the penalties for non-compliance were quite high. For many NBFIs, their sources of revenue were limited to interest income on loans and little or no fee based income to supplement. They also lacked the advantage of cheap and non-interest earning demand deposits that fully fledged banks had. For liquidity most NBFIs relied on unreliable institutional deposits and a few on loans from shareholders whose long term sustainability could also not be guaranteed.

In this changing scenario therefore, NBFIs needed to make choices on what course of action they would take.

Options that were available to individual NBFIs included:-

i) To merge with a parent bank, if any, and operate as a part of the bank.

ii) To develop new strategies, restructure and retain the status quo.

iii) Discontinue and sell out the entire operations.

iv) Convert the NBFI into a fully fledged commercial bank.

Out of the 35 that were registered as at 1990, 27 of them opted for the last option with varying results.

1.0 OVERVIEW OF THE KENYAN FINANCIAL SYSTEM.

The financial system is an extensive and relatively vibrant sub-sector of the Kenyan economy. It performs the crucial role of financial intermediation which is the process through which the diverse desires of the surplus and deficit units in an economy are met.

The financial system is able to effectively discharge this task by facilitating any one of the following activities:-

a) Provision of an effective national payment system.

b) Provision and maintenance of liquidity in the economy.

c) Custodial duty for public funds by accepting deposits.

d) Credit creation by making out loans to those with investment opportunities but are lacking in funds.

e) Mobilization of savings and provision of investment channel instruments.

f) Facilitate commercial transactions by providing flexibility and mobility of money both in the domestic and international money markets.

The Kenyan financial System is quite diverse and active. According to the Central Bank of Kenya monthly Economic Review for December 2000, the financial system comprised 50 commercial banks, 7 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 47 forex bureaus. The merger process for four institutions is still going on and once complete, the number of commercial banks will be reduced to 48 from 50. Together these institutions controlled Kshs. 434.4 billion worth of assets as at November 2000.

Loans and advances to various sectors of the Kenyan economy amounted to 53% of banks' assets and stood at Kshs. 227.1 billion as at November 1999.

Deposits (inclusive of interbank deposits and accrued interest) held by the banking institutions as at November 2000 was a remarkable Kshs.325.7 billion, 70.5% of which was held by the top eight commercial banks.

In view of the above statistics, it is clearly evident that the banking sector is indeed a crucial one in the Kenyan economy and hence merits serious attention.

1.1 RECENT DEVELOPMENTS IN THE SECTOR.

In the past decade the financial sector has undergone some of the most unprecedented changes ever to be witnessed in Kenya and in the process caused participants in the industry to re-evaluate their priorities, strategies and manner of conducting their businesses in general.

TECHNOLOGICAL INNOVATIONS

A significant development that has had a major impact in the industry is the technological innovations that dominated the entire business spectrum in the 1990's. Multi-million investments, especially by the large and financially sound banking multinationals have been put into the acquisition of state-of-the-art computer systems that have revolutionized the way banking is conducted. Clients of such banks now do not need to physically call on their banks for most services as they can readily access the same via electronic terminals hooked to their respective banks. Cash withdrawals and other transactions have been made very convenient with the provision of Automatic Teller Machines (ATM's) credit cards, debit cards, automated interbank payment systems etc. Several banks have now entered into the internet banking and established websites. However, internet banking is still at its infancy . A major constraint that banks have been facing in their endeavour to computerise and introduce other technology related products is the lack of modernization in telecommunications sector. However, the government has taken initiatives to liberalise the sector and banks will be beneficiaries in the process.

LEGISLATIVE AND REGULATORY CHANGES

During the period under review, wide ranging pieces of legislation and requirements have been effected in the financial sector.

The repeal of the foreign exchange Act in 1992 and de-regulation of interest rate controls [Bill currently in Parliament to re-introduce it] gave the banking institutions and the markets an opportunity to freely transact business without the stifling hand of government controls and bureaucracy.

Alongside the statutory changes was the policy decision by the regulatory authority to subject NBFI's to the same provisions of the Banking Act that hitherto applied only to banking institutions. Like banks, NBFI's now had an obligation to maintain the stipulated levels of capital adequacy and liquidity. With the incidence of failing institutions far from over, the Central Bank of Kenya has had to issue stricter requirements and guidelines on eligibility and conduct of bank management and members of boards.

ACOUISITION AND MERGERS

The strong wave of bank mergers and acquisitions that is sweeping across Europe and the United States of America did not spare the Kenyan scene, albeit at a much limited scale and for different reasons. With the regulatory authority setting stringent capital requirements for banks and NBFI's at Ksh.500 million and Ksh.250 million respectively to be attained by the year 2003, some weak and under-capitalized institutions sought to comply by either merging with stronger institutions or by being bought out altogether. Examples of recent mergers include those between First National Finance Ltd and First American Bank of Kenya, Giro Bank and Commerce Bank and that between Daima Bank and Euro Bank. Not all mergers were, however, driven by the rush to beat the capital requirements deadline. The merger between the solid and vibrant National Industrial Credit (NIC) bank and Ambank was motivated more by prudent and considered business concerns as opposed to merely fulfilling statutory requirements. The tempo has apparently been on the wane but with increased competition, stricter regulatory requirements and a difficult trading environment many more will be witnessed sooner rather than later.

MARKET CHANGES

As technological, legislative and other changes took effect in the industry so did a variety of other developments emerge in the market place. The old, loyal and easy to satisfy bank customer gave way to one who was not only demanding, more enlightened but also less loyal. This new breed of customer demanded quality, convenience, variety and at competitive terms. Needless to say this situation only served to exert considerable pressure on individual institutions to deliver.

Further, with liberalization and the opening up of the markets consumers of financial services and products have gained access to global capital and money markets with devastating consequences for many institutions' sources of livelihood now and in the foreseeable future.

Coming with all these compelling changes are growing demands from the public to lower tariffs and interest charged on advances. Indeed, there is a bill which has been passed by Parliament that seeks to curb these bank charges by re-introducing controls. Another recent development in the banking industry that will certainly have far reaching implications is the quiet but notable shift by corporate business institutions to source their financing from outside the banking system such as the commercial paper market and to a lesser extent the equity market.

Finally, is the emergence of non-bank institutions that are now in direct competition with fully fledged banks in the nature and scope of the services that they can offer. Currently, insurance companies compete with banks in the provision of certain types of loans and indemnities, services which until recently were a preserve for banks. Forex Bureaus have virtually taken over the foreign exchange cash transactions business from banks while Building Societies Savings and Credit Cooperative Societies (SACCOs), Micro-Finance Institutions (MFIs) and some non-governmental institutions continue to eat into the credit and personal banking markets.

IMPLICATIONS OF CHANGES

As it would be expected, each of the aforementioned agents of change has had a significant impact on the overall profit potential and the affected institutions. All the factors put together have exerted considerable pressure on the individual participants in the sector to keep up with the developments or face imminent demise. Reaction to this unfolding scenario has however been lukewarm except from the major multinational banks such as Citibank, Standard Chartered Bank, Barclays and most recently Kenya Commercial Bank. To a very large extent, the foreign banks have taken a lead in responding to these challenges owing to their sound financial capacity, international exposure and superior technical expertise. During this period of extreme uncertainty and unrelenting pressures of change, Non Bank Financial Institutions (NBFIs) in the industry found themselves in a serious business dilemma. With the ammended Banking Act, the regulatory authority has placed them in the same bracket with the banking institutions with regard to capital adequacy and liquidity requirements. Competition was becoming stiffer and for some which relied on foreign finance institutions like the European

Investment Bank (EIB) or shareholder loans as sources of liquidity e.g Development Finance Company of Kenya (DFCK) and Industrial Development Bank (IDB) there were strong pointers that this arrangement could not be sustainable in the long term.

As a direct response to the changed regulatory requirement, various options were available to NBFIs in the circumstances and the one taken by many was to change their status to fully fledged banks. Invariably, the rationale for their choice was to diversify their product range, mobilize cheap non-interest earning deposits (through the so called current accounts) and ultimately remain viable in the market.

The focus of this study therefore is to isolate those NBFIs that converted to banks and evaluate their performance prior and after the conversion to determine whether the strategy of conversion was indeed worthwhile or not.

1.2 STATEMENT OF THE PROBLEM.

The past two decades have witnessed tremendous changes in the Kenyan financial sector with for reaching implications to all the market players concerned as illustrated above.

However, the ammendment of the Banking Act (Cap 488) of 1989 and subsequent ones later that required non-bank financial institutions (NBFIs) to maintain specified levels of capital and liquidity had the greatest impact on their operations.

Earlier NBFIs had operated with virtually no regulation but with the spate of institutional collapses of the 1980s and early 1990s the regulatory authorities imposed stricter requirements in an attempt to restore confidence and stability in the industry.

Because of the perceived implications these changes would have on the performance of the NBFIs, many opted to convert to fully fledged commercial banks.

The rationale at the time was that as commercial banks they would be able to tap into cheap sources of liquidity, diversify their product range and be better placed to comply with the new regulation.

The focus of this study therefore is to establish whether this was indeed achieved or not. If not, possible explanations will be sought and remedies suggested.

1.3 <u>OBJECTIVE OF THE STUDY</u>

The objective of the study was to establish whether the conversion of the Non Bank Financial Institutions (NBFIs) into banks enhanced their performance.

1.4 SIGNIFICANCE OF THE STUDY

The study is important for the following reasons:-

i) The results will guide management and owners of existing NBFIs in making informed business decisions with regard to their operations.

ii) Regulatory authorities will find it a useful source of information in undertaking practical structural reforms and in their advisory role to the industry.

iii) Both current and potential investors in the financial sector will be better informed by the findings on future prospects of their investment choices.

iv) It will provide information and impetus for further research on the areas of regulation and other factors that determine the performance of financial institutions.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter has been split into two sections; one to cover the impact of legislation and regulation on institutional performance and the other to provide an overview of the different approaches to the performance measures of financial institutions.

2.1. REGULATION

2.1.1 RATIONALE FOR REGULATION

"One possible rationale for much of the existing regulation of financial institutions is that it is for the public good. This public good theory of regulation helps us to understand how regulatory decisions are made on the premise that regulation is justified when it corrects an alleged or proven deficiency in the competitive market process" Thygerson (1995) and Gardner and Mills (1994) seem to suggest otherwise. They contend that although regulatory authorities usually provide a justification for regulations when they are introduced, experts believe that unannounced motivations often influence their decisions.

Institutional safety, soundness and stability are often the regulators' stated intent although their actions have eventually served other purposes, the two writers add.

Theoretically, the Model of competitive markets provides a framework for analysing whether a market is indeed servicing the interests of the common good and where it is not a reasonable amount of legislation provides all parties with equal access to markets and information to eliminate any unfair advantage that one party - usually the seller- might have over the other in a transaction.

In America, for long the proponents of government intervention have justified various regulating agencies and laws as means of ensuring the safety and soundness of individual financial institutions and to preserve the integrity of the financial system overall. Benston and Kaufman (1998) outlined some of the fears that regulations of commercial banks sought to allay:-

a) Costs of financial panics and threatened interruptions to the payment system related to commercial bank failure.
b) Possible local and regional economic disruptions caused by commercial bank failures in particular pockets of the country.
c) Loss of depositors' wealth which is especially harsh for low and moderate - income households.
d) Excessive risks involved in lending activities as a result of the commercial banking industry's ability to issue liquid deposits.
e) Potential excessive competition between banks and non banks which is risky.

f) Conflicts of interest between banking activities and those of other institutions.

g) Protect taxpayers from deposit insurance fund failures.

Financial markets the world ever have been subject to a variety of regulations for long. However since the 1970s the developed world has been swept by a demand for deregulation. (Howells and Bain, 1998)

This has been supported by the development of the "economic theory of regulation" which stresses a number of undesirable features of regulation such as:-

i) Regulation creates moral hazard i.e. It causes people to behave in a counter productive way. An example of this is the belief in the security of the financial system that leads savers to deposit their money without thinking about the quality of the financial institutions. This in turn leads to weak and dubious institutions like the ill-fated Kenya Finance Bank, Exchange Bank, BCCI etc. to survive

ii) Regulation increases compliance costs for producers and this reduces the number of transactions provided by the industry.

iii) Regulation increases costs of entry into and exit from markets thus helping to preserve monopoly positions and perpetuate cartels.

iv) Regulatory agents are likely to be compromised by the regulated institutions due to personal interests.

There have been arguments in favour of regulation, largely based on the ideas of market failure and asymmetric information (the ignorance of consumers relative to the financial institutions) but in recent years it has been the spirit of anti-regulation that has dominated.

Both governments and the industry have not been strongly opposed to some level of regulation. Rather the argument has been that the industry knows better than governments what is needed and that it is in its self-interest to ensure that they maintain the confidence of the public.

This combination of knowledge and self-interest is held to justify self-regulation (regulation by the industry itself).

2.1.2 ADVANTAGES OF SELF REGULATION

Howells and Bain put down some of the arguments of self regulation as:-

i) A self-regulatory body would be more responsive to changing circumstances than a statutory one.

ii) Involvement of the industry in formulating and enforcing rules would ensure more effective regulation.

iii) The industry players are better able to spot breaches of rules than a statutory body.

iv) Government interference with the industry is kept at arms length.

Self-regulation still does not provide the ultimate environment for an efficient, safe and sound financial market. Among its potential sources of problems are:-

2.1.3 PROBLEMS WITH SELF-REGULATION

i) De-centralization of regulation could cause overlap among the several regulators and in turn result in competitive laxity where different regulating authorities will act more as trade associations, looking after the interests of their members, than as consumer protection agencies.

ii) Self-regulators are in effect part of the industry hence are likely to be sympathetic to it than the point of view of the consumers.

iii) Self-regulation cannot escape some of the complaints against any form of regulation e.g. self regulators will enforce policies dictated by their largest members and use them to keep out new entrants.

iv) Ability of the regulators to enforce the rules is not assured as they lack the backing of the law.

2.1.4. RESPONSE BY FINANCIAL INSTITUTIONS TO REGULATION.

"The word dialectic refers to change occurring through a process of action and reaction by opposing forces. In his classical presentations the philosopher Hegel described the dialectic process as: 1) an initial set of arguments or rules (the thesis); 2) a conflicting set of arguments or responses (the antithesis); and 3) a change or modification (the synthesis) resulting from an exchange or interaction between the opposing forces" (Jardner 1994).

