MERGER RESTRUCTURING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

PRESENTED BY

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DECLARATION

I declare that this project is my original work and has not been presented for a degree in any other University

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Date: 11/10/02

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

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DEDICATION

This paper is dedicated to my parents, brothers and sisters, my sister's family (The Tiren's) and my fiancee, Eliud.

GOD BLESS YOU.

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ABBREVIATIONS.

CBK	-	Central Bank of Kenya
MER	-	Monthly Economic Review
NBFI	-	Non Bank Financial Institutions
TNB	-	Transnational Bank Ltd
NBK	-	National Bank of Kenya Ltd
NIC Bank	-	National Industrial Credit Bank Ltd
STD	-	Standard Chartered Bank Ltd
IMF	-	International Monetary Fund

ABSTRACT

This study set out to achieve the following objective:

Assess the financial performance of Kenyan Banks restructured using the merger approach. Profitability and earnings, capital adequacy and solvency indicators were used to determine implications of merger restructuring on performance of commercial banks.

Secondary data obtained from Financial statements and various publications was used in the study. The data was then analysed with the aid of Microsoft (MS) Excel statistical package.

On financial performance evaluation of the merged institutions, it was observed that though there is improved performance in some cases, the extent of the contribution cannot be said to be significant.

The general observation is that other than for indicators with legal requirements by the Central Bank of Kenya (Capital adequacy and Solvency ratios), merger restructuring has not improved the financial performance of the majority of merged institutions as indicated by the profitability and earnings ratios. It is however important to note that the ratios that gave a higher indication on financial performance of the merged banks are those that have legal implications: Capital adequacy and Solvency. Profitability ratios however indicate that the majority of the merged banks reported a decline in financial performance.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

In the 1980's and early 1990's, several countries in developed, developing and transition economies experienced several banking crises requiring a major overhaul of their banking systems (IMF 1998). Often, problems have domestic causes, such as; a weak banking supervision, political interference and inadequate capital. Further, a countries banking system may be outmoded and in need of rebuilding; as in the case of many developing countries like Kenya. Outside forces such as fall in the prices of a Key export product or Commodity can ignite or worsen a crisis (Dziobek and Pazarbasioglu (1998).

Countries have taken different approaches in resolving banking crisis with varied degrees of success. Different policies, strategies and tools of reforms have been used in an attempt to foster liquidity, solvency and proper functioning of a sound stable financial system particularly due to the dynamic environment under which it operates (IMF, 1998). In many economies, bank restructuring has been used as a proactive measure or as a reactive measure.

Due to the central role of a developed banking system in our economy, it is necessary to identify a restructuring technique that can be used to forestall bank failures. Further, the need to strengthen the financial system has been emphasized by the recent bank crisis. The structure of any country's financial system is of great importance to the impact on its economic activities. Indeed, no Government will in this sense permit widespread bank failure; hence, the focus on bank restructuring so that plans are not forged under crisis conditions. (Dziobek and Pazarbasioglu, 1998). There is no optimal, unique or scientific methodology in bank restructuring as it depends on a country's legal situation, social, political and economic framework (De Juan (1991). De Juan (1991) and Popiel (1988) highlighted various bank restructuring techniques to assist policy makers and the World Bank in considering various ways to restructure banks under different sets of conditions. Restructuring options include;

regulatory forbearance, across the board solutions, rehabilitation; sale/merger and liquidation. Restructuring mechanisms on the other hand include market based solutions (privatisation), carving out bad loans, bank hospitals (Deposit protection fund), change of guard and phoenix from the ashes (consolidation).

This study will analyse bank mergers as a restructuring option in Kenya. Mergers from a legal standpoint and for purposes of this study means; "any transaction that forms one economic unit from two or more previous ones" (Copeland and Weston, 1992). According to Pandy (1999), merger is said to occur when two or more companies combine into one company. One or more companies may merge with an existing company or may merge to form a new company. It may take two forms; absorption and consolidation. ***Absorption*** is a combination of two or more companies into an existing company. All companies except one lose their identity. Merger through ***consolidation*** on the other hand is a combination of two or more companies into a new company. In this form of merger all companies are legally dissolved and a new entity is created. Ross, Westerfield and Jaffe, 1996 define a merger as the absorption of one firm by another. These techniques have been prevalent particularly following crisis.

Recent episodes have seen banks absorbing their subsidiaries (Non Bank Financial Institutions). Non-Bank Financial Institutions comprise a mixed bag of institutions. They mobilise savings and facilitate financing of activities. In this sense, they play an important dual role in the financial system. Infact, they complement the role of commercial banks, filling the gaps in their range of services (Vittas, 1997). Indeed, the distinction between commercial Banks and NBFI's has become blurred.

The study will empirically investigate merger as a restructuring practice in the Kenyan Banking Sector and its implication on Bank performance.

An adequate role of the Government in analysis, providing fiscal resources, adopting the necessary legal and regulatory measures and setting overall framework is necessary for any form of restructuring (Claessens, 1998).

1.2. STATEMENT OF THE PROBLEM

In the context of widespread insolvency, restructuring is a necessary "medication" to restore health to individual banks and the financial system. In view of the importance of the Banking system, it is necessary to avoid fiscal and monetary cost of permanent subsidization of an ailing system without sound banking. Waiting for the recovery of the economy to outgrow banks problems may not work unless the problem is shallow. Further, tightening prudential controls may not be an adequate measure to restore financial stability. (IMF, 1998)

Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed Banks as at 1998) following the crises of; 1986 - 1989, 1993/1994 and 1998. The number of banks absorbing their subsidiaries or merging with other banks have equally increased (CBK, 2000).

In a Banking crisis; depositors, lenders to banks and owners of bank capital all lose confidence and seek to simultaneously salvage their resources by withdrawing them. Restructuring of insolvent banks is therefore a must for the regulatory framework and supervisory system to be respected as a source of discipline and sound banking.

The cost of bank failures is colossal; hence, the necessity to **"Get out of the dark"** (Sheng, 1991). Indeed, it is a "***wake-upcall***" to improve performance: restore solvency; improve profitability and rebuild confidence as most financial systems "***were asleep***" prior to the financial crisis. (Senbet, 1998). Bank mergers have been prevalent in Kenya as strategy tools for weak financial institutions. Ailing banks require quick action by supervisory authorities to salvage them before they become insolvent.

Bank restructuring approaches that have been applied in Kenya are numerous and this study may not be able to adequately address all of them within the stipulated time. More so, merger technique has been one of the popular restructuring approaches used by Kenyan Banks in the recent past. No study has been undertaken to assess whether there is an improvement in financial performance following restructured using the merger approach.

1.3 OBJECTIVE OF THE STUDY

To determine implications of merger restructuring on financial performance of commercial banks in Kenya.