It has been long held that there exists a continuous and cyclical interaction between opposing political and economic forces in the regulation of financial institutions. Professor Kane's idea that regulation of financial institutions is a dialectic has since been widely adopted as an insightful characterization of regulatory developments (Kane, 1989). Whenever new regulation is effected and is perceived to benefit a specific class, other regulated institutions will seek to find loopholes that can be exploited in an effort to capture markets that would otherwise be denied.

This scenario eventually leads management to expend enormous amounts of energy and resources on avoiding regulation instead of embracing it as a means to more competitive freedom.

"Regulators look unfavorably on this "avoidance" behaviour, and if institutions are too successful in circumventing the rules, regulations will be revised. The revisions inspire further avoidance efforts, and the cycle begins a new" (Gardner, 1994).

2.1.5 REGULATION AS A CATALYST FOR FINANCIAL INNOVATION

Beside regulatory avoidance being merely a cat-and-mouse game between regulators and the regulated, the latter actually incur costs - called regulatory taxes by economists as a result of complying with regulations that prevent them from conducting business in a profit-maximizing manner. The great desire to reduce these taxes has led banking practitioners and financial economists alike to explore new financial products and processes that improve the economic efficiency with which financial transactions are conducted, either by serving customers' needs in new unregulated ways or by lowering costs (Miller, 1986).

2.1.6 TECHNOLOGY AND ECONOMIC CONDITIONS AS CATALYSTS FOR FINANCIAL INNOVATION.

Gardner and Mills (1994) also add that there are additional incentives to the regulatory dialectic namely technology and economic conditions. They argue that as institutions search for financial innovations that do not violate existing regulations, changes in technology and the economy enhance opportunities for the institutions to innovate and cause customers to demand new products. Examples of such catalysts for change are the "Computer revolution" and increased volatility in interest rates and inflation.

Other scholars who have studied the process of financial innovation believe it is no coincidence that a wave of innovation has occurred in the past two decades. Financial economist and Nobel Laureate Merton Miller (1986) argued that before the mid- to late 1960s, the world was too preoccupied with more pressing concerns such as global warfare and economic depression to give any attention to regulation or new innovations. However as nations recovered, regulatory taxes that had been imposed earlier began to seem important and so did the tempo for more innovations in the financial markets to counter them.

Thus the antithesis is driven by economic and technological change as well as by the attitudes of regulators and the regulated. The case of the Kenyan NBFIs opting to convert to fully fledged banks was from the institutions point of view motivated by economic concerns of survival more than any other factor. The regulatory authority's stated intention however was to maintain safety and soundness in addition to harmonizing regulation in the industry.

2.1.7 TYPES OF REGULATORY SYSTEMS

In practice currently are two sets of regulatory systems namely prudential and market-based regulatory systems:-

a) PRUDENTIAL REGULATION

This system is the most widely adopted and is characterized by restrictions on entry, mandatory credit risk assessments, and minimum risk based capital requirements.

Regulations are enforced by an official agency and have significant administrative costs, both for financial institutions (estimated at 6-14 percent of non interest operational costs) and for the agency (Jordan 1993).

Prudential regulations also have allocative costs, which are difficult to quantify but are significant (Jordan 1993, Nicholl 1996).

Despite the operation of this system, there does not exist however any reliable cost-benefit comparisons between its associated costs and the benefits from fewer bank failures derived from regulation. (Nicholl 1996)

Theory attributes the reduced effectiveness of prudential regulation to the existence of government- financed deposit insurance schemes (moral hazard problem) and the well-known agency problem arising from the divergence between the agency's purpose and the personal interests of regulators.

b) **MARKET BASED REGULATION**

Due to the high costs associated with prudential regulation, market-based regulations were developed to achieve the same objectives of financial regulation. This approach eliminates subsidized deposit insurance and forces financial institutions to publicly disclose information that is normally made available only to official regulators.

Peter Nicholl (1996) of the World Bank contends in his seminal paper that there is enough evidence from around the world to show that regulation has not prevented bank failures. He cites New Zealand as one country that has successfully opted for less regulation and more reliance on market information and market discipline to tame financial institutions. In this approach responsibility is shifted from the regulatory authorities to all the stakeholders i.e. management, depositors, external auditors and directors.

In principle, market based regulation reduces the operational costs of banks and eliminates insurance or bank bail out costs to government, or both. However, in practice, owing to the amount and quality of information to be provided to the public and the auditing costs involved, this approach could still result in costs that are not too different from those under prudential regulation.

The two approaches of regulation have similar objectives of reducing systemic risk although the market based approach is more concerned with efficiency, both in the effect of regulations on the workings of the entire financial system and with respect to the operational costs of regulations to financial institutions.

2.1.8 FUTURE OF THE REGULATORY STRUCTURE

Thygerson (1995) identifies several contradictions between the regulatory structure of the United States of America and those of the federal reserve bank. Many of the goals behind the safety-and-soundness rationales for regulation run counter to those toward the public good.

Some of these contradictions are:-

a) Federal regulators require that information in examination reports of financial institutions remain confidential for fear of a run on a weak institution. This denies potential investors, or depositors a chance to make informed business decisions.

b) Legislation that prohibits credit discrimination opens up lending institutions to the risk of adverse selection.

c) The sheer cost of doing business under existing regulation increases the prices of product and services because institutions have to meet several costs associated with regulation compliance, misallocation of resources caused by regulation and the inability of regulated firms to respond to new market opportunities and competition.

With the contradictions stated above, the globalization of financial markets, technological developments and renewed emphasis on ethical behaviour, reform of the regulatory system cannot be ignored.

The substantial economic burden of maintaining the current complex and duplicative supervisory structure is another factor driving the need for regulatory reform (Gardner and Mills, 1994).

Finally, an emerging concern that is facing both financial institutions and regulators alike is whether some institutions in the increasingly global and de-regulated environment perform a unique economic role that no other institution can play: If not, then the current regulatory structure that focuses only on the financial sector will soon give way for a more integrated and reformed one.

Following noe is a theoretical perspective of performance as seen by all the stakeholders of business firms.

2.2. PERFORMANCE EVALUATION

Performance is the ability of firms to sustain income, stability and growth. It is a measurement of relative investment results.

Because performance is very critical for the well-being of all business firms, its measurement is therefore of great concern to all stakeholders of individual firms.

Trade Creditors for Commercial firms or depositors in the case of financial institutions are interested primarily in the liquidity of the firm. Their claims are short term, and the ability of firm to pay these claims is best determined by means of a thorough analysis of its liquidity. Bond holders on the other hand have long-term claims and hence are more concerned in the cash flow ability of the firm to service debt over the long run. A firm's ability to do this can be ascertained by analysing its capital structure, its major sources and uses of funds and projections of its future profitability.

Shareholders of the firm too would be concerned about its performance but would be particularly concerned with both the level and stability of present and future earnings. Such investors would therefore concentrate their analysis on the firm's profitability and its ability to pay dividends consistently. Perhaps more than any other stakeholder, the firm's management needs to be concerned in all aspects of a firm's performance that outside suppliers of capital use in evaluating it as this would enable management to bargain more effectively for outside funds. In particular, it is concerned with profitability on investment in the various assets of the company and in the effeciency of asset management.

Regulatory agencies of firms would be concerned in the viability of firms hence would focus on the rate of return a company earns on into assets as well as the proportion of non-equity funds employed in the business. The role of this category of stakeholder is most felt in the financial sector because the latter measure is highest for financial institutions.

Other stakeholders that are concerned with the performance of the firm include employees, competitors and even potential acquirers. (Van Horne, 1997).

Although different stakeholders may have different motivations, they all have an interest in evaluating performance and invariably they all use accounting and other data to assess the financial condition of institutions at a point in time. Results of such analysis are often the basis for judging an institutions performance in the future (Gardner, 1994).

2.2.1. ACCOUNTING -BASED VS MARKET-BASED MEASURES

In evaluating the performance of financial institutions, ratios are computed to capture their key performance indicators namely:-

a) Earnings and profitability

b) Capital Adequacy

c) Liquidity and

d) Asset quality and financing.

However, in the measurement of performance, controversy has continued as to whether assets and liabilities need to be reported at book value or at their prevailing market value.

The American Financial Accounting Standards Board (FASB) in 1993 issued a rule to financial institutions in America that required them to classify all debt securities "investment assets", which will be reported at book value; "trading assets" (those held for potential short-term gain) which will be reported at market value; or "assets held for sale," which will also be reported at market value.

Opponents of market-value accounting argue that this approach makes income more volatile and that short term market fluctuations will play too large a role in the determination of earnings (Gardner and mills, 1994). On the other hand, its supporters believe that it will prevent managers from selling assets to show a profit on those that have increased in value,while hiding losses on those assets that have decreased in value by retaining them at book value on the balance sheet.

The US banking industry favoured disclosure of current values in a footnote to the financial statements rather than directly on the balance sheet (McTague, 1993).

2.2.2 LIMITATIONS OF PERFORMANCE MEASURES

Despite the merits that either of the measurement approaches i.e. Accounting-based as opposed to market-based accounting enjoy, both suffer from some noteworthy set backs. They include the following:-

a) ACCOUNTING BASED MEASURES

i) Lack of consistency in the usage of accounting policies by the same firms or amongst different firms makes comparative analysis somewhat misleading.

ii) Accounting earnings are manipulable by management without any real benefit to the stockholders e.g. sell of assets whose market value exceeds book value or changing accounting policies just to boost earnings (Kaplan S. Robert, 1988).

iii) The practice of window dressing by management to reflect desired balance sheet appearance could be used to conceal poor or deteriorating financial position (Largay and Stickey, 1980).

iv) Financial ratios are used by actual and potential share holders, creditors, regulators and depositors. All of these stakeholders interprete ratios differently. Hence the need to consider the perspective of the user of such ratios.

b) MARKET -BASED MEASURES

i) 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 (Bett, 1992). Fisher Black (1980) agrees with this view and adds that people will not tell the world about all transactions in their firm, partly because it would be costly and partly because it would give out information the firm might regard as proprietary.

ii) Use of share prices may be unfair because they reflect external market forces which are beyond the managers' control (Kaplan, 1988)

iii) The Kenyan Capital Market is not fully developed and even the publicly available information is not adequately processed. (Muragu

Kinandu,1986). Quoted share prices of banks and other institutions therefore may have little or no relation to their true values.

2.2.3. CHOICE OF AN APPROPRIATE METHOD.

Bett (1992) and Beaver (1987) in their earlier studies concluded that none of the two methods could be considered the best. They recommended that both should be used where data is available because a single method may not be the best for all firms. Beaver found out that there was no perfect association between ratio forecast and market movements and suggested that investors should look at both ratio and non-ratio information.

However, since the focus of this study is non-banks financial institutions (NBFIs) that converted to Commercial banks and most of them are not quoted at the Nairobi Stock Exchange (NSE), evaluation of their performance will be solely reliant on accounting-based ratios derived from their year end financial statements.

2.2.4 RELATED STUDIES

Various studies have been undertaken in the past by different researchers on the performance of financial institutions Ochung (1999) in his study established a very strong correlation between the deposit portfolio of banks and financial institutions and their individual performance.

Bett (1992) also undertook a comprehensive study on the performance of the financial sector. His main focus was to develop benchmarks for good performance in the sector by developing and using discrimant function to isolate "failed banks" from "performing banks".

Multi year analysis of high performance banks were conducted by Ford and Olson (1970). They compared key operating statistics (Return on Assets and Return on Networth) of high performing institutions with those of other banks. They established that high performers had higher loan revenues relative to total loans and also had lower overhead and occupancy costs, lower expenses few employee and lower ratios of fixed assets to total assets. They concluded that although high revenues are important, proper control of non-interest expenses is even more important.

Later two economists at the Federal Reserve System analysed return on assets for banks with more than $500 million in assets during 1970-1977. Contrary to Ford and Olson, they concluded that pricing policies and cost effeciencies were not significantly different between high and low performance banks, and that regional and local economic conditions, portfolio and risk preferences, and "some aspects of managerial ability not captured here" accounted for profitability differences. (Kwast and Rose, 1982).

Sinkey (1970-1975) studied failed banks and concluded that the distinguishing factor was management of costs. More important costs were identified as

i) the cost of poor loan quality measured by the provision for loan losses.

ii) the cost of liability management, measured by the expense of federal funds purchased and

iii) the cost of poor expense control, measured by the size of non-interest expenses.

Recent research suggest further that poor asset allocation decisions and insensitivity to customers and markets contribute to an institution's demise and quantifies management role in bank failures (Sinkey, 1979) and Siems (1992). Larry Wall's (1983) studies confirmed Fords and Olson's findings but also found out that the most profitable institutions held a proportionately larger investment portfolio, earning additional revenues without the high expenses associated with lending. Stronger performers also used lower-cost sources of borrowed funds and relied more heavily on equity capital.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 INTRODUCTION

This is a comparative study of the performance of Non-Banking Financial Institutions (NBFIs) prior to and after their conversion to fully fledged commercial banks. The data that was utilized for the study covered a ten year period: five years prior to and five years after conversion.

The general hypothesis to be tested was that there was no significant difference in the financial performance of NBFIs before and after they changed status to become banks i.e.

H_0 The null hypothesis is that the conversion of NBFIs into commercial banks did not have a significant impact on their financial performance.

H_1 The alternative hypothesis is that the conversion of NBFIs into commercial banks had a significant impact on their performance.

3.1 THE POPULATION

The researcher's intention was to undertake a comparative study of all the NBFIs that converted to commercial banks since 1990 upto 1999. As indicated in

Appendix I,they stood at 27 according to the Central Bank Supervision Annual Report of 1999. However during the period of this study four have since failed for one reason or the other and ceased operations. From the 23 NBFIs that converted and are still operating, data was obtained and analysed from 11 of them.

It will be noted however that data for some years was not available and the researcher relied on the means for available data. This arose due to the lattitude financial institutions enjoyed with regard to the minimum disclosure requirements exacted on them by the regulators up until 1999 when the Central Bank of Kenya made it mandatory to disclose both the income statement and the balance sheet in a prescribed format in their circular no. 1 of 18.01.1999.

3.2 DATA SOURCES

This study has made use of secondary data from the following sources:-

i) Nairobi Stock Exchange (NSE) for the quoted institutions.

ii) Periodicals e.g. Daily Newspapers, Central Bank of Kenya, Publications etc.

iii) Directly from the institutions' annual financial statements.

3.3 DATA ANALYSIS TECHNIQUE

To be able to test this hypothesis 13 financial performance measures shown in Table 1 were computed and compared across the two periods of the study.

Each performance measure (ratio) was computed for each institution for the stated period (before and after conversion). To obtain the overall financial performance for individual institutions for each period, the respective ratios (measures) were summed up and their means determined. The results are as shown in Table 2.