1.4. IMPORTANCE OF THE STUDY

The study is expected to be of importance to:

1. **The Central Bank of Kenya:** There have been calls for more proactive approaches to forestalling bank failures. As the country's Banking Sector regulator and supervisor, the central Bank will be challenged to critically assess methods used to restructure banks with an aim of improving solvency, profitability and rebuilding confidence. The bank has not effectively discharged this duty in the past. It will serve as a guide in restructuring viable banks. It will also aid in building better legal, accounting, regulatory and supervisory systems.
2. **Government Policy Makers:** The monetary Authorities and the Treasury will benefit from the study when designing policies which should facilitate strengthening of the financial system. The study recognises the importance of the financial system in the economy. It will therefore guide these policy makers on how to respond to banking crisis.
3. **Academic Researchers:** The study will stimulate further interest in this area of restructuring. Little has been explored in the case of bank mergers despite the application of the technique in the recent past. It is aimed at filling existing knowledge gap.
4. **Investors, Lenders, Managers and Labour Unions:** Restructuring tools have been used in various economies experiencing bank problems. The success of the techniques largely depend on the support of these stakeholders. They will thus recognise available options to strengthen the financial system, hence, support particularly in case of viable banks.

5. **Bank executives, Business executives and the general Public:** This group will also benefit from the study. The importance of a sound financial system cannot be overemphasised. The contribution of these stakeholders towards successful restructuring is therefore important once they recognise the impact of the option on the performance of the already affected Financial Institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 BACKGROUND OF KENYA'S BANKING SYSTEM

Banks in Kenya are established under the ***Banking Act Cap 488*** and regulated under the provisions of the ***Central Bank of Kenya Act Cap 491*** of the laws of Kenya. The ***Banking Act Part II Sec. 4((1) & (2)*** gives the Minister of Finance powers to licence any institution intending to carry out banking business in kenya on recommendations from Central Bank of Kenya. ***Part IV Sec. 32 of the Act*** gives Central Bank of Kenya exclusive inspection powers on any licensed banking institution to ensure that they conform with the law and the prudential guidelines issued by the Central Bank of Kenya from time to time. This is in line with one of the principal objectives of the Bank as outlined in the Central Bank of Kenya Act of 1996 part II Sec. 4 (2) which states "***The Bank shall foster liquidity, solvency and proper functioning of a stable market based financial system***". This objective can be largely achieved by restructuring financial institutions with an aim of strengthening them and subsequently the entire financial system.

The financial system has grown in size and structure since independence due to policies pursued by the authorities. The legal framework: ***Central Bank Act*** and ***Banking Act*** have also been amended to reflect the policies and growth of the industry. This was particularly so following liberalisation period 1992 - 1994. The objective was to create a conducive environment for Banks to operate and protect stakeholders.

2.2. BANKING CRISIS

The Banking industry is so prone to crisis due to its unique characteristics, hence, a special policy interest in preventing and dealing with such crisis (Gavin and Housmann 1998). The proliferation of large scale banking crises has therefore raised widespread concern, as banking crises disrupts flow of credit to households and enterprises reducing investment and consumption and possibly forcing viable firms into

bankruptcy. Banking crises may also jeopardise the functioning of payment systems and by undermining confidence in domestic financial institutions, they may cause decline in domestic savings and/or a large scale capital outflow. Finally, a systemic crisis may force sound banks to close their doors (Vittas, 1997). In most countries, policy makers have responded to banking crisis with various interventions, ranging from loose monetary policy to the bail out of insolvent financial institutions with public funds; as in the case of state owned banks in Kenya (IMF 1997). Even when they are carefully designed, rescue operations have several drawbacks which include;
High budgetary costs, Possibility of inefficient banks remaining in business creating expectations of future bailouts thereby reducing incentives for adequate crisis management by banks, Weakening managerial incentives as is often the case, thus forcing healthy banks to bear the losses of ailing institutions, Inflammatory loose monetary policy to prevent banking sector losses and; in countries with an exchange rate commitment, possibility of trigger of a speculative attack against the currency (Kunt and Detragiache,(1997).

Preventing the occurrence of systemic banking sector problems is undoubtedly a major concern of policy makers and understanding the mechanisms that are behind the surge of banking crises has been a major issue throughout the world. This is also the case considering the colossal cost of bank failures. Bank. regulators are faced with the challenge of strengthening the financial system by all means. The application of various restructuring approaches following 1989, 1993 and 1998 financial crises in Kenya confirms this fact.
It is important to note that merger technique may not necessarily be used as a restructuring tool to revive problem banks. The consummation of mergers entail other motives other than that of averting bank failure.

2.3. BANK RESTRUCTURING

2.3.1. Defining Systemic Bank Restructuring

Systemic Bank restructuring aims to improve bank performance; restore solvency and profitability, improve the banking systems capacity to provide financial intermediation between savers and borrowers and restore public confidence (IMF (1998). Governments began to restructure their banking sectors mainly aimed at improving an enabling environment and rebuilding confidence (Claessens, 1998)

Restoring Financial institutions to viability means stopping accrual of unpaid interest, eliminating borrowers and refinancing of non-performing loans and making provisions for the bad debts. Institutions that have no capital must be recapitalised, merged with healthy institutions, or closed if they have no further role to play in the financial system. (Long , 1991).

2.3.2. Bank Restructuring Approaches

For one reason or another, banks fail. They fail because of liquidity, insolvency, mismanagement, sudden shocks to the economic system; such as violent fluctuations in interest rates or exchange rates or outright frauds (De Juan, 1991). Sheng (1991) observes that reasons for failure can be at Micro or Macro Economic levels. Depending on the severity of the problems of the failing banks, the remedial measures open to central bank vary. Further, the method used depends on a country's specific situation and the strength of the financial system.

Claessens, (1998) identifies two types of bank restructuring approaches; financial and operational restructuring. The author argues that these approaches focus on policy and legislative clarity; competitive framework; interrelationship with capital markets, development of regulatory and supervisory structures and capacities and benchmarking of Global standards and practices at macro-level.

At Micro/Bank level, restructuring relate to clear assessment of operational and portfolio conditions; strategies to deal with loan workouts and bad assets (asset disposition recovery of trusts) (Claessens ,1998).

Dziobek and Pazarbasioglu, (1998) on the other hand have classified Bank restructuring approaches into two categories: ***structural measures and financial measures. Structural measures*** **refers to a situation which include**: central Bank as sole restructuring agency; Central bank liquidity support; loan workout units (public or bank-based); Closure of insolvent banks; merger of insolvent banks; privatisation (where applicable); Enterprise restructuring to improve creditors and Twinning with Foreign banks. ***Financial measures*** **on the other hand includes**; Bonds (eg. Exchanged for bad loans); New equity (eg. bought by Government); deposit based instruments (eg Deposit insurance Fund) and Owner - Management market incentives.

Restructuring refers to several related processes: recognising financial losses; restructuring financial claims and operational restructuring of banks. The main elements of sustainable corporate restructuring are broadly four fold; Improving the enabling environment, developing the institutional and legal framework for restructuring; enhancing capacity for restructure and a greater role for capital markets (Claessens, 1997).