To test the stated hypothesis, a t-test at the 5% confidence level was used to evaluate the significance of the differences in means for each ratio across the two periods. The results are summarised in Table 3. Analysis of the data was carried out using the Statistical Package for Social Sciences (SPSS).

3.4 JUSTIFICATION OF DATA ANALYSIS TECHNIQUE AND PERFORMANCE MEASURES

3.4.1 DATA ANALYSIS TECHNIQUE

Data for this study was analysed using a t-test technique. This choice was taken in testing the null hypothesis due to the small sample size to be used. This implies that the other significance tests like the Z-test which assume that the sampling distributions for the sample parameters are Normal distributions would not be appropriate (Curwin and Slater, 1996).

For accurate results, the same test is recommended for significance tests where sample size is less than 30 (Lucy, 1996). In our case, the sample size is 13.

3.4.2 PERFORMANCE MEASURES

To capture the overall financial performance of the institutions, critical measurement parameters reflecting the various aspects of institutional performance were selected for this study. They are shown herebelow as Table 1.

Table 1: Measurement Tools

PERFORMANCE INDICATOR	MEASURES	CODE
Earnings and profitability ratios	• Net profit before Tax/Total Assets • Net profit before Tax/Total shareholders equity • Net profit growth rate.	PBT-TA PBT-TSE NPGR
Capital Adequacy Ratios	• Capital growth rate • Shareholders equity/Total Assets • Shareholders Equity/Total Loans • Shareholders Equity/Total Customers Deposits.	CGR TSE-TA TSE-TL TSE-TCD
Liquidity Ratios	• Quick assets/total deposits • Quick ratio. • Current ratio.	QA-TCD Q ratio CA-CL
Asset Quality & Financing Ratios	• Total Loans/Total Deposits • Net Loans/Total Assets • Total Customer Deposits/Total liabilities	TL-TCD TL-TA TCD-TLS

The selected measures are all relevant to the study as they adequately address the diverse interests of the various stakeholders of the institutions of the researcher's concern. Taken together these measures provide insights into how well the sample institutions have performanced compared to past years, whether they are on track with their business forecasts or if their business strategies are working as planned. From the appropriate measure categories, it is also possible to determine whether the institutions, are meeting the prescribed statutory capital adequacy, liquidity and asset (loan) quality requirements.

These same measures are also used by management,current and prospective shareholders, creditors and regulators to assess financial strength and operating performance of financial firms. Management and directors of financial institutions are concerned with all phases of their performance. Creditors and regulators, on the other hand, are primarily concerned with financial strength by focusing chiefly on capital adequacy and loan quality. Prospective and current shareholders are primarily concerned with institutional profitability, risk and operating efficiency. (Thyger son, 1995).

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.0 INTRODUCTION

This empirical study sought to establish whether there was any significant difference in the financial performance of non-banking financial institutions (NBFIs) after they were converted to fully fledged Commercial banks.

In this chapter the hypothesis that there was indeed no significant impact of conversion on their performance is tested. The data collected has been analysed and the findings are recorded and discussed herebelow.

4.1 FINDINGS AND DISCUSSIONS

A summary of the results of comparison of the different measures of the institutions prior and after conversion is shown on table 2 below.

The key profitability ratios, namely return on equity (PBT/TSE) and return on assets (PBT/TA) show insignificant movements after conversion i.e. 0.19 to 0.14 and 0.04 to 0.02 respectively. While the prescribed capital adequacy requirement (TSE/TA) improved from 0.14 to 0.22, the growth of shareholder wealth (CGR) across the two periods was infact marginally negative from 19% to 12%.

A useful liquidity measurement for financial institutions is the ability of such firms to meet the liquidity requirements of their clientele. In this study, it has been captured by QA/TCD and again, no significant change has been demonstrated in this regard.

Asset quality and financing too have not registered any major changes as shown by their relevant measures i.e. TL/TCD and TCD/TLS moving from 0.84 to 1.09 and 1.43 to 1.71 respectively.

TABLE 2

	BEFORE TRANSITION					AFTER TRANSITION					PERIOD 1		PERIOD 2		
Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D.	Mean	S.D.	t
NPGR	0.00	0.22	0.06	0.35	0.23	-0.01	0.32	-0.12	-0.39	-0.24	0.17	0.14	-0.09	0.27	1.69
PBT/TSE	0.11	0.13	0.14	0.26	0.30	0.27	0.12	0.13	0.10	0.06	0.19	0.09	0.14	0.08	0.73
PBT/TA	0.03	0.01	0.01	0.06	0.08	0.08	0.01	-0.01	0.02	0.01	0.04	0.03	0.02	0.03	0.93
CGR	0.00	0.19	0.12	0.34	0.27	0.27	0.29	-0.23	0.18	0.11	0.19	0.14	0.12	0.21	0.59
TSE/TA	0.16	0.07	0.06	0.19	0.30	0.30	0.27	0.21	0.16	0.15	0.14	0.07	0.22	0.07	-1.57
TSE/TL	0.27	0.24	0.25	0.31	0.70	0.70	0.50	0.39	0.66	0.26	0.27	0.03	0.50	0.19	-2.88
TSE/TCD	0.09	0.09	0.08	0.13	0.12	0.21	0.94	0.22	0.25	0.19	0.10	0.02	0.36	0.32	-1.75
QA/TCD	1.54	2.10	1.62	3.32	4.31	2.54	1.63	2.15	1.91	1.95	2.56	1.19	2.03	0.34	0.86
Qratio	1.40	2.04	3.69	4.88	6.14	6.57	6.21	7.63	6.89	8.00	3.63	1.96	7.06	0.74	-5.33
CA/CL	2.84	3.64	7.09	6.31	7.63	11.33	9.05	11.69	9.45	10.57	5.50	2.14	10.42	1.15	-4.9
TL/TCD	0.59	0.55	1.22	1.42	0.40	0.41	3.12	0.76	0.69	0.47	0.84	0.45	1.09	1.15	-0.43
TL/TA	0.92	0.46	1.03	1.16	0.34	0.89	0.73	0.92	0.47	0.38	0.78	0.36	0.68	0.25	0.64
TCD/TLS	1.08	1.19	1.12	1.63	2.11	1.97	0.97	1.18	1.68	2.76	1.43	0.44	1.71	0.71	-1.37

It was hypothesized that there was no difference in the net profit growth rate (NPGR) across the two periods. The computed statistic was 1.69 while the critical value at 5% confidence interval (c.i) is 3.355. Since the t-value lies below this critical value we accept the null hypothesis and conclude that there was indeed no significant difference in the profitability measure undertaken i.e. Net profit growth rate. When the other profit ability indicators namely, PBT-TSE and PBT-TA are subjected to the same test, the results show that the computed t-statistic was similarly less than the critical value (3.355) in all the cases. The null hypothesis is hence accepted.

Taken together, these findings suggest that there was no significant difference in performance with regard to earnings and profitability across the two periods.

Tests on capital adequacy ratios namely CGR, TSE-TA, TSE-TL and TSE-TCD were 0.59, -1.57, -2.88 and -1.75 respectively. All the statistics were less than the critical value 3.355 at 5% confidence interval thus suggesting again that there was no significant difference in performance of the NBFIs before and after conversion with regard to capital adequacy.

Similar results were obtained for liquidity measures i.e. QA-TCD, Qratio and CA-CL whose computed t-statistics fell way below the critical value at -0.86, -5.33 and -4.9 respectively.

The last category of tests sought to establish the extent of differences in asset quality and financing across the two periods. As with the foregoing performance measures, all the measures i.e. TL-TCD, TL-TA and TCD-TL were less than 3.355 at -0.43, 0.64 and -1.37 respectively.

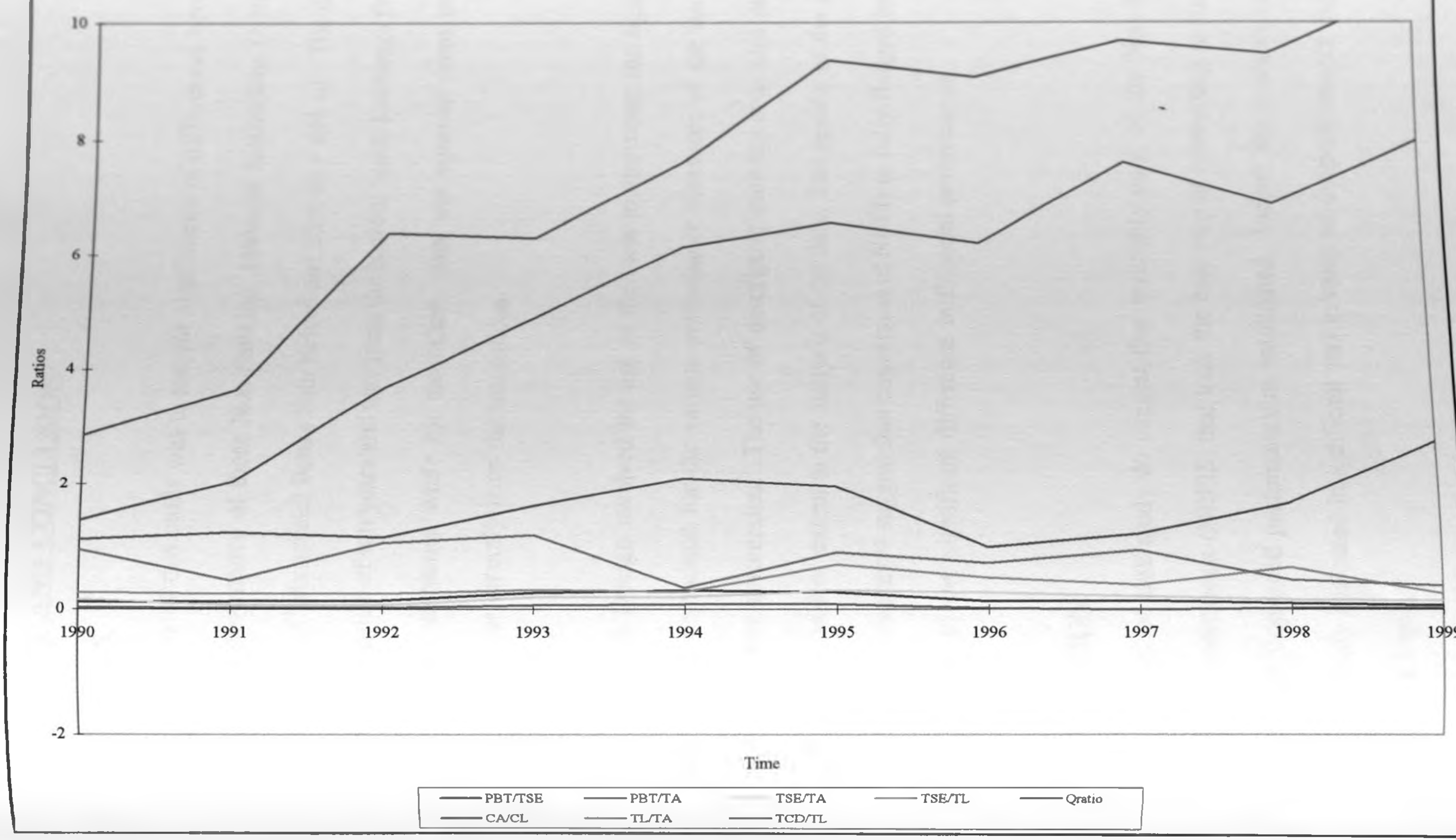
4.1.1 DESCRIPTIVE STATISTICS

As shown on tables 2 above, the analysis of means and standard deviations for the various measures over the two periods (before and after conversion) indicate that the period before conversion generally had the highest means and the lowest standard deviations. The general impression given by these descriptive statistics is that the conversion of NBFIs to banks had a largely insignificant impact on the performance of the affected institutions as shown on the trends reflected in figure 1 below.

Illustrated further in appendices 3 and 4 attached are tables and graphical presentations respectively on an individual institution basis of their performance during the period of the study.

In summary then all these findings support the null hypothesis that there was really no significant difference in performance of NBFIs before and after conversion to commercial Banks.

Fig. 1



10
8
6
4
2
0
-2
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Time
PBT/TSE
PBT/TA
TSE/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSION

5.1 SUMMARY

The objective of this study was to test for significance of differences between the financial performance of those Non-Banking Financial Institutions (NBFIs) that converted to Commercial Banks both before and after they did so. The data used covered a period of ten years and was from the Nairobi Stock Exchange (NSE) for the quoted companies while for the others, data was sourced from periodical publications or directly from the institutions.

The Research Design involved the use of the t-test to determine the significance of the means obtained for the various performance measures of the institutions prior and after conversion. The use of descriptive statistics was also employed though to a smaller extent in the analysis of the data. The results of the study as presented in chapter 4 suggest that conversion of NBFIs to fully fledged banks did not translate to any significant difference in financial performance.

5.2 CONCLUSION

The findings of this study do suggest that invariably most of the Non-Banking Financial Institutions (NBFIS) that took the bold step of converting to banks did not register improved performance as anticipated. Indeed, the evidence obtained from the study indicated insignificant and in many of the performance indicators a declining trend.

5.3 POLICY IMPLICATIONS

In 1994, the banking sector in Kenya comprised 33 banks and 49 non-banking financial institutions. A large number of NBFIS were owned by banks and had been established during the era of interest rate controls when the lending rates for NBFIS were higher than those for commercial banks. However, after liberalization of interest rates and the change of policy on cash ratio and capital adequacy to include NBFIS there were no longer the notable advantages of maintaining NBFIS, or so the owners of such institutions imagined.

The flurry of activity that ensued to convert NBFIs or merge with banks has resulted in less than satisfactory results overall and has ended up putting the entire policy framework of the regulators who influenced the process into question.

The spirit of the regulations that precipitated several conversions, which was basically to restore discipline and protect investors, was undoubtedly noble but upon implementation it has proved punitive and burdensome to many institutions that converted.

The regulators aside, the suitability and managerial capacity of most financial institutions in Kenya will need to be addressed. While Central Bank of Kenya, as the regulator, introduced legislation that on the face of it compelled NBFIS to convert, it was never made mandatory to do so. The decision and responsibility to convert was left entirely to individual institutions. It was incumbent upon their boards and managements to formulate and implement new business strategies to survive and grow in the changed circumstances.

Indeed it is quite possible that instead of opting to convert, some NBFIs could have directed the funds at their disposal into developing and deepening their product range to take advantage of market niches that commercial banks were not best suited for. At the time of conversion, many of the NBFIS were already specialized in specific market segments e.g. National Industrial Credit (NIC) in Hire Purchase, Development Finance Company of Kenya (DFCK) in long term project - financing etc.

Perhaps with more innovation and refocusing on these core competencies their performances could have been much better off than they are today without having to commit vast resources into alien territory with uncertain prospects.

5.4 RECOMMENDATIONS

In view of the findings of this study it is recommended to the regulators that they consider the following suggestions:-

- Adopt a more proactive approach in discharging their regulatory role over the banking sector in order to avoid the crisis of having to constantly "put off fires" with regulation after regulation.
- Where practicable, consider the practice of self-regulation for specific sectors of the industry without necessarily imposing legislative impediments

to the growth of the industry.

- Consider the selective application of specific legislation to cover specific sectors of the banking industry because of their unique characteristics as opposed to blanket legislation for all.
- Provide for minimum academic and professional qualifications for boards of institutions and their top management.

It is also recommended to shareholders of NBFIs that have not converted to critically re-evaluate their business strategies, while taking cognisance of the radically changed operating and legislative environment. In so doing, they will be able to arrive at informed decisions on the most suitable status (NBFI or Bank) that would best enable them to actualize their institutional objectives.

5.5 LIMITATIONS OF THIS STUDY

This study has been undertaken against a backdrop of the following limitations:-

- Because of the sensitive nature of the data used and the conservative approach of many financial institutions, data from only 11 out of the 23 NBFIs currently operating were used. However, there is no reason to belief that the remaining 12 could have performed any differently.

- The period covered in analysis of data before and after conversion was 5 years. A longer period, say 10 years would certainly yield better results.

- In choosing to use accounting ratios for comparison of institutional performance, the study has lent itself to all the limitations inherent in their usage as shown in section 2.2.2.
- Realistic asset (loan) values and quality for the sample institutions may be different from those used. More accurate results would be obtainable by a more detailed analysis of the individual institution loan portfolios to distinguish between good realizable loans and the non-performing and/or unrealizable ones.

  Such information was not made available to the researcher from any of the institutions approached.

5.6 SUGGESTIONS FOR FURTHER RESEARCH

To improve on this study, it is suggested that:

- The same study could be repeated over a longer period to obtain more accurate findings.
- The same study could be repeated to cover non-financial performance indicators such as market share, customer satisfaction, institutional image, etc.
- To capture the more accurate balance sheet values that were not made available to the external researcher, internal research by employees of the NBFIS could be undertaken to establish whether conversion was indeed beneficial to them or not.

Reference and

Appendices

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APPENDIX I

BANK FAILURES IN KENYA

NO	NAME OF INSTITUTION	DATE CLOSED/(STATUS)	REASON(S) FOR FAILURE
1	Rural Urban Credit & Finance Co. Ltd	December, 1984 (Under official receivership)	• Interference by Directors in day to day operations. • High incidence of non-performing loans.
2	Continental Bank of Kenya Ltd.	August, 1986 (Under official receivership)	• Poor lending practices leading to unsatisfactory asset quality.
3	Continental Credit Finance Ltd.	August, 1986 (Under official receivership)	• Poor lending practices leading to unsatisfactory asset quality.
4	Capital Finance Ltd.	January,1987 (Under official receivership)	• Ineffective Board and Management.
5	Business Finance Co. Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd)	• Interference by shareholders and Directors. • Adverse dominant influence on the Board. • Poor asset quality.
6	Estate Finance Co. of Kenya Ltd	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Adverse dominant influence on the Board. • Poor asset quality.
7	Home Savings and Mortgages Co. Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Under-capitalization. Insider loans (Unsecured). • Ineffective Board of Directors • High incidence of non-performing loans
8	Nationwide Finance Co. Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Poor credit policies and insider lendings (unsecured). • Under-capitalization • Unsatisfactory asset quality
9	Union Bank of Kenya Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Mismanagement • Poor credit policies.
10	Jimba Credit Corp Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Borrowing 'short' and lending 'long' (mismatch). • Credit concentration.

11	Kenya Savings and Mortgages Ltd.	December, 1989 (Consolidated under Consolidated Bank of Kenya Ltd).	• Mismatch of resources which involved borrowing 'short' and lending 'long'. • Liquidity problems. • Insolvency.
12	Nairobi Finance Corp. Ltd.	April, 1993 (under liquidation by Deposit Protection Fund)	• Disagreement among the shareholders. • Under-capitalization • Poor asset quality.
13	Middle Africa Finance Co. Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Credit concentration (unsecured) • Non-performing placement • Under capitalization
14	Trade Bank Ltd.	August, 1983 (under liquidation by Deposit Protection Fund)	• Under-capitalization • Over-reliance on high cost funds. • Credit concentration to companies (unsecured and non-performing).
15	Trade Finance Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Under-capitalization • Over-reliance on high cost funds • Credit concentration to companies (unsecured and non-performing)
16	Diners Finance Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Domino effect triggered by collapse of Trade Bank • Under-capitalization
17	Central Finance (K) Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Lending of unsecured loans • Under-capitalization • Heavy reliance on parastatal deposits
18	Allied Credit Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Under-capitalization • Lending of unsecured loans mainly to shareholders and directors.
19	United Trustee Finance Ltd.	August, 1993 (under liquidation by Deposit Protection Fund)	• Insider loans (unsecured) • Under-capitalization • Serious mismanagement
20	Inter Africa Credit Finance Ltd.	June, 1993 (under liquidation by Deposit Protection Fund)	• Unsecured loans (unsecured) • High incidence of unsecured insider loans • Heavy reliance on parastatal deposits

21	Exchange Bank Ltd.	April, 1993 (Voluntary liquidation)	• Persistent violation of the Banking act and CBK Act, hence licence was revoked by the Minister of Finance.
22	International Finance Co. Ltd	April, 1993 (under liquidation by Deposit Protection Fund)	• Unsecured credit concentration mainly to insiders. • Heavy reliance on parastatal deposits.
23	Pan African Credit and Finance Co. Ltd	October, 1993 (under liquidation by Deposit Protection Fund)	• Persistent violation of the Banking Act and CBK Act, hence licence was revoked by the Minister of Finance.
24	Pan African Bank Ltd.	October, 1993 (under liquidation by Deposit Protection Fund)	• Persistent violation of the Banking Act and CBK Act, hence licence was revoked by the Minister of Finance.
25	Post Bank Credit Ltd.	May, 1993 (under liquidation by Deposit Protection Fund)	• Malpractices in the clearing house • Credit concentration
26	Thabiti Finance Co. Ltd.	1994 (under liquidation by Deposit Protection Fund)	• Under-capitalization • Unsecured advances especially to Directors and shareholders • Over-reliance on parastatal deposits•
27	Meridian BIAO (K) Ltd.	April,1996 (under liquidation by Deposit Protection Fund)	• Non-performing Bank placements with foreign banks. • Malpractices by Directors.
28.	Kenya Finance Bank Ltd.	July, 1996 (under liquidation by Deposit Protection Fund)	• Non-performing loans.
29	Heritage Bank Ltd.	September, 1996 (under liquidation by Deposit Protection Fund)	• Non-performing loans. • Malpractices by Directors

SOURCE : *Bank supervision, Central Bank of Kenya*

APPENDIX II

MERGERS AND CONVERSIONS OF INSTITUTIONS SINCE 1994

FINANCIAL INSTITUTIONS WHICH CONVERTED INTO BANKS IN 1994

NO	FINANCIAL INSTITUTION (OLD NAME)	COMMERCIAL BANK (NEW NAME)	DATE APPROVED
1	Universal Finance Ltd.	Universal Bank Ltd.	03.11.94
2	Akiba Loans & Finance Ltd.	Akiba Bank Ltd.	14.11.94
3	Diamond Trust Company Ltd.	Diamond Trust Bank Ltd.	15.11.94
4	Credit Kenya Finance Ltd.	Credit Bank Ltd.	30.11.94
5	Consolidated Finance Ltd.	African Banking Corp. Ltd.	08.12.94
6	Imperial Finance Co. Ltd.	Imperial Bank Ltd.	08.12.94
7	Finance Institution of Africa Ltd.	FINA Bank Ltd.	13.01.95
8	Lake Credit Finance Ltd.	Reliance Bank Ltd.	13.01.95
9	Habib Kenya Finance Ltd.	Habib African Bank Ltd.	26.01.95
10	City Finance Ltd.	City Finance Bank Ltd.	23.03.95
11	Ari Credit Finance Ltd.	Ari Bank Corporation Ltd.	07.03.95
12	Credit Finance Corporation Ltd.	CFC Bank Ltd.	
13	First National Finance Ltd.	First National Finance Bank Ltd.	
14	Prudential Finance Ltd.	Prudential Bank Ltd.	12.05.95
15	Equatorial Finance Co. Ltd.	Equatorial Commercial Bank Ltd.	23.06.95
16	Combined Finance Ltd.	Paramount Bank Ltd.	05.07.95
17	Southern Credit Finance Ltd.	Southern Credit Banking Corp. Ltd.	
18	National Industrial Credit Ltd.	National Industrial Credit Bank Ltd.	28.09.95
19	Euro Finance Ltd.	Euro Bank Ltd.	
20	Victoria Finance Company Ltd	Victoria Commercial Bank Ltd.	
21	Fidelity Finance Ltd.	Fidelity Commercial Bank Ltd.	07.03.95
22	Co-operative Finance Ltd.	Co-operative Merchant Bank Ltd.	27.03.96
23	Investments & Mortgages Ltd.	Investments & Mortgages Bank Ltd.	27.03.96
24	Credit & Commerce Finance Ltd.	Commerce Bank Ltd.	
25	Development Finance Co. Ltd.	Development Bank of Kenya Ltd.	20.09.96
26	Charterhouse Finance Ltd.	Charterhouse Bank Ltd.	01.01.98
27	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	

SOURCE: *Bank Supervision Annual Report 1999*

APPENDIX 3: INDIVIDUAL NBFI PERFORMANCE MEASURES

FIRM 1

											Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	-	0.07	0.24	0.49	0.49	-0.96	-1.47	0.68	0.03	-0.47	0.32	0.20	-0.44	0.84	1.5
PBT/TSE	0.12	0.12	0.14	0.14	0.24	0.12	0.03	0.08	0.07	0.04	0.15	0.05	0.07	0.03	2.55
PBT/TA	0.01	0.01	0.01	0.02	0.04	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.00	1.43
CGR	-	0.07	0.06	0.50	0.11	0.05	0.43	0.04	0.13	0.12	0.19	0.21	0.15	0.16	0.05
TSE/TA	0.11	0.10	0.09	0.18	0.17	0.14	0.21	0.17	0.18	0.20	0.13	0.04	0.18	0.03	-2.52
TSE/TL	0.33	0.32	0.34	0.77	1.02	0.79	0.53	0.37	0.39	0.44	0.56	0.32	0.51	0.17	0.27
TSE/TCD	0.13	0.12	0.11	0.24	0.22	0.14	0.34	0.28	0.30	0.32	0.16	0.06	0.28	0.08	-2.91
QA/TC	0.40	0.39	0.71	1.26	1.92	2.11	0.71	0.42	1.45	1.30	0.94	0.66	1.20	0.66	-0.65
Qratio	0.05	0.04	0.07	0.27	0.40	0.34	0.19	0.09	0.31	0.32	0.17	0.16	0.25	0.11	-1.29
CA/CL	0.67	0.64	0.59	0.79	0.82	0.74	0.48	0.32	0.59	0.51	0.70	0.10	0.53	0.15	2.63
TL/TCD	0.39	0.37	0.33	0.31	0.22	0.18	0.65	0.76	0.75	0.72	0.32	0.07	0.61	0.25	-2.21
TL/TA	0.33	0.31	0.28	0.23	0.17	0.18	0.40	0.46	0.45	0.45	0.26	0.07	0.39	0.12	-1.62
TCD/TL	2.58	2.71	3.00	3.21	4.58	5.66	1.54	1.32	1.33	1.39	3.22	0.80	2.25	1.91	0.91

FIRM 2

										Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	Mean	S.D	Mean	S.D	t
NPGR	-	-	-	0.269	0.706	-0.105	0.132	0.141	-	0.488	0.309	0.056	0.140	
PBT/TSE	0.268	-	0.372	0.409	0.702	0.445	0.351	0.363	0.000	0.438	0.186	0.290	0.197	0.47
PBT/TA	0.268	-	0.040	0.042	0.141	0.092	0.069	0.072	0.000	0.123	0.108	0.058	0.040	1.02
CGR	-	-	-	0.197	0.495	0.300	0.315	0.113	0.131	0.346	0.210	0.215	0.108	
TSE/TA	1.000	-	0.108	0.102	0.201	0.207	0.196	0.198	0.222	0.353	0.434	0.206	0.012	0.65
TSE/TL	0.181	-	0.195	0.189	0.288	0.380	0.440	0.460	0.501	0.213	0.050	0.445	0.050	-7.89
TSE/TCD	0.130	-	0.129	0.120	0.186	0.199	0.425	0.559	0.640	0.141	0.030	0.456	0.193	-2.47
QA/TCD.	0.755	-	2.260	2.885	1.694	1.461	0.979	1.070	0.950	1.899	0.904	1.115	0.236	1.03
Qratio	0.094	-	0.274	0.327	0.288	0.254	0.206	0.272	2.814	0.246	0.103	0.886	1.285	-1.1
CA/CL	0.367	-	0.438	0.464	0.499	0.556	0.373	0.504	4.979	0.442	0.056	1.603	2.252	-1.09
TL/TCD	0.716	-	0.659	0.633	0.645	0.524	0.966	1.217	1.277	0.663	0.037	0.996	0.342	-1.29
TL/TA	5.529	-	0.552	0.538	0.699	0.544	0.446	0.432	0.444	1.829	2.467	0.466	0.052	1.07
TCD/TL	1.396	-	1.517	1.579	1.550	1.907	1.035	0.822	0.783	1.511	0.080	1.137	0.525	0.78