Despite the positive encouraging developments in restructuring of financial systems; the stock market development and banking development in Africa are grossly incomplete (Nadeem, Hanswald and Senbet 1997). Severe informational problems have compounded this (Senbet, 1997).

The success of a country's resolution program; "***fixing the roof while the sun shines***" entails resolution or control of financial crisis using appropriate measures. It depends on the Government's ability to clean up losses of distressed banks and restructure (that is recapitalize, merge, liquidate etc) insolvent banks (Senbet, 1997).

2.4. MERGER AS A BANK RESTRUCTURING APPROACH

Any form of restructuring should aim at making the system sound, transparent and more efficient. The process of adopting the best practices continues especially after the Asian Crises. (IMF, 1998).

Restructuring using merger technique has been prevalent in Kenya. The technique has been undertaken to strengthen the financial systems so that they achieve efficiency, productivity and profitability. It tends to be a long term measure.

2.4.1. BANK MERGERS

Business combinations include mergers, acquisitions, take -overs, amalgamation and consolidation.

Mergers and acquisitions still seem to the most prudent way foward for the small medium sized banks to remain profitable and compete effectively. Central Bank of Kenya has continued to encourage and sensitize the banking industry on the need for mergers. In the year 2000 for example, the merger of six institutions was approved. Further, the amendment of Section 9 of the Banking Act now comprehensively covers the interests of institutions which undertake merger as a restructuring option. Many previous legal hurdles in the transfer of assets and liabilities between the merging institutions have been removed to hasten the merger process and reduce costs. Merger is an important feature of structural changes. The first wave of Bank Mergers in Kenya occurred in 1993 while the second in 1998 and continues to the present day (CBK 2000).

At the global scene overall efficiency in banking was probably retarded over the years. The small banks were too dependent on narrow business bases and found it difficult to prosper due to competition. This contributed to bank failures in 1980's (Jayamaha, 1997)

Many countries in South East Asia have then encouraged mergers of finance companies and other Financial institutions. The global trends appear to be towards the consolidation rather than proliferation of banking institutions. Governments are paying increasing attention to avoid failure of big financial institutions as the repercussions are difficult and costly in underdeveloped financial markets (Jayamaha, 1997).

The importance of bank restructuring has been reiterated in establishing financial system soundness. Merger technique has been one of the tools applied by authorities to achieve effective mobilisation and efficient allocation of resources in the recent past. Apart from recapitalization of state-owned banks, commonwealth countries have encouraged mergers to restore stability of their financial systems by removing obstacles to mergers of finance companies and hence banks. Increasing efforts have also been made in Kenya, Ghana, Malaysia, Sri Lanka to attract foreign investments and technology of their financial sector (Jayamaha, 1997). The aim is to restore solvency, increase Profitability and rebuild public confidence.

The Korean Government proposes to classify troubled financial institutions into three categories to separate the healthy ones from those that should be closed or merged and those needing capital increases. To encourage bank mergers, the capital for a Deposit Insurance Agency in Korea will be increasing to provide money to compensate healthy banks taking over ailing ones. (Jayamaha, 1998).

The recently formed Financial Services Authority (FSA) in the UK has expressed its concern over the mergers of banks, Finance institutions and Accounting Companies arguing that there is already a high degree of concentration; hence, less competition (Jayamaha (1998).

2.4.1.1. Theories of Mergers

There is strong evidence indicating that corporate take overs generate net aggregate gains, resulting in benefits to the acquired firms' shareholders and no losses to the acquiring firms shareholders (Jensen and Rubeck, 1983). The banking industry experienced a series of mergers and acquisitions throughout the 1990s. The cause of many of these mergers and acquisitions has been the desire to achieve greater cost savings and revenue generation and to improve the bank's overall financial position and solvency (Cornett and Saunders, 1999).

Like any other form of restructuring technique, it aims at improving bank performance - that is to restore solvency and sustainable profitability; improve the banks capacity to provide financial intermediation between savers and borrowers and restore public confidence (IMF, 1998). Mergers are generally initiated for strategic or financial reasons. A number of hypothesis have been advanced to explain the source of gains from merger. The performance of merged firms is expected to increase due to the following reasons/expectations: (Weston and Copeland, (1992), Hawawini and Swary (1990).

1. ***Efficiency Operations*:** Theories under this category are the most optimistic about the potential of mergers for social benefits. It involves removal of incumbent inefficient management and potential reduction on distribution costs resulting from adoption of efficient technology (synergy).The future cash-flow stream generated by the merged firms is expected to exceed the sum of the future cash flow streams of the two combined individual firms if the acquirer can reduce the cost of its product after the merger. This will be possible if the merger generates synergies via economies of scale and scope, reduced distribution and marketing costs, divestiture of redundant assets.

   Inefficient management hypothesis argues that the performance of the combined unit may improve if the acquirer removes inefficient management from the target firm. Required managerial skills and capabilities is expected to encourage efficiency.

Merger is believed to be a strategic decision that lead to maximisation of growth and sustaining viable firms. Growth leads to increase in shareholders value; higher profits. Increased capacity and capability can be achieved making the combined firm achieve competitive advantage (Hawawini and Swary, 1990).

2. ***Information & Signalling*** hypothesis argues that if the acquirer has privileged information indicating that the target firm is undervalued and takes advantage by purchasing the target for less than its value, then the shareholders of the acquiring firm will benefit from the merger.

3. ***Agency problems***: Jensen and Meckling (1976) formulated the implications of Agency problems. An Agency problem arises when managers own only a fraction of the ownership shares of the firm. The agency theory suggests that when the market for managers does not solve the Agency problem, the market for firms or merger activity will come into play. It therefore suggests that merger activity is a method of dealing with the agency problem. This motivates managers to work more vigorously hence expected improved results.

4. ***Market Power*** happens if the acquirer can raise the price of its products after the merger. This is possible if the merger reduces the number of competing firms and increases its market share in the industry (Stigler, 1964). Improved general performance is expected.

5. ***Tax Considerations*** : This has been a major stimulating factor for merger activity. The cumulative liability of the combined unit is expected to be smaller than the sum of the tax liabilities of the two individual firms. By merging with a profitable company, the surviving firm can temporarily fully utilise losses effectively. Reduced tax income of the acquired firm boosts the earnings of the combined firm relative to that of the independent firms.

2.4.1.2. *Empirical Studies on mergers*

Early Literature on mergers suggest synergistic motives as the main rationale behind merger activity.

Empirical Studies of mergers (pre-1973) used comparative Studies of firm performance to test synergy for mergers. Kelly (1967) was the first to study merger profitability using measures including security price changes. The sample consisted 42 firms matched in 21 pairs of one merging and one non-merging firms. He compared pre-and post merger performance based on ***five(5) measures of profitability*** : Percentage change in stock prices, price earnings ratio(PIE ratio), earnings per share (EPS), sales per share and Profit margin. He used pre-merger period calculated average returns (5 years) and (5 years) post-merger using stock returns. He concluded that operational restructuring as a result of merger activity positively affects profitability due to renewed attention to business, improved management and accounting legal regulatory systems, better credit assessment and approval techniques, reduced branches and staffing levels. These were aimed at improving performance and to restore confidence of the financial system. The main objective of restructuring is to achieve this goal.