FIRM 3

Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Period 1		Period 2		
											Mean	S.D	Mean	S.D	t
NPGR	-	-	-	-	-	-	1.00	-0.02	0.22	-1.20			0.00	0.91	
PBT/TSE	-	-	-	-	-	-	0.18	0.18	0.16	0.05			0.15	0.06	
PBT/TA	-	-	-	-	-	-	0.02	0.02	0.02	0.01			0.02	0.01	
CGR	-	-	0.29	0.57	0.19	0.31	0.03	0.00	0.29	0.27	0.35	0.20	0.18	0.15	1.29
TSE/TA	-	0.07	0.09	0.10	0.09	0.11	0.11	0.10	0.15	0.19	0.09	0.01	0.13	0.04	-2.86
TSE/TL	-	0.14	0.18	0.26	0.25	0.30	0.21	0.26	0.42	0.46	0.21	0.06	0.33	0.11	-3.89
TSE/TCD	-	0.08	0.10	0.12	0.11	0.13	0.13	0.12	0.19	0.26	0.10	0.02	0.17	0.06	-2.59
QA/TCD.	-	2.59	1.99	3.87	6.24	3.60	2.76	5.22	3.84	2.41	3.67	1.88	3.57	1.10	0.08
Qratio	-	0.20	0.19	0.44	0.62	0.45	0.34	0.61	0.69	0.57	0.36	0.21	0.53	0.14	-1.87
CA/CL	-	0.51	0.56	0.65	0.67	0.67	0.51	0.80	0.71	0.68	0.60	0.07	0.67	0.10	-1.38
TL/TCD	-	0.56	0.53	0.46	0.43	0.44	0.61	0.46	0.45	0.58	0.49	0.06	0.51	0.08	-0.65
TL/TA	-	0.51	0.47	0.40	0.36	0.37	0.52	0.39	0.37	0.41	0.43	0.07	0.41	0.06	0.43
TCD/TL	-	1.78	1.90	2.15	2.34	2.29	1.65	2.16	2.20	1.74	2.04	0.25	2.01	0.29	0.57

FIRM 4

Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Period 1		Period 2		
											Mean	S.D	Mean	S.D	t
NPGR	-	-	-	-	-	-	-	-	-	-					
PBT/TSE	-	-	-	-	-	-	-	-	-	-					
PBT/TA	-	-	-	-	-	-	-	-	-	-					
CGR	-	0.10	0.13	0.14	0.25	0.13	0.29	0.18	0.38	0.03	0.16	0.07	0.20	0.14	0.60
TSE/TA	0.07	0.08	0.08	0.08	0.09	0.09	0.08	0.10	0.17	0.18	0.08	0.01	0.12	0.05	2.41
TSE/TL	0.13	0.13	0.14	0.18	0.26	0.18	0.17	0.20	0.36	0.35	0.17	0.05	0.25	0.10	3.26
TSE/TCD	0.09	0.09	0.09	0.10	0.10	0.10	0.12	0.15	0.23	0.23	0.09	0.01	0.17	0.06	2.97
QA/TCD.	5.43	5.26	5.68	6.22	7.03	5.43	2.59	2.83	1.48	2.06	5.92	0.72	2.88	1.52	-3.40
Qratio	4.34	6.62	8.64	8.28	15.56	12.92	24.54	32.74	11.02	29.08	8.69	4.20	22.06	9.68	3.63
CA/CL	7.20	10.95	14.23	13.23	21.46	20.14	41.05	49.41	15.22	38.33	13.42	5.25	32.83	14.52	3.25
TL/TCD	0.71	0.69	0.63	0.55	0.40	0.55	0.74	0.76	0.63	0.68	0.60	0.13	0.67	0.09	1.07
TL/TA	0.58	0.60	0.53	0.47	0.35	0.48	0.49	0.52	0.46	0.53	0.50	0.10	0.49	0.03	-0.21
TCD/TL	1.41	1.44	1.58	1.82	2.48	1.82	1.35	1.32	1.60	1.48	1.75	0.44	1.51	0.20	-1.06

FIRM 5

										Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	-	-	-	-	-	-	-	-	-	-					
PBT/TSE	-	-	-	-	-	-	-	-	-	-					
PBT/TA	-	-	-	-	-	-	-	-	-	-					
CGR	-	0.57	-	-	0.65	0.96	-	-	0.12	0.07	0.61	0.06	0.38	0.50	
TSE/TA	0.13	0.07	-	0.07	0.07	1.00	-	0.07	0.09	0.09	0.08	0.03	0.31	0.46	1.09
TSE/TL	0.25	0.12	-	0.19	0.36	2.73	-	0.14	0.16	0.19	0.23	0.10	0.80	1.28	0.88
TSE/TCD	0.18	0.08	-	0.08	0.08	1.14	-	0.09	0.03	0.01	0.11	0.05	0.32	0.55	0.81
QA/TCD.	2.24	6.04	-	8.09	11.89	0.62	-	4.57	3.11	3.21	7.07	4.03	2.88	1.64	-2.50
Qratio	5.74	7.95	-	10.90	10.82	12.56	-	10.76	11.78	15.86	8.85	2.49	12.74	2.21	2.42
CA/CL	5.74	7.95	-	10.90	10.82	12.56	-	10.76	11.78	15.86	8.85	2.49	12.74	2.21	2.42
TL/TCD	0.74	0.64	-	0.44	0.22	0.42	-	0.67	0.16	0.05	0.51	0.23	0.32	0.28	-5.64
TL/TA	0.51	0.54	-	0.39	0.19	0.37	-	0.51	0.58	0.51	0.41	0.16	0.49	0.09	0.90
TCD/TL	1.35	1.56	-	2.27	4.57	2.40	-	1.49	6.41	20.41	2.44	1.48	7.67	8.75	1.59

FIRM 6

											Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	-	-	-	-	-	-	-	-	-0.24	-0.99			-0.62	0.53	
PBT/TSE	-	-	-	-	-	-	-	0.30	0.22	0.11			0.21	0.10	
PBT/TA	-	-	-	-	-	-	-	0.05	0.04	0.02			0.04	0.02	
CGR	-	0.32	0.20	0.12	0.21	0.15	0.28	0.20	0.10	0.02	0.21	0.08	0.15	0.10	1.57
TSE/TA	0.08	0.11	0.11	0.14	0.16	0.15	0.17	0.18	0.17	0.17	0.12	0.03	0.17	0.01	-4.44
TSE/TL	0.14	0.19	0.22	0.29	0.53	0.58	0.31	0.30	0.30	0.28	0.27	0.15	0.35	0.13	-0.71
TSE/TCD	0.10	0.13	0.13	0.17	0.22	0.19	0.23	0.40	0.35	0.25	0.15	0.05	0.28	0.09	-3.2
QA/TCD.	1.64	2.20	1.71	2.73	3.59	4.23	1.49	1.00	1.21	0.86	2.38	0.81	1.76	1.40	0.7
Qratio	1.18	3.87	2.23	5.65	5.10	7.86	3.95	13.27	20.49	17.96	3.61	1.89	12.71	6.87	-3.46
CA/CL	3.40	6.56	5.50	6.81	5.10	8.79	5.95	27.10	34.10	32.24	5.48	1.36	21.64	13.31	-2.79
TL/TCD	0.75	0.70	0.60	0.61	0.42	0.33	0.74	1.33	1.19	0.91	0.62	0.12	0.90	0.39	-1.35
TL/TA	0.60	0.58	0.49	0.49	0.31	0.26	0.56	0.59	0.59	0.63	0.49	0.12	0.53	0.15	-0.31
TCD/TL	1.34	1.42	1.66	1.65	2.35	3.01	1.36	0.75	0.84	1.10	1.68	0.40	1.41	0.92	0.52

FIRM 7

										Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	-	-	-	-	0.60	0.49	-0.41	0.32	0.17	0.23	0.60		0.16	0.34	
PBT/TSE	-	-	-	0.28	0.38	0.53	0.31	0.32	0.26	0.27	0.33	0.07	0.34	0.11	
PBT/TA	-	-	-	0.04	0.04	0.05	0.02	0.03	0.03	0.04	0.04	0.00	0.03	0.01	
CGR	-	-	-	-	0.45	0.29	0.19	0.30	0.32	0.21	0.45		0.26	0.06	1.57
TSE/TA	-	-	-	0.15	0.10	0.09	0.07	0.09	0.12	0.14	0.13	0.04	0.10	0.03	-4.44
TSE/TL	-	-	-	0.29	0.16	0.16	0.10	0.14	0.20	0.22	0.22	0.09	0.17	0.05	-0.71
TSE/TCD	-	-	-	0.19	0.12	0.11	0.13	0.11	0.15	0.18	0.16	0.05	0.13	0.03	-3.2
QA/TCD.	-	-	-	1.58	1.98	2.49	2.85	2.41	2.52	6.92	1.78	0.28	3.44	1.96	0.7
Qratio	-	-	-	0.28	0.22	0.25	0.22	0.24	0.34	0.28	0.25	0.04	0.27	0.05	-3.46
CA/CL	-	-	-	0.55	0.40	0.26	0.30	0.36	0.39	1.28	0.47	0.11	0.52	0.43	-2.79
TL/TCD	-	-	-	0.66	0.75	0.67	1.24	0.75	0.77	0.80	0.71	0.06	0.85	0.23	-1.35
TL/TA	-	-	-	0.52	0.63	0.57	0.69	0.63	0.61	0.65	0.57	0.08	0.63	0.05	-0.31
TCD/TL	-	-	-	1.51	1.33	1.49	0.81	1.34	1.29	1.25	1.42	0.12	1.24	0.26	0.52

FIRM 8

											Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	-	0.28	0.37	0.54	0.15	0.38	0.06	0.02	-	-	0.34	0.16	0.15	0.20	4.44
PBT/TSE	0.46	0.52	0.58	0.68	0.64	0.72	0.08	0.35	0.23	0.23	0.58	0.09	0.32	0.24	1.9
PBT/TA	0.03	0.04	0.05	0.09	0.08	0.09	0.08	0.07	0.06	0.06	0.06	0.02	0.07	0.01	-1.01
CGR	0.00	0.19	0.28	0.46	0.21	0.30	0.89	-3.21	0.10	0.07	0.23	0.17	-0.37	1.62	0.89
TSE/TA	0.07	0.07	0.08	0.13	0.12	0.12	1.00	0.21	0.26	0.28	0.10	0.03	0.38	0.35	-1.72
TSE/TL	0.09	0.10	0.11	0.18	0.16	0.17	1.29	0.30	0.40	0.48	0.13	0.04	0.53	0.44	-1.97
TSE/TCD	0.09	0.09	0.10	0.17	0.15	0.16	1.28	0.30	0.38	0.44	0.12	0.04	0.51	0.44	-1.92
QA/TCD.	1.34	2.53	2.27	1.70	1.70	1.69	0.18	0.72	0.85	0.99	1.91	0.48	0.89	0.55	2.27
Qratio	0.80	1.19	9.30	5.52	7.54	8.92	31.43	13.55	13.64	23.46	4.87	3.79	18.20	9.10	-2.88
CA/CL	1.63	1.94	9.30	5.52	7.54	9.30	34.09	17.65	15.86	26.81	5.19	3.38	20.74	9.74	-3.35
TL/TCD	1.00	0.92	0.92	0.95	0.95	0.97	0.99	1.01	0.94	0.92	0.95	0.03	0.97	0.04	-0.79
TL/TA	0.80	0.71	0.77	0.72	0.76	0.75	0.77	0.72	0.65	0.59	0.75	0.04	0.70	0.07	1.54
TCD/TL	1.00	1.09	1.09	1.05	1.06	1.03	1.01	0.99	1.06	1.09	1.06	0.04	1.04	0.04	0.78

FIRM 9

Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Period 1		Period 2		
											Mean	S.D	Mean	S.D	t
NPGR	-	1.44	-0.26	0.75	0.28	0.02	-0.16	-3.19	0	0	0.55	0.72	-0.66	1.41	3.4
PBT/TSE	-0.13	0.21	0.15	0.44	0.48	0.41	0.25	0.06	0.00	0.00	0.23	0.25	0.14	0.18	-0.84
PBT/TA	-0.01	0.02	0.01	0.04	0.04	0.04	0.02	0.01	0.00	0.00	0.02	0.02	0.01	0.02	-0.85
CGR	-	0.31	0.07	0.27	0.23	0.15	0.30	0.05	0.13	0.37	0.22	0.11	0.20	0.13	0.17
TSE/TA	0.06	0.09	0.09	0.10	0.09	0.09	0.09	0.09	0.11	0.17	0.09	0.02	0.11	0.04	-1.8
TSE/TL	0.09	0.13	0.01	0.01	-	-	-	-	-	-	0.06	0.06			
TSE/TCD	0.07	0.11	0.10	0.12	0.11	0.10	0.10	0.10	0.14	0.22	0.10	0.02	0.13	0.05	-1.46
QA/TCD	2.26	1.35	1.34	3.57	5.19	0.76	1.99	2.30	1.54	1.18	2.74	1.64	1.55	0.61	1.3
Qratio	-	-	17.09	18.20	26.55	19.82	-	9.41	7.11	-	20.61	5.17	12.11	6.77	5.5
CA/CL	-	-	44.37	26.46	35.87	51.74	-	15.06	7.11	-	35.57	8.96	24.63	23.81	4.89
TL/TCD	0.72	0.85	9.07	10.63	-	-	-	-	-	-	5.32	5.27			
TL/TA	0.62	0.69	7.67	8.66	-	-	-	-	-	-	4.41	4.36			
TCD/TL	1.38	1.18	0.11	0.09	-	-	-	-	-	-	0.69	0.69			