A similar study was conducted by Lev and Mandelker (1972) on 69 firms. They compared the performance of merging firms using profitability measures for 5 pre-merger and 5 post-merger years. They concluded that the market value of the acquiring firms rose on average by 5.6% (significant a 10% level).

(Campro and Leone, 1991)- Uruguay experienced severe crisis in 1982 that undermined the stability of the financial sector with far reaching implications in the Banking Structure and real economy in the subsequent 5 years. Following the crises, Bank mergers developed.

Coopers & Lybrand (1993) undertook a study in 1992 which combined in depth interviews of senior Managers of 50 large UK firms which had been involved in mergers. Although the study concluded that 54% of the mergers were financially unsuccessful, the causes of failure were attributed to factors which include: management attitude, lack of post acquisition integration planning, lack of knowledge by the bidder of the target and its industry, poor management and management practices in the target firm.

Ayerbach & Reishus (1967) compared actual mergers over 1968 -1983 with a control group of non-merging firms. Asquith, Brunner & Mullins (1993) examined and assessed the profitability of merger programs. Newbould, Stray & Wilson (1976) examined UK active acquirers and (1967 - 1973) found some evidence that companies undertaking mergers earned a higher rate of return than those that relied on internal growth. They were however unable to identify a positive relationship between the level of merger activity and profitability.

Ulton (1974) examined 39 Companies which had undertaken large and/or persistent mergers in the period 1954 - 1965. He concluded that the most that can be said is that there is no evidence from the sample that merger intensive firms have higher profitability than the coverage industry.

Singh (1975) concluded that firms that acquired others were less profitable. Kouhm (1975) observes that acquiring firms tended to be faster growing than firms in their respective industries. This being the case, a merger of these two firms is expected to lead to improved performance. According to Newbould (1971) the major reason for mergers appeared to be the desire by management to reduce the level of uncertainty in the business environment.

The East Asian Crisis has underscored the importance of strong domestic policies and institutions in enabling countries to integrate successfully in the global financial community. From this crisis, a debate has emerged on structural policy reforms needed at both national and international levels to restore financial stability and mitigate future crisis. These reforms include strengthening financial sectors, establishing sound business environment and adopting adequate mechanisms for social protection (Masood, 1998).

The merger technique was used in the US Savings and Loan Crisis (1970-90), US Banking Sector Crisis (1982-90), Malaysia (1985-88), Sheng A (1991).

2.5. REVIEW OF KENYAN LITERATURE

Little has been done to clearly assess the success of banks restructuring tools used in Kenya. Following banking crisis experienced however, the major challenge for the authorities has been to try and contain crisis situation after realising that a sound banking system is critical for both economic growth and for economic stability.
Kenya has experienced three (3) financial crises since 1980s; 1989, 1993, and 1998 , which led to tightening of the regulatory framework by introducing changes in the Banking Act aimed at enhancing efficient operations of the Industry in conformity with the primary objectives of the International Basle Committee on banking supervision. (CBK, 1998).

Banking crisis contributes to a substantial weakening of the Macro-economic performance with major re-adjustment policies. It leads to increase in share of non-performing loans, increase in losses (due to foreign exchange exposure, interest rate mismatch, contingent liabilities) and decrease in value of investment causing solvency problems in the financial system; hence, liquidation, mergers, use of Central Bank as lead Agency to restructure banks (CBK, 2000). It is expected that viable restructured banks will have improved performance.

Measures available in crisis situation depend on a Country's legislative framework. Long-term measures include; liquidation, mergers, restructuring of activities, recapitalisation, while short-term/emergency measures include lender of last resort and Central Bank intervention in Management of ailing institutions. Measures undertaken should positively influence the performance of the affected institutions.(Claessens, 1998)

2.6 MEASURES OF FINANCIAL PERFORMANCE

Performance is the ability to sustain income, stability and growth. It is a measurement of relative investment (Walter, 1968) and can be relative to one of the following factors: Assets, capital adequacy, liquidity, liabilities, number of employees and other size measures.

According to Pandy (1997), Brealey and Myers (1996), Thygerson (1995) the following are the measures of financial performance:

2.6.1 Profitability Analysis

This is the most common measure of financial performance. The measures are used to assess how well management is investing the firms total capital and raising funds. Profitability is generally the most important to the firms and shareholders. Profits serve as cushion against adverse conditions such as losses on loans, or losses caused by unexpected changes in interest rates. Consequently, creditors and regulators concerned about failure also look to profits to protect their interests although the measures ignore firm's risk.

Profits depend on three (3) primary structural aspects of financial institutions: Financial leverage, Net interest margin and non- portfolio income sources. Return on equity (RoE) and Return on Assets (RoA) are the most commonly applied profitability ratios used to assess Financial performance. The ratios are defined as:

(i) RoE = Net income : Total equity capital (%)

It measures overall profitability of financial institutions per dollar of equity.

(ii) RoA = Net income : Total assets (%)

This ratio measures profit generated relative to the financial institution's assets.

The authors also identified other ratios used in assessing profitability. They include:

***(iii)* Equity multiplier = Total Assets : Total equity capital (x)**

It measures the extent to which assets of the financial institution are funded with equity relative to debt.

(iv) Profit margin = Net income : Total operating income (%)

Profit margin measures the ability to pay expenses and generate net income from interest and non-interest income.

(v) Asset utilisation = Total operating income : Total assets Asset utilisation measures the amount of interest and non-interest income generated per dollar of total assets.

Other ratios used to assess Financial Performance and used in this study are: (Thygerson) (1995):

2.6.2 Capital adequacy ratios

They relate to the firms overall use of financial leverage. Generally, firms with high financial leverage will experience more volatile earnings behaviour.

It indicates the extent to which an institution's capital base covers the risks inherent in its operations. Important capital adequacy ratios include:

(i) Shareholders's equity to Total assets

(ii) Shareholders equity to Total loans

(iii) Shareholder's equity to Total customer deposits (Gearing ratio).

The study concentrates on shareholder's equity to Total assets ratio.

2.6.3. Long-term Solvency

Solvency refers to the ability of an enterprise to survive over a long period of time. It is the same concept as liquidity except that it is for long term rather than short term. Long terms means more than one year. Ratios to assess long-term solvency are measures of company riskiness.

Ratios include:

(I) Total liabilities to Total Assets

The ratio measures the proportion of assets financed by creditors. The higher the percentage of debt financing the riskier the business

(II) Shareholder's equity to Total assets

It indicates the proportion of assets financed by the owners of funds.

(III) Shareholder's equity Total loans

This ratio indicates the proportion of loans covered by the owners of funds.

There is no absolute ratio that has been put forward theoretically to be a good level of solvency. Total liabilities to Total Assets and Shareholder's funds to

Total Assets have been used in this study.

Other ratios used to assess financial performance though not used in the study include (Thygerson) (1995):

2.6.4 Asset Credit Quality Ratios - Measure of Credit Risk

Asset quality refers to credit risk embodied in the institutions asset portfolio eg, performance of loans, investment in treasury bills and other securities.

2.6.5 Interest rate risk position - measures interest rate risk exposure

It is the most sophisticated area of analysis within the well run financial firms. Interest rate risk is the risk that change in interest rates will cause the market value of a firm's assets to move closer to the market value of the firms liabilities and thereby reduce firms equity.

2.7 Limitations of Financial Ratios

Ratios and financial analysis have their limitations (Thygerson (1995). Judgement and experience are thus essential pre-requisites for performing financial ratio analysis. This notwithstanding, ratios have been applied widely to analyse financial data which guide in decision making. The ratio analysis using information derived from the Annual Financial Statements of the selected financial institutions was used in the study to assess the impact of merger restructuring approach on financial performance of the selected financial institutions.

Financial statements present one of the basis of predicting financial performance of a firm and provides a way of reducing uncertainty facing creditors and other stakeholder. The profit and loss statements and the balance sheet were used to extract data for analysis.

2.8 : Earnings and Profit Performance Emphasis

The banking sector management has shifted their focus to **profitability** because of the recent developments in the sector which include: the need for additional capital adequacy funds implying profits should be boosted as a main source, increased need for provisioning of bad and doubtful debts, need for funds for expansion and modernization/technological advancement to serve customers better and attain competitive advantage. This requires efficiency and intensive capital investment, high volatility of interest rates and exchange rates and intensive competition following liberalisation of the sector are other factors considered. Altman (1968) concluded that profitability ratios are the most critical factors in a firms ability to avoid failure.
Other Financial performance indicators have however been used in the study.

CHAPTER 3

3.1 RESEARCH DESIGN

3.1.1 Population

The population of interest in this study comprise banks that merged over the period 1993 to 2000.

A census of all merged financial institutions within the period 1993 - 2000(Appendix I) were used in the study to investigate the suitability of mergers in improving performance of these financial institutions in terms of sustainable profitability, capital adequacy and long-term solvency.

3.1.2 Data Collection

Secondary data was used for purposes of this study. The following sources of data were used in the study for analysis purposes for the period 1993-2000:

- Published annual Reports of Accounts for the population of interest from the Head Offices of the institutions, Central Bank of Kenya, Daily Newspapers, Nairobi Stock Exchange, Capital Markets Authority.
- Bank supervision annual reports from Central Bank of Kenya
- Monthly Economic Reviews of Central Bank of Kenya.
- Statistical bulletins from Central Bank of Kenya

3.1.3 Data Analysis

The study focussed on financial performance of the merged financial institutions. Three categories of critical financial ratios were used in this study. These include; Profitability and earnings ratios; capital adequacy and long-term solvency ratios. The comparative analysis for the two periods; pre-merger and post-merger was then conducted on the basis of the analysis.

For the analysis of capital adequacy, the study concentrated on shareholders funds to total deposit liabilities ratio (Yeager and Seitz (1989). Long-term solvency concentrated on shareholders funds to total asset ratio and total liabilities to total asset ratios. Profitability and earnings was measured using Return on Equity (RoE), Return on Assets (RoA); Asset utilisation Ratio, Equity multiplier and Profit Margin Ratio.

The data has been derived from Financial Statements of these financial institutions and ratios calculated using the listed performance indicators as recommended by Thygerson (1995), Gardener and Mills (2000) and Brealey and Myers (1991).

3.1.4. ASSUMPTIONS AND INTERPRETATIONS

- The three financial ratios; Capital adequacy, long-term solvency and profitability and earnings are assumed to be crucial in influencing performance.
- For the purpose of the study, it is assumed that performance is determined by the said financial ratios.
- The researcher used pooling of interest method. Under this method the consolidated financial statements incorporate the combined results as if the banks had always been combined.

CHAPTER 4

4.0 DATA ANALYSIS AND INTERPRETATIONS

4.1: INTRODUCTION

The study relies on Microsoft (MS) Excel statistical package for data analysis and a comparative analysis between the two periods carried out (Appendix II-Tables 1 -7). The charts in the study are similarly done using Ms Excel chart packages [Appendix III]. Performance ratios are computed for each year by institution to enable evaluation of the trend and determine whether merger had an impact on performance enabling conclusions to be drawn.

Appendix IV shows Total assets, Total liabilities, shareholders funds, Total deposits, Total income and Net income before tax , while Appendix II indicate the ratios for the respective financial indicators. Trends analysis is presented by use of charts [Appendix III.].

The trends indicate stable but low growing Gearing ratio way above the 8% minimum statutory requirement, high but fluctuating solvency ratio but low profitability ratios for most institutions during the period of the study.

However, the overall trends in the financial ratios indicate improved performance during the post-merger period compared to pre-merger period.

4.2: TREND IN PERFORMANCE

Trends in the financial performance ratios for the merged financial institutions used in this study are; profitability and earnings; capital adequacy and solvency ratios as indicated on the charts and tables in the appendices . Capital adequacy ratios have been stable but growing over the period of study with average rates being well above the statutory requirement of 8%. The rates however marginally dropped after merger period compared to pre-merger. The minimum capital requirement has been reviewed constantly (Kshs.200 million in 1999 to Kshs.500 million by 2005). This has been a major force behind the bank mergers.

Earnings have also been low due to high levels of non-performing debts which stood at Kshs.103.5 billion (37%) of Gross loans in 1999 (CBK MER Jan 2000).

4.2.1. SOLVENCY RATIOS :Summary of post merger results

Solvency ratios have been moderately erratic over the period of the study.

Table I [a]

4.2.1. (I) Total Liabilities/Total assets

Category	No. of Banks	proportion(%)
Improved performance	8	40
Decline in performance	9	45
Effects not yet released	3	15
Total	**20**	**100**

Source: Research Data

Most institutions performed well above industry average during the period of the study. As measured by the solvency ratio it was noted that performance of 8 merged Financial Institutions (representing 40%) improved, 9 (representing 45%) declined while 3 (representing 15%) were too new for the merger effects to be fully determined.

[i] Trans National Bank and Bank of India performed below industry average of 85.6% in 1994/1995. However, other Banks: Delphis (under statutory management), Commercial Bank of Africa, Stanbic Bank, First American Bank and Bank of Baroda all performed above average.

Improved marginal performance after the merger was observed in the following Financial Institutions: National Bank of Kenya, Commercial Bank of Africa (CBA), National Industrial Credit, Bank of Baroda and Bank of India. Stanbic bank's position remained fairly stable (Appendix II).