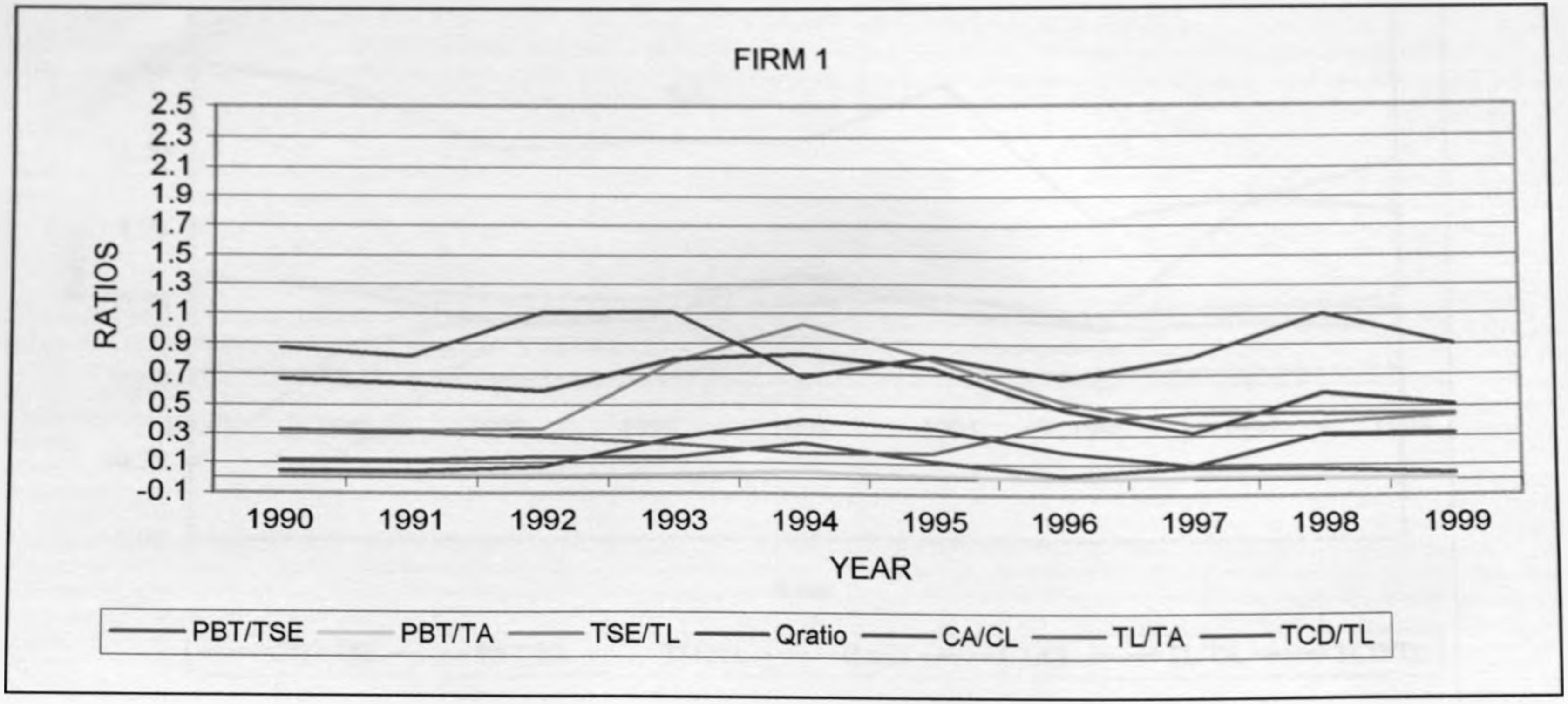
FIRM 10

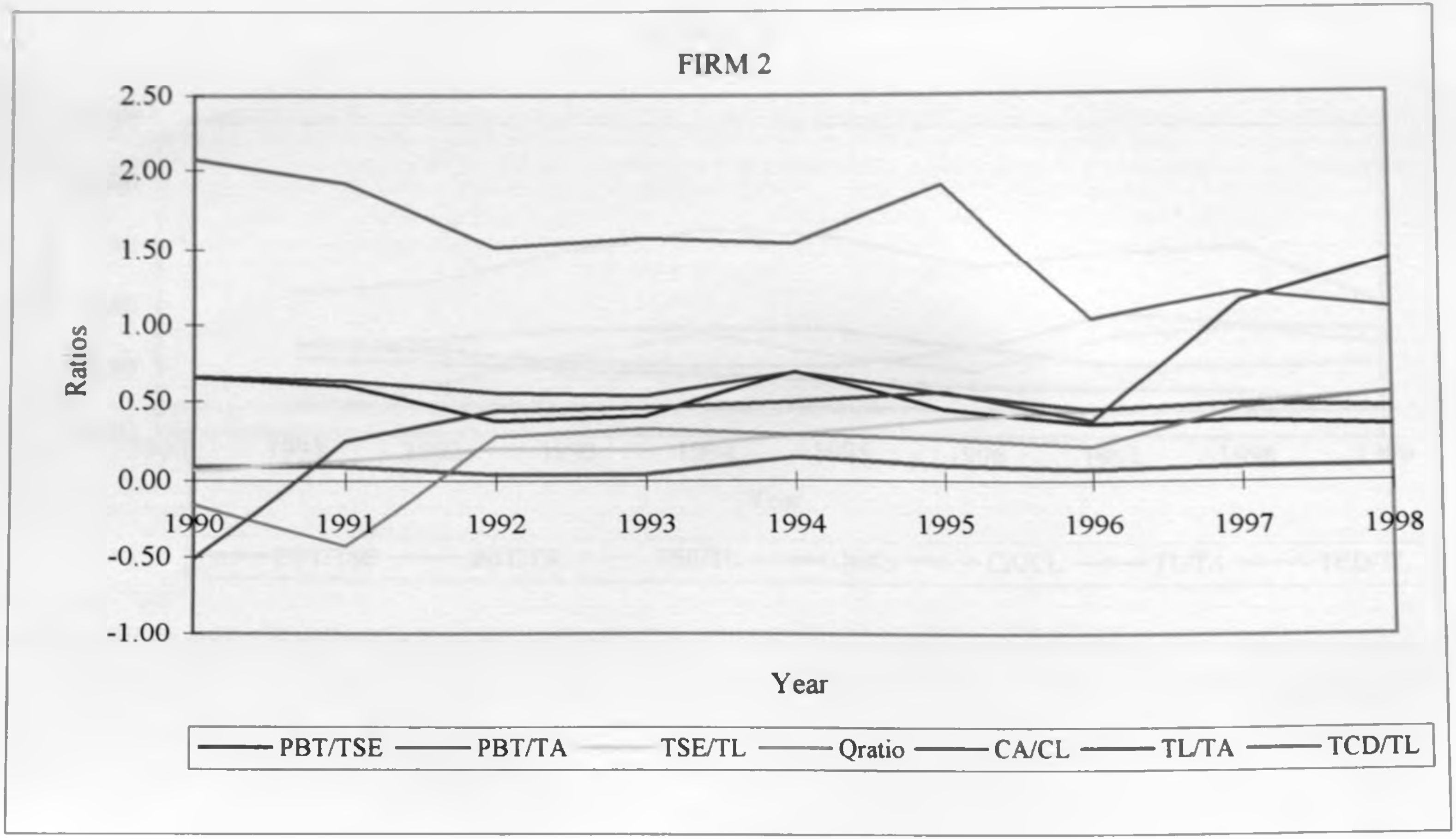
										Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	Mean	S.D	Mean	S.D	t
NPGR	-	0.503	0.328	0.789	0.016	0.011	0.099	0.117	0.001	0.409	0.324	0.057	0.059	2.76
PBT/TSE	0.176	0.227	0.237	0.542	0.415	0.338	0.272	0.199	0.175	0.320	0.154	0.246	0.074	0.44
PBT/TA	0.011	0.014	0.015	0.044	0.027	0.021	0.018	0.018	0.020	0.022	0.014	0.019	0.002	0.2
CGR	-	0.359	0.299	0.519	0.247	0.196	0.275	0.352	0.124	0.356	0.118	0.237	0.099	1.07
TSE/TA	0.060	0.063	0.063	0.081	0.064	0.063	0.066	0.091	0.117	0.066	0.008	0.084	0.025	2.09
TSE/TL	1.608	1.353	1.527	1.040	0.068	2.225	2.216	1.916	4.231	1.119	0.627	2.647	1.066	-1.95
TSE/TCD	0.066	0.070	0.071	0.096	0.072	0.070	0.077	0.112	0.154	0.075	0.012	0.103	0.038	-2.08
QA/TCD	1.921	1.776	1.836	3.617	6.232	3.897	3.288	1.462	1.703	3.076	1.924	2.587	1.191	-0.33
Qratio	3.089	2.403	2.803	3.760	0.426	8.671	7.288	2.801	7.205	2.496	1.259	6.491	2.550	-2.8
CA/CL	11.979	11.166	2.999	3.935	0.727	19.799	16.789	6.521	12.662	6.161	5.084	13.943	5.748	-5.51
TL/TCD	0.594	0.531	0.633	0.371	0.346	0.480	0.520	0.667	0.773	0.495	0.130	0.610	0.135	-0.69
TL/TA	0.537	0.474	0.567	0.313	0.309	0.428	0.449	0.543	0.588	0.440	0.122	0.502	0.076	-0.35
TCD/TL	1.682	1.882	1.581	2.692	2.894	2.082	1.923	1.499	1.294	2.146	0.605	1.699	0.366	0.66

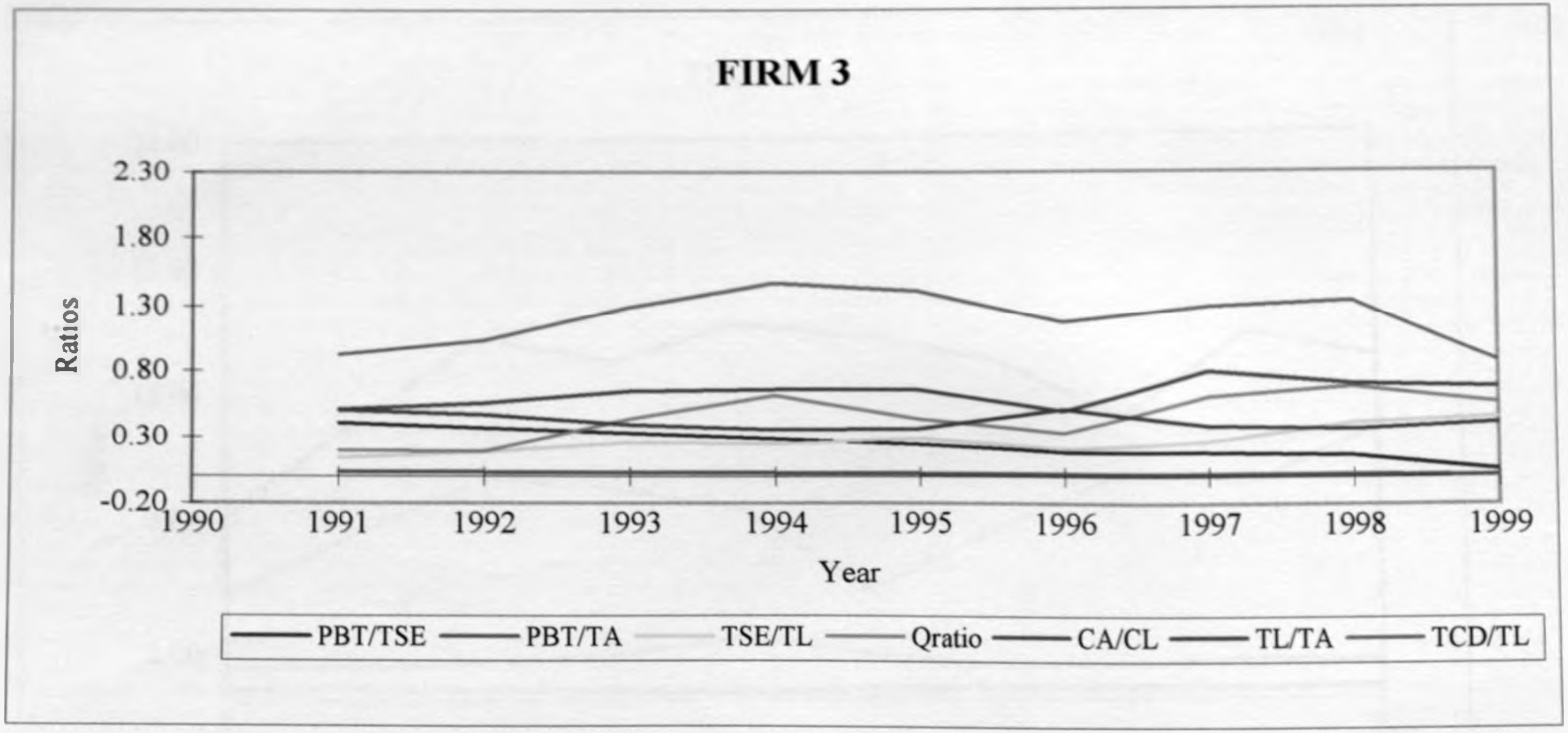
FIRM 11

											Period 1		Period 2		
Ratio\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mean	S.D	Mean	S.D	t
NPGR	0.00	0.16	0.00	1.00	0.26	0.07	4.33	0.60	-4.43	-0.16	0.284	0.415	0.081	3.111	-0.82
PBT/TSE	0.33	0.35	0.00	0.39	0.45	0.42	-0.10	-0.40	-0.06	-0.05	0.305	0.176	-0.039	0.295	2.35
PBT/TA	0.04	0.05	0.00	0.38	0.47	0.53	-0.10	-0.40	-0.01	-0.01	0.187	0.219	0.003	0.338	0.6
CGR	0.00	0.12	0.00	1.00	0.15	0.12	0.21	-0.58	0.14	0.07	0.254	0.423	-0.011	0.325	0.8
TSE/TA	0.13	0.13	0.00	0.96	1.05	1.26	1.00	1.00	0.16	0.17	0.454	0.505	0.718	0.518	-0.15
TSE/TL	0.20	0.21	0.00	0.00	0.00	0.21	0.27	0.19	0.32	0.41	0.082	0.113	0.280	0.090	-1.71
TSE/TCD	0.18	0.17	0.00	0.00	0.00	0.00	7.49	0.15	0.19	0.22	0.070	0.096	1.611	3.290	
QA/TCD.	0.90	0.99	0.00	0.00	0.00	1.66	1.11	1.61	2.32	2.47	0.378	0.518	1.833	0.559	-1.37
Qratio	0.14	0.15	0.00	0.00	0.00	0.23	0.18	0.20	0.39	0.50	0.058	0.080	0.302	0.138	-2.19
CA/CL	0.26	0.26	0.00	0.04	0.05	0.06	0.02	0.06	0.54	0.58	0.121	0.126	0.251	0.281	-0.69
TL/TCD	0.89	0.81	0.00	0.00	0.00	0.00	27.92	0.78	0.60	0.54	0.339	0.466	5.968	12.274	
TL/TA	0.67	0.61	0.00	0.00	0.00	5.89	3.73	5.38	0.49	0.41	0.256	0.351	3.179	2.616	-3.95
TCD/TL	1.13	1.23	0.00	0.00	0.00	0.00	0.04	1.27	1.66	1.87	0.472	0.648	0.967	0.892	