[ii] Standard Chartered Bank, Barclays Bank of Kenya, Diamond Trust, Credit Agricole, Guardian Bank, Giro Commercial Bank and Habib AG Zurich indicate marginal drop in financial performance after merger.

Effects of merger have not been fully realised in the cases of Kenya Commercial Bank and Southern Credit Banking Corporation. Paramount Universal Bank's results remained below industry average after merger following a marginal drop while Trust Bank shows improvement though now under liquidation after attempts to revive it became futile and was closed in 1998.

The results however indicate that most Banks operated above average and strive to meet future maturing obligations.

Bank of Baroda recorded a drastic drop from 116.92% in 1996 to 86.65% in 1997. Delphis Bank on the other hand though under statutory management also had a drastic increase from 89.62% in 1996 to 137.86% in 2001. Trust Bank (under liquidation) which had merged with Trust Bank Finance Ltd in 1997 had a resultant marked increase after merger period. It was observed that the decline in performance for other Banks falling under this category was marginal, hence fairly stable.

Table I [b]

4.2.1[ii] Shareholders Funds/Total Assets

Category	No. of Banks	Proportion (%)
Improved Performance	14	70
Decline in performance	3	15
Effects not yet realised	3	15
Total	**20**	**100**

Source: Research Data

As indicated in Table I(b) 70% of the merged banks improved their performance as measured by the solvency ratio, 15% experienced a decline in performance while for the remaining 15% it is still too early to conclude on the direction of the change in financial performance.

Trans National Bank and NIC Bank recorded marked improvement after merger. The other Banks recorded marginal stable increase during the post-merger period compared to pre-merger period; Barclays Bank, Standard Chartered, Commercial Bank of Africa, Giro Bank, Bank of Baroda, Habib Ag Zurich and Diamond Trust. Although Trust Bank recorded an increase initially, it closed almost immediately after merger (1998) and is now under liquidation following unsuccessful attempts to revive it.

NBK Ltd and Delphis Bank recorded a decline in the ratios. KCB, Citibank NA and Southern Credit Banking Corporation merged in 2001 and effects of merger are yet to be realised.

National Bank of Kenya's performance declined then improved while that of Bank of India dropped from 17.66% in 1995 to 12.23% in 2001 (Appendix II).

4.2.2 PROFITABILITY AND EARNINGS RATIOS: Summary of post merger results.

These are fundamental financial ratios.

Table I [c]

4.2.2.(i) Asset Utilization :Total income / Total Assets

Category	No. of Banks	Proportion (%)
Improved performance	8	40
Decline in performance	9	45
Effects not determined	3	15
Total	**20**	**100**

Source: Research Data

The asset utilization ratio indicates that 40% of the banks experienced an improvement in financial performance, 45% experienced a decline in financial performance while for the remaining 15% the merger results are not yet fully realized.

Most banks recorded a drop in profitability and asset quality. NBK, CBA, NIC Bank, Stanbic Bank, First American Bank, Credit Agricole Indosuez, Diamond Trust Bank, Giro Commercial Bank, Bank of Baroda and Euro-Daima Bank recorded a drop after merger. Giro Bank dropped by 11.3 % points since 1998 while Stanbic from 16.74% in 1997 to 11.5 % in 1998. Habib AG-Zurich, Bank of India, Paramount Universal bank recorded an improvement initially before dropping marginally. Delphis and TNB however recorded an initial drop before rising to 22.55% and 31.8% respectively in 2001 (Appendix II). Their positions on average were however better prior to merger period.

Though an improvement was noted after merger in the case of Trust Bank, it is currently under liquidation. Effects of merger have not been fully realised in the cases of KCB, Southern Credit Banking Corporation and Citibank NA (absorbed ABN Amro in 2001).

Stanbic Bank and First American Bank recorded a fluctuation in performance. A recorded drop was observed but the position improved thereafter. Giro Commercial Bank performed better after merger.

Table I [d]

4.2.2.(ii) Return on Equity : Net income / Total Equity Capital

Category	No. of Banks	Proportion
Improved performance	7	35
Decline in Performance	10	50
Effects not determined	3	15
Total	**20**	**100**

Source: Research Data.

This ratio shows the management's ability to utilise both creditors and owners funds to generate sales efficiently. Specifically, Table I(d) indicates that 35% of the merged banks experienced improvement in performance as measured by the return on equity, 50% experienced a decline while in the case of the other 15% it is too early to conclude on the merger results.

The results indicate that Stanbic, Giro Commercial Bank, Guardian Bank, Bank of Baroda, Bank of India, Delphis Bank, Paramount Universal Bank, TNB improved after merger, though the positions for some banks reflects significant swings on either side; improved or decreased performance. Paramount Universal bank for instance recorded negative position prior to merger period. Trust Bank improved but is now under liquidation. BBK, STD, CBA, NIC, Stanbic, Habib AG-Zurich, Giro Bank and Guardian dropped on average during post Merger period. KCB and Southern Credit Banking Corporation are yet to realise the potential impact of merger. Mean return on equity was positive in 1999 unlike the previous year when the results were affected by NBK's -693.8%.

National Bank improved from -163.96% in 1996, to 13.13% in 2001. Stanbic's performance improved but declined again to negative by 2001. Delphis recorded a negative performance of -1017.89% in 2000 but is now at 76.24%. Paramount Bank had recorded a negative growth prior merger but improved thereafter. Trend for the case of BBK and STD are almost identical . Bank of Baroda improved before declining (Appedix II).

Table I [e]

4.2.2.(iii) Return on Assets : Net Income / Total Assets

Category	No. of Banks	Proportion
Improved performance	5	25
Decline in performance	12	60
Effects not yet realised	3	15
Total	**20**	**10**

Source: Research Data

Measures Managements' ability to utilise the company's capacity efficiently to the benefit of the banks' owners and creditors.The results indicate that 5 banks representing 25% recorded an improved position after merger, 12 banks representing 60% recorded a decline in performance while in the case of 3 banks representing 15%, it was too early to conclude on the impact of the merger.

STD and NBK on average improved their performance after merger. Stanbic's performance on the other hand improved then declined before improving again after merger. First American Bank, Diamond Trust, Guardian bank, Bank of Baroda, Bank of India recorded an improvement in financial performance on average after merger. Giro Bank though with a noted decline initially achieved stable performance.

Habib AG Zurich performed better prior to merger period. Other banks under this category include; CBA, NIC and BBK which performed better on average prior merger period. The ratio declined in 1999 with average standing at 1% compared to 2% the previous year indicating a decline in profitability.

NBK ltd improved from -13.82% in 1999 to -1.34% in 2001. CBA's performance improved then declined. TNB Bank and Credit Agricole on the other hand saw a fluctuating position (Appendix II).