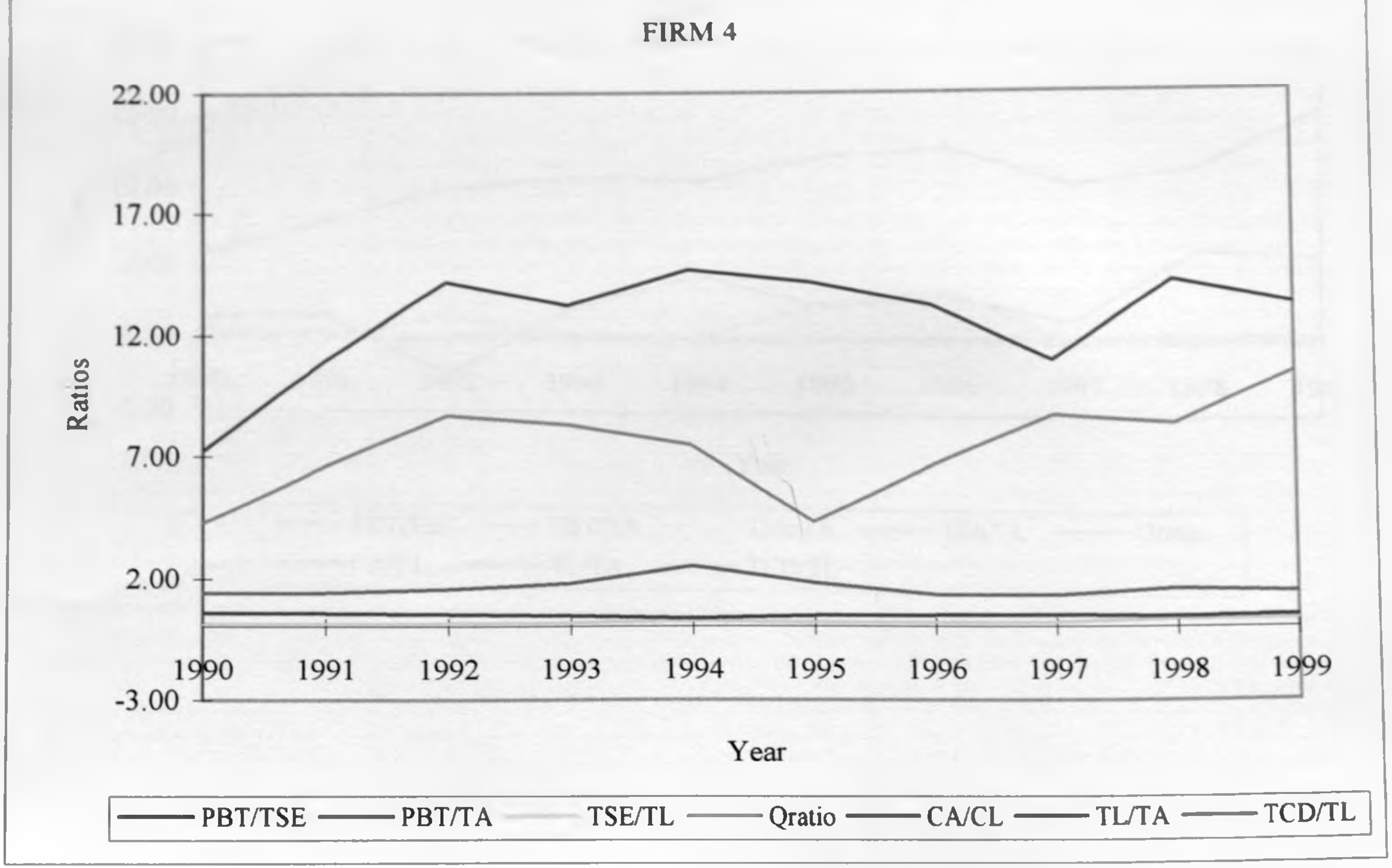
APPENDIX 4: PERFORMANCE TREND OF INDIVIDUAL NBFIS



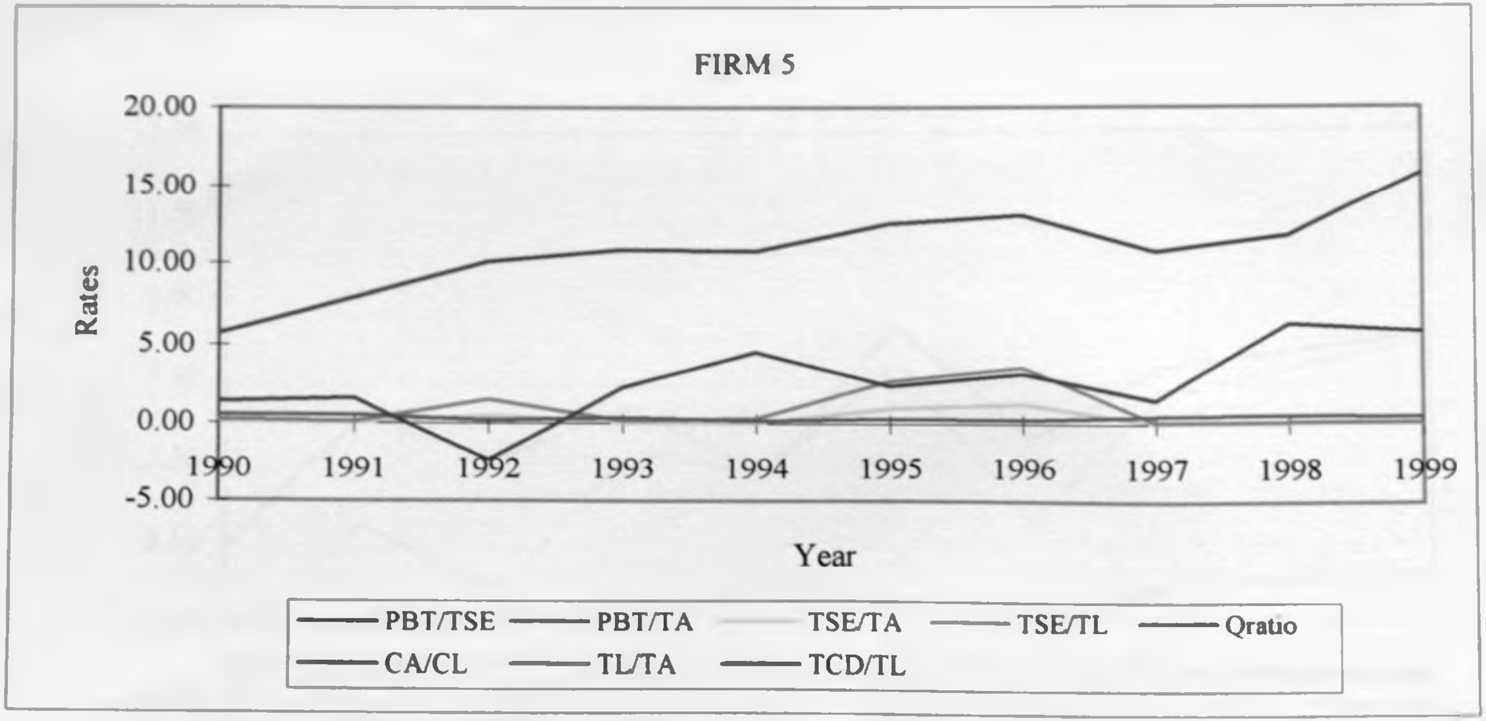

FIRM 2
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
Year
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL

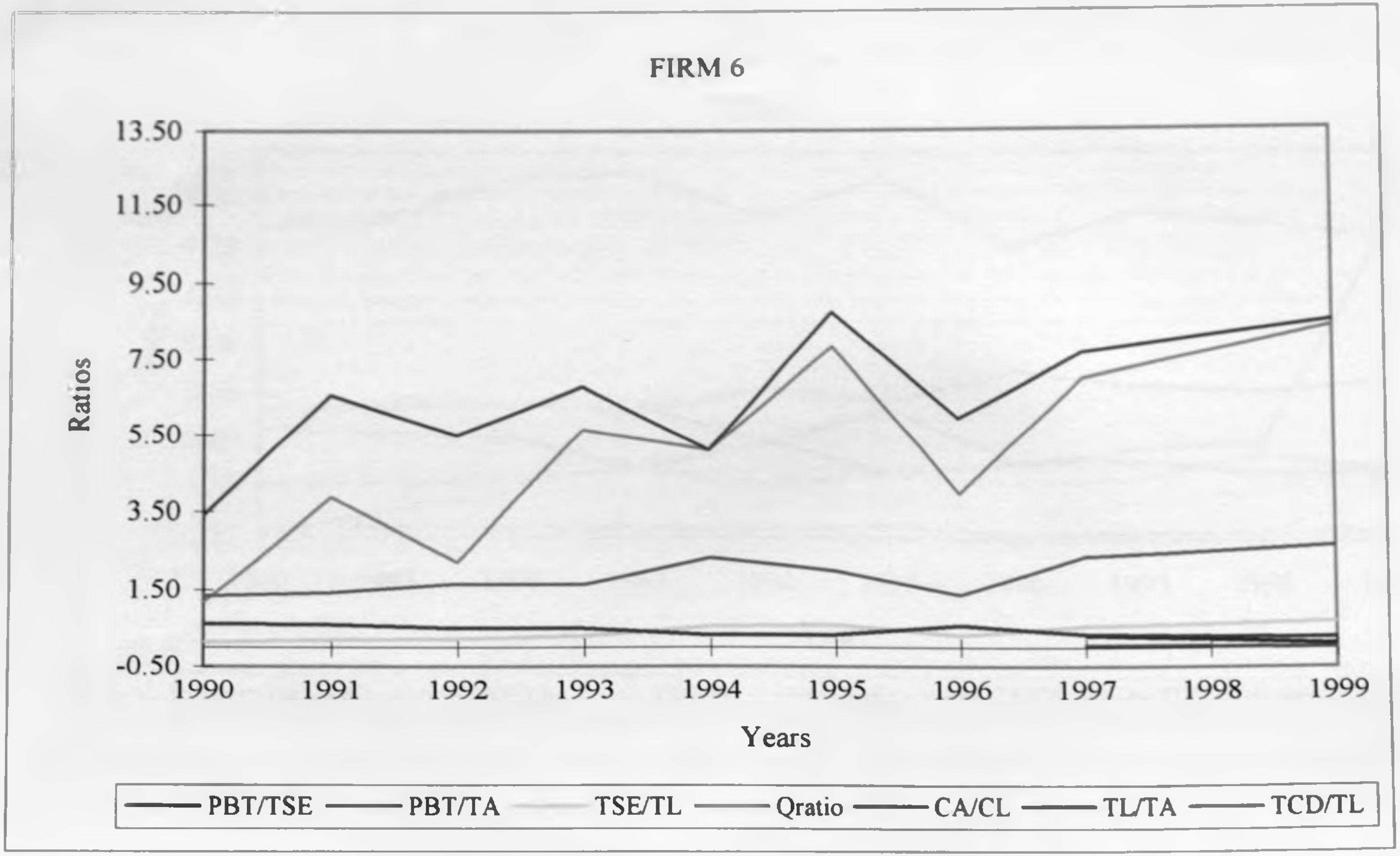


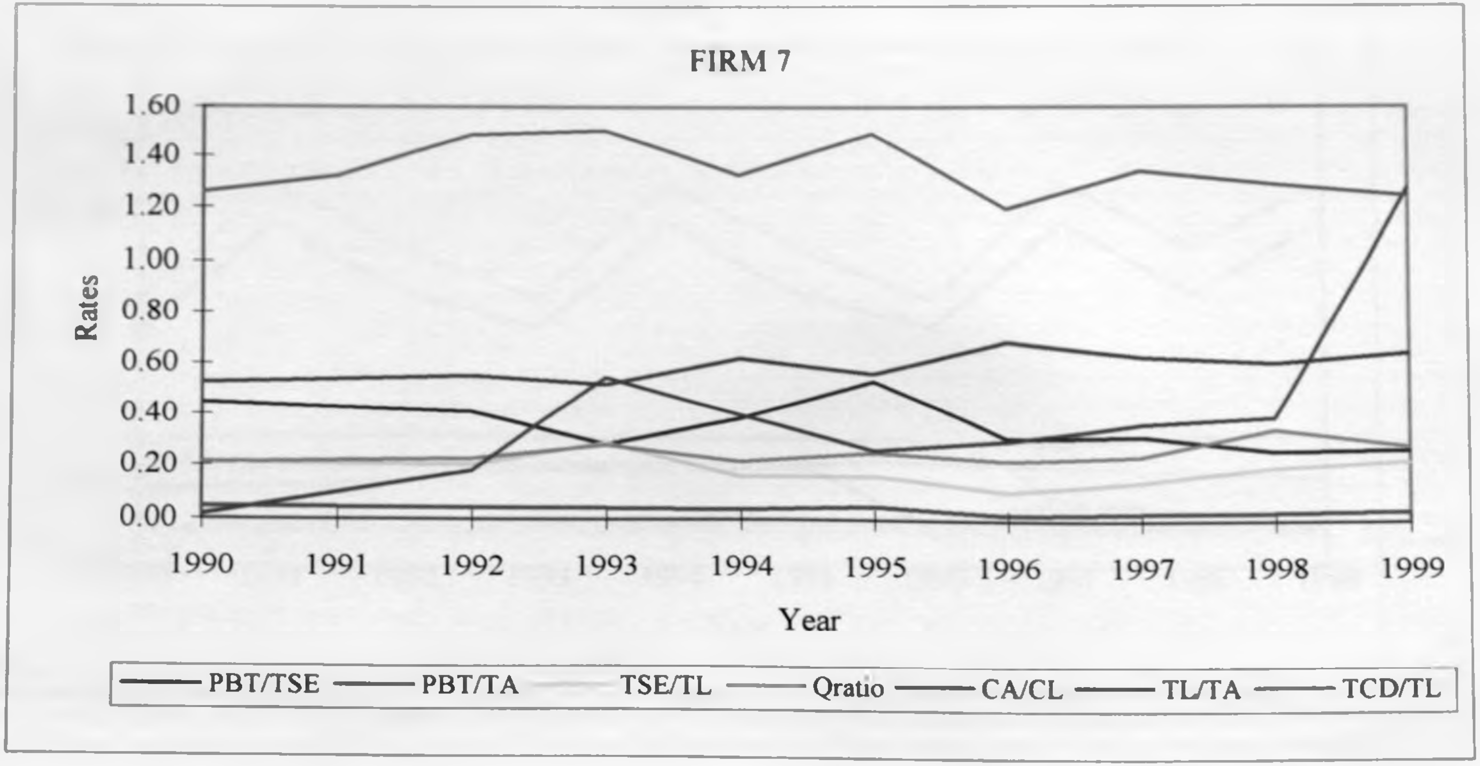
FIRM 3
2.30
1.80
1.30
0.80
0.30
-0.20
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Year
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL



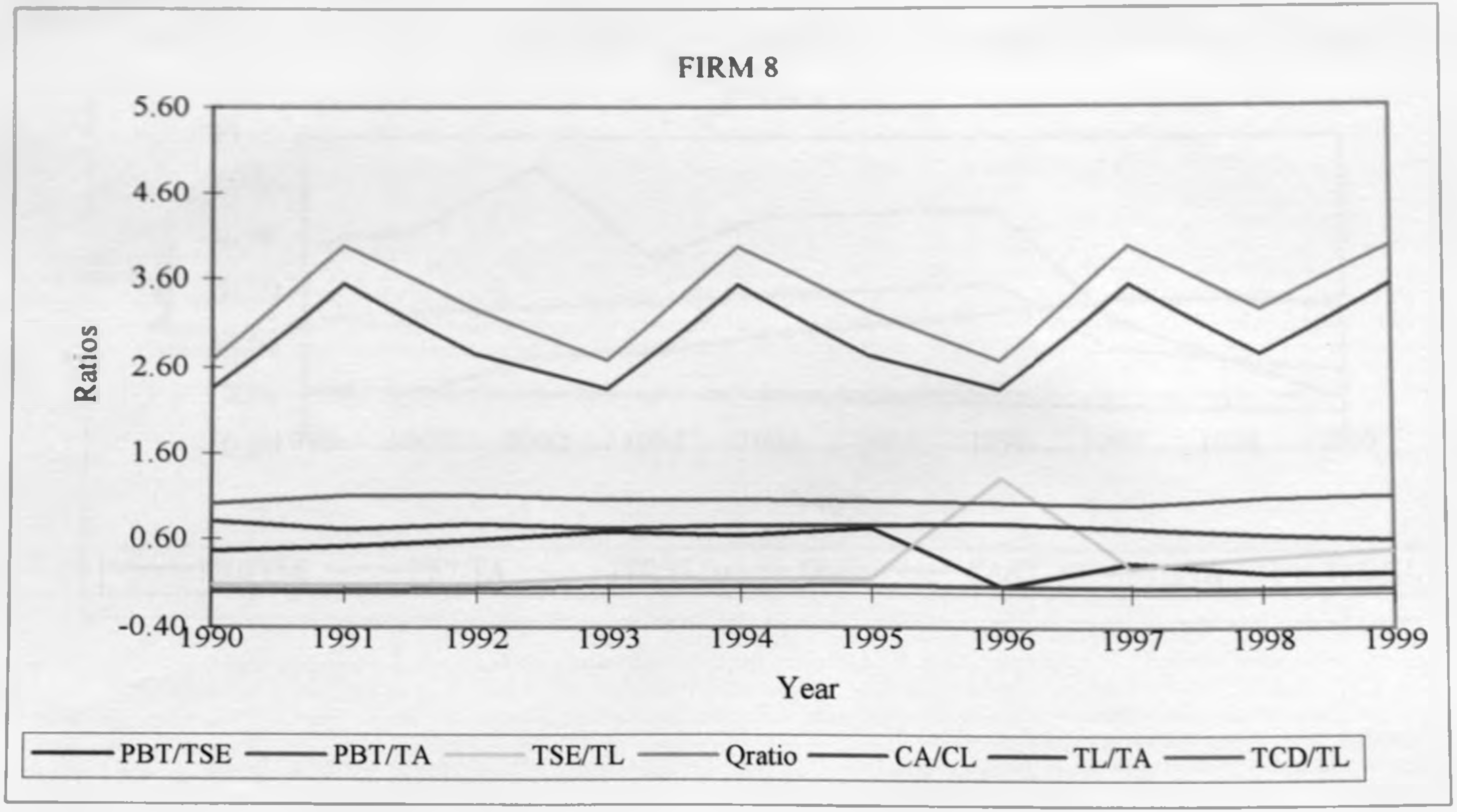
FIRM 4
22.00
17.00
12.00
7.00
2.00
-3.00
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Year
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL

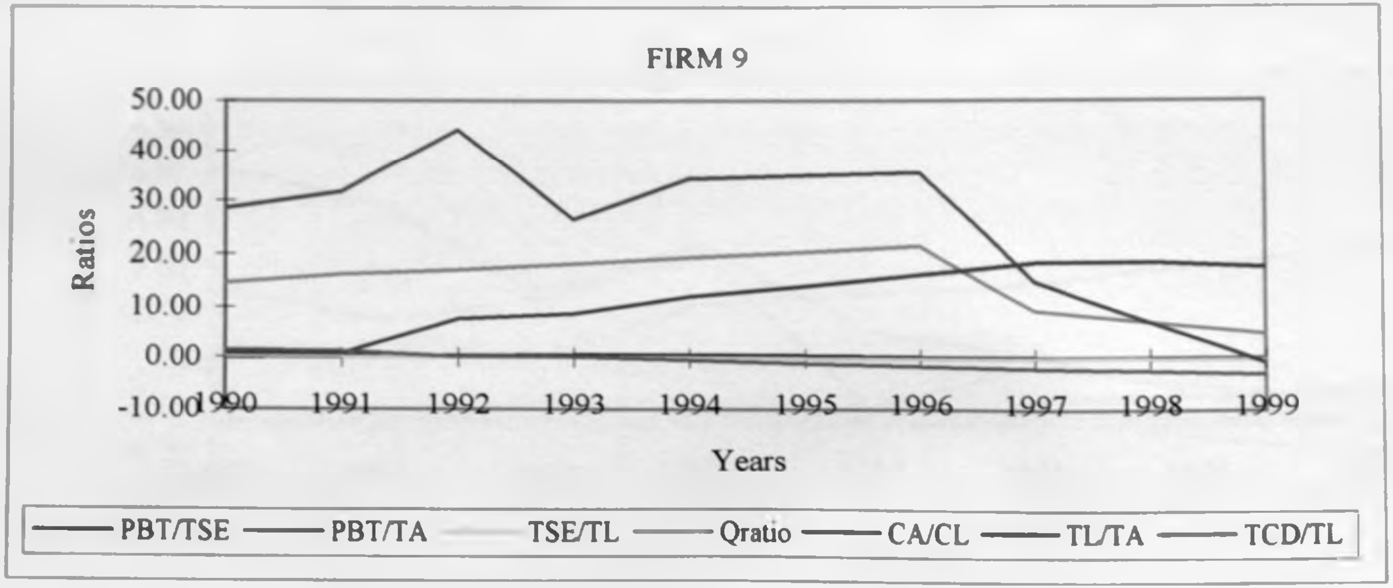

FIRM 5
20.00
15.00
10.00
5.00
0.00
-5.00
Rates
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Year
PBT/TSE
PBT/TA
TSE/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL

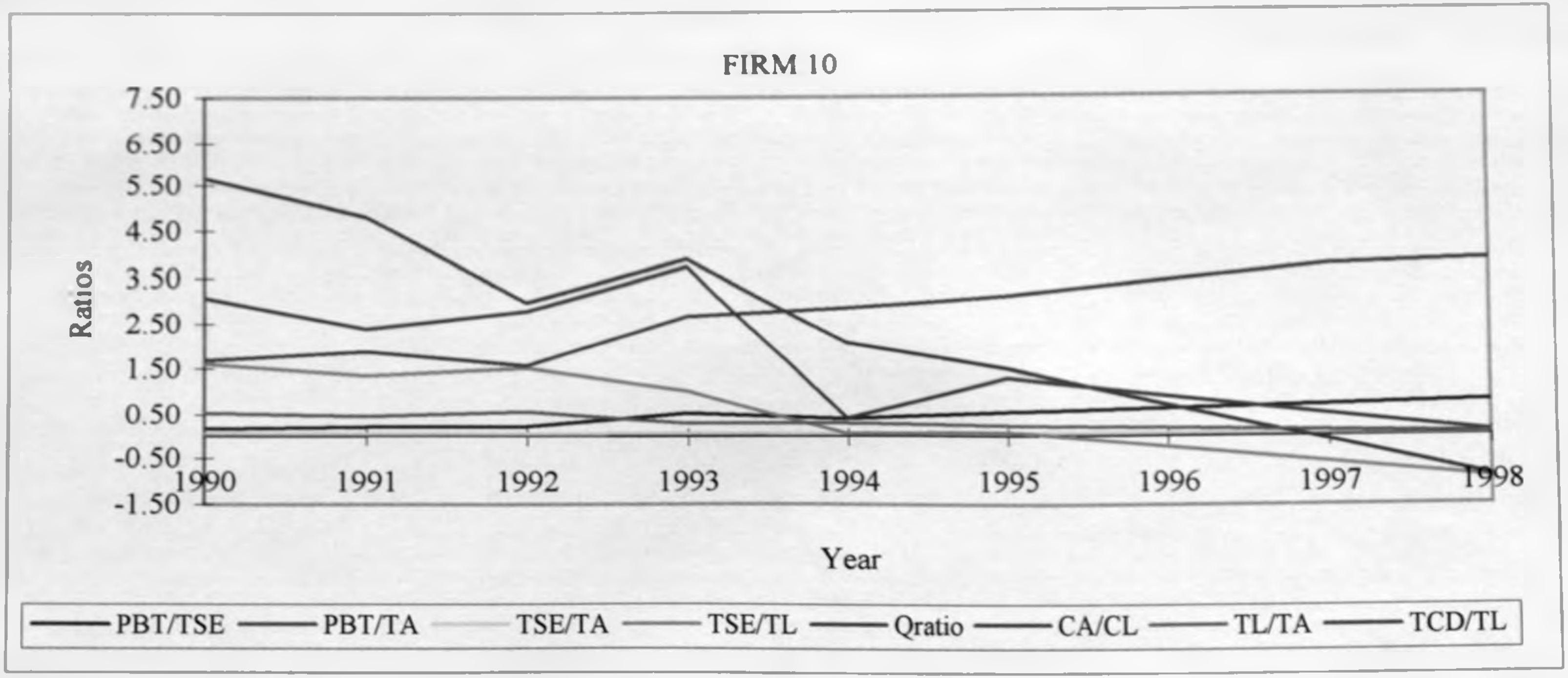

FIRM 6
13.50
11.50
9.50
7.50
5.50
3.50
1.50
-0.50
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Years
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL

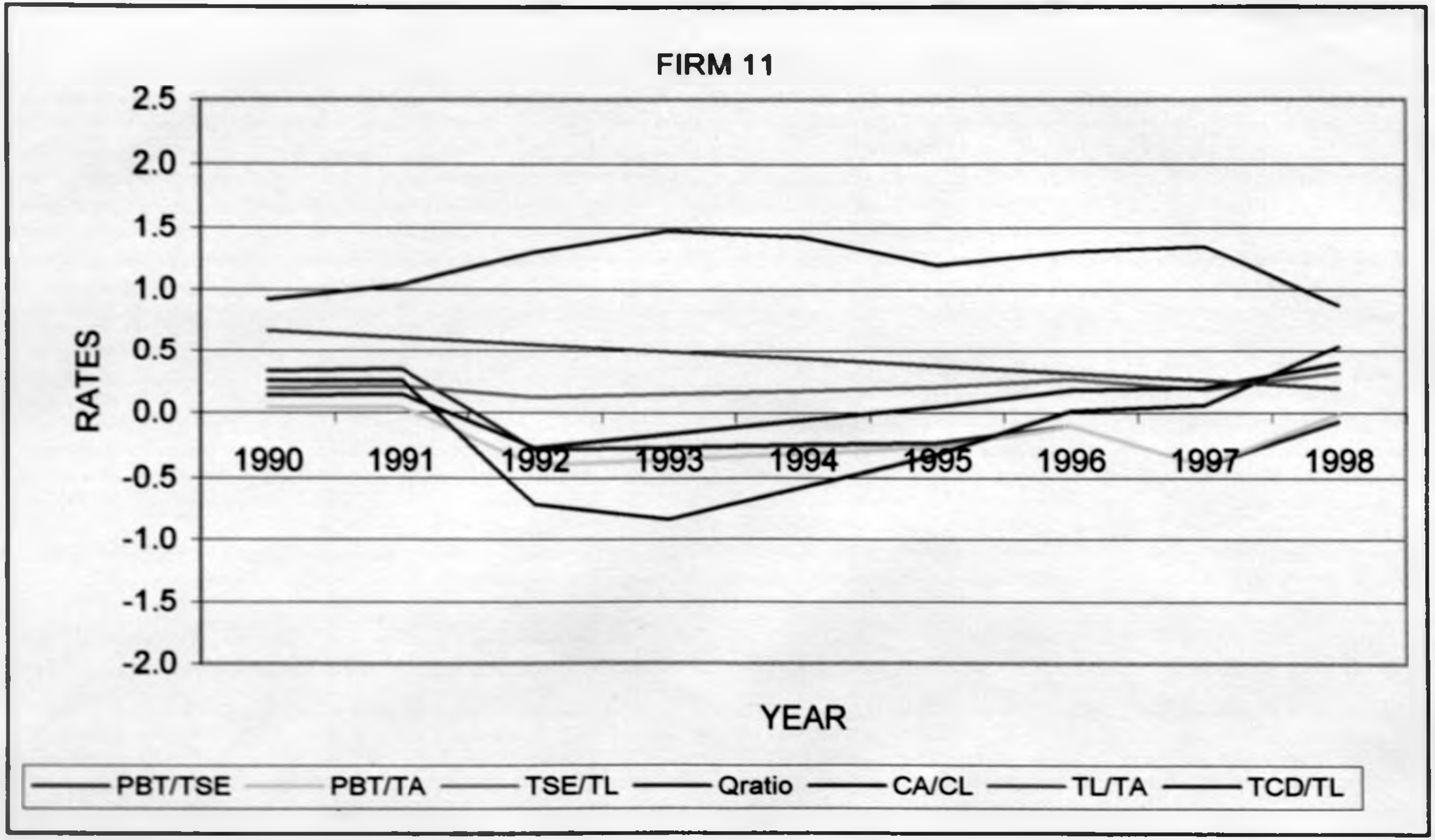


FIRM 7
Rates
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Year
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL


FIRM 8
5.60
4.60
3.60
2.60
1.60
0.60
-0.40
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Year
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL


FIRM 9
50.00
40.00
30.00
20.00
10.00
0.00
-10.00
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Years
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL


FIRM 10
7.50
6.50
5.50
4.50
3.50
2.50
1.50
0.50
-0.50
-1.50
Ratios
1990
1991
1992
1993
1994
1995
1996
1997
1998
Year
PBT/TSE
PBT/TA
TSE/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL


FIRM 11
RATES
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
YEAR
PBT/TSE
PBT/TA
TSE/TL
Qratio
CA/CL
TL/TA
TCD/TL