Table I [f]

4.2.3. CAPITAL ADEQUACY RATIOS

4.2.3[i] Shareholders Funds / Total Deposits

Category	No. of Banks	Proportion (%)
Improved performance	15	75
Decline in performance	2	10
Effects not yet realised	3	15
Total	**20**	**100**

Source: Research Data

Table I(f) indicates that 75% of the merged banks experienced improvement in financial performance, 10% recorded a decline in financial performance while for the other 15% the time span since the merger is too short to draw conclusions on the impact of the merger.

At least 75% of the Banks recorded improved performance after merger. All Banks with the exception of Trust Bank (under liquidation) and Delphis Bank (under statutory management) operated well above the minimum statutory requirement of 8%. Delphis Bank's results fluctuated after merger period and stood at - 28.75% as at 2001. Trust Bank's performance improved after merger but fell drastically after closure and unsuccessful attempts to revive it. The position as at 2001 was - 167.63% (Appendix II). The other Banks; KCB, Southern Credit Banking Corporation and Citibank NA are yet to realise the effects of merger.

CHAPTER 5

5.0 SUMMARY OF FINDINGS, CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

5..1 SUMMARY OF FINDINGS AND CONCLUSIONS

The study was conducted with the aim of achieving the following objective: To evaluate financial performance of merged financial institutions using theoretical measures. Three Financial measures were used in this study; Capital Adequacy, Solvency, Profitability and earnings ratios to determine what implications merger restructuring method has on financial performance. The study established the financial performance of the merged Financial institutions in the pre-merger period and post-merger period [1994–2000] as analysed in Chapter 4.

Annual financial performance ratios (Capital Adequacy, Solvency and Profitability and Earnings ratio) were computed for the institutions in the pre and post merger periods. A comparative analysis of performance both in the pre merger as well as the post merger periods was undertaken to establish the implication on Bank financial performance.

Kenya's Banking Sector is following in the Global business stream. Over the last 3 years small and medium sized Banking institutions have been forced into mergers and acquisitions essentially for survival. Smaller Banks have especially been prone to liquidity problems due to their weak capital base, imprudent lending policies and inefficient management. The Central Bank of Kenya has also urged Banks to merge in an effort to boost their capital base due to increased capital requirements and hence curb the spontaneous spate of Bank collapses.

Bigger and more stable multinationals have not been left behind in the merger spree. Merger restructuring approach has been used in streamlining operations; hence merger with wholly owned subsidiaries as in the case of Barclays Bank (corporate restructuring) with Barclays Merchant Finance Ltd due to dwindling business coupled with Central Bank's regulations to increase their capital to Kshs.150m in 1999 and gradually to

Kshs.375 Million by the year 2005.Fusion was then an easier option.

Daima bank's intended merger with Euro Bank to inject capital hence strengthen capital base and reduce operating costs, ensure success and profitability has not materialised. Both Banks are locally owned and merger would have resulted in Kshs.2 billion in total assets and a capital base in excess of Kshs.250 million. Sizeable cost savings and improved profitability was also expected. Merger between Guardian Bank, Guilders bank and First National Bank resulted in a capital base of Kshs.556 million and deposit portfolio of Kshs.3 billion. Merger was also an easier option of streamlining operations as they have related shareholding.

Habib AG. Zurich and Habib Africa Bank Ltd were both locally owned. The merger of the two Banks which occurred in 1999 resulted in a capital base of Kshs.290 million.

Although the full effects of merger restructuring have not been fully realised in the case of Paramount and Universal banks, there has been a positive impact in that their paid up capital rose to Kshs.25 million, Deposit base to Kshs.1.2 billion and asset base to Kshs.1.6 billion.

Table II

Minimum Core Requirements

Compliance date	*Banks & Mortgage Finance Cos. (Kshs. Million)*	*Financial Institutions (Kshs. Million)*
Dec. 1999	200	150
Dec. 2000	250	187.5
Dec. 2001	300	225.0
Dec. 2002	350	262.5
Dec. 2003	400	300
Dec. 2004	450	337.5
Dec. 2005	500	375

Source: CBK Prudential Regulations for Banking Institutions (Sept.2000)

Amendment of the banking Act required commercial banks and NBFIS, Mortgage Finance Cos to raise their Capital base as above.

Standard Chartered Bank merged with Standard Chartered Finance services Ltd following failure to identify a feasible diversified business portfolio.

National bank of Kenya merged with its wholly owned subsidiary after it failed to generate adequate revenues to justify its existence.

Cititrust (K) Ltd merged with its owner Citibank NA. The aim of this merger was to strengthen capital base; reduce operating costs, hence ensure success and profitability. Feasible cost savings and improved profitability is expected.

The analysis of Chapter four yields the following results for the pre-merger and post merger periods for the institutions studied.

Table II

PRE-MERGER AND POST MERGER PERIOD ANALYSIS

Ratios	Improved performance		Decline in performance		Effects not yet realised	
	Absolute figures	*%age*	*Absolute figures*	*%age*	*Absolute figures*	*%age*
Profitability/Earnings Ratios						
• *Asset utilisation*	8	40	9	45	3	15
• *Return on equity*	7	35	10	50	3	15
• *Return on assets*	5	25	12	60	3	15
Solvency Ratios						
• *Total liabilities to Total assets*	8	40	9	45	3	15
• *Shareholders funds to Total Assets*	14	70	3	15	3	15
Capital Adequacy Ratio • *Shareholders funds to Total Deposits*	15	75	2	10	3	15
Average	10	47.5	7	37.5	3	15

Source: Research Data

Table II shows that in the overall 47.5% of the merged banks experienced improved financial performance, 37.5% experienced deterioration in financial performance while 15%

of the mergers are too young to have realized any impact on performance.

Profitability and earnings have generally been low on average with fluctuations ranging from drastic to moderate in both periods. Profitability and earnings was higher on average in the pre merger period compared to post merger period. The positive effects of merger are likely to have been adversely affected by other factors.

Capital represents the shareholders investment in the institution. It is a resource that is readily and freely available to participate in losses without obliging the institutions to cease trading. It was observed that most of the Banks maintained the statutory requirement of 8% over the period of the study at times experiencing fast growth with averages ranging between 10 - 16%. The observed results indicate an improved position after merger period. Whereas the improved performance could be as a result of merger restructuring, the changes in the CBK regulations to increase the minimum capital requirements could have substantially impacted on this ratio.

Solvency was also observed to have improved marginally in post merger period compared with pre merger period. This is possibly as a result of effects of the law on Solvency ratio.

The overall financial performance on average indicate an improvement after merger period compared to pre-merger period. It can therefore be concluded that although financial performance of some Banks improved while that of others deteriorated, merger restructuring could still be a considered and recommended option to improve bank performance. This is more so in the case of small medium sized banks, weak or ailing financial institutions with a narrow business. Merger restructuring is likely to positively affect financial performance due to renewed attention to business, improved management and Accounting, legal regulatory systems, better credit assessment and approval techniques and reduced staffing levels. The merged institution is likely to realise higher rates of return.

5.2. LIMITATIONS OF THE STUDY

This study was carried out using data derived from Financial statements of both Banks and Non -Bank Financial Institutions (NBFIS) and so one has to be cautious of the limitations associated with such data. The data may be subject to manipulation by the management of the institutions.

Prior to 1998, Financial Institutions reporting dates were different until June 1998 when Financial Year was synchronised to run concurrent with the calendar year. Requirement to publish standard format of Financial Statements presentation and more disclosures also made it easier to analyse data after this date. This was not possible prior 1998 as information on Financial Statements was scanty; hence inadequate as regards performance of individual Banks. Even Central Bank Supervisory reports do not still disclose this information.

The size (population) of study was limited (20 institutions). The period of focus was also limited (3 pre and 3post merger period). More reliable results could be obtained if the population was larger and the period more; say 5 years as recommended by Lev and Mandelker (1972) and Kelly (1967). Merger restructuring approach started in 1994 in the Banking Sector.

Some of the data was unavailable. This obviously influences the results of the study. Other factors that may have influenced performance, other than merger restructuring could not be isolated. It was therefore difficult to outrightly conclude that merger per se had an impact on performance as other factors are likely to have contributed to the trend or recorded results. Interpreting the results was therefore a challenging task.

As with any other research, the study was undertaken within a fixed duration and the researcher did not have adequate time to explore aspects like effects of peer group or other overriding factors on performance.

Another limitation encountered was that the institutions merged on different dates. It was therefore difficult to have a clear overall picture of the pre-merger and post-merger periods to enable comparison and draw conclusions. The institutions had to be analysed individually.

5.3. SUGGESTIONS FOR FURTHER RESEARCH

The Banking sector is an important engine in the economic growth of the country. The sector, both in size and sector covers 11% of the whole economy (CBK, MER, Various). Monetary policy is largely implemented through the Banking sector, hence its stability cannot be overemphasized.

Other than licensing procedures and rules which are important in improving and sustaining resilience in the sector, restructuring through merger approach to strengthen these institutions further is necessary. Central Bank of Kenya is addressing these issues with various Amendments to the Banking Act and building inspection capacity: Bank supervision Unit (CBK Annual reports; various). These efforts are laudable and sustaining the same is recommended so as to forestall Bank failures in the economy which has adversely affected the sector and the economy at large as experienced in the recent past.

Another possible area of study is a research on other factors that affect Bank performance; such as quality of management. A study on Characteristics of Banks that merged in relation to studies and practical cases in other countries is also recommended.

A study on effectiveness of other restructuring approaches; Financial or operational approaches and/or structural and Financial measures can also be undertaken.

The data derived was analysed for pre-merger, combined results of the independent firms and post-merger. Inferences were then made on the basis of the information.

5.4 RECOMMENDATIONS TO POLICY MAKERS

The banking sector plays a central role in our economy. It is therefore important for the Central Bank of Kenya as the banking sector supervisor, advisor and regulator and for other monetary authorities and the Treasury to critically assess the overall performance of this sector and endeavour to design policies, strategies and tools of reform to strengthen and improve its performance.

Restructuring approach has been used in other countries to resolve banking crisis and improve financial performance in the banking sector. There is however need to identify the characteristics of banks that are likely to improve in their financial performance using merger approach. The country's situation should also be analysed .

It was observed from this study that most merged banks recorded improvement in terms of financial performance indicators with minimum statutory requirements, but recorded a decline in performance in other ratios. This not withstanding, merger restructuring can still be a considered option particularly in the case of small medium sized banks.

GLOSSARY

The following are descriptions of some terms used in this study:

1. **Bank Restructuring** according to De Juan refers to "the treatment of deeply insolvent banks or banking systems through rehabilitation or liquidation."

2. **Financial Crises/Banking crises**: Mitchell (1913) defines financial crises as the process of intensive liquidation of credit. For Friedman and Schwartz (1963) it is a situation where banks are forced to sell assets at a loss to replenish reserves.

3. **Banking System**: For purposes of the study, this term will be referring to commercial banks and Non-Bank Financial Institutions licenced and operating banking business in Kenya.

According to the ***Banking Act Chapter 488***

(i) A "***Bank***" means "a company which carries on or proposes to carry on banking business in Kenya and includes the Co-operative Bank of Kenya Ltd but does not include the Central Bank."

(ii) A ***"Financial Institution "or" Non-Bank Financial Institution***" means "a company other than a bank which carries on or proposes to carry on financial business and includes any other company which the minister may by notice in the gazette, declare to be a financial institution for purposes of this act."

(iii) "***An institution***" means "a bank or financial institution or a mortgage finance company."

(iv) "***Financial business***" means;

(a) "The accepting from members of the public of money on deposit repayable on demand at the expiry of a fixed period after notice, and

(b) the employing of money held on deposit or any part of the money by lending, investment or in any other manner for the account and the risk of the person so employing the money".

5. **Bank Failure:** According to De Juan: "A failed bank is one which is insolvent, they are largely identified by bank examiners or when their creditors take action against them".

6. **Bank Soundness**: Lindgren defines a sound banking system as one in which most banks are solvent and likely to remain so. Solvency (net worth) is reflected in a bank's balance sheet: Assets, Liabilities and Capital (equity). The likelihood of remaining solvent depends on the bank's ability to be efficient and profitable.
For bank restructuring to achieve and sustain solvency, the banks must be well managed and be sufficiently capitalized and hence, be profitable.
The structure of the financial system is unique. It however, holds a central place in the economy hence the need for the system to be sound. Problems of one bank spread quickly to another threatening the stability of the entire system. A sound banking and financial system, therefore, is a ***sine qua non*** for effective mobilization and efficient allocation of resources (Jayamaha 1998).

7. **Performance:** It is taken as the predictive value of financial institutions performance. It is obtained by a factor of 4 ratios which give an indication of financial institutions' strength.

Z(%)	**= Gearing ratio (%)**	**=**	**Capital/total deposits**
	Liquidity ratio	**=**	**Liquid assets/Net liabilities**
	Asset quality Ratio	**=**	**Total loans/Total assets**
	Earnings Ratio	**=**	**Earnings/Total assets**

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Appendix I

MERGERS OF INSTITUTIONS SINCE 1994

Approved Mergers/Takeovers

NO.	INSTITUTION	MERGED WITH	CURRENT/PROPOSED NAME	DATE APPROVED
1.	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.94
2.	Transnational Finance Ltd.	Transnational Bank	Transnational Bank Ltd.	28.11.94
3.	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.94
4.	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.95
5.	Bank of India	Bank of India Finance	Bank of India (Africa) Ltd.	15.11.95
6.	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.96
7.	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.0196
8.	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.96
9.	CBA Financial Services	Commercial Bank of Africa Ltd.	Commercial Bank of Africa Ltd.	26.01.96
10.	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.97
11.	National Industrial Credit Bank Ltd.	African Mercantile Ban. Corp.	NIC Bank	14.06.97
12.	Giro Bank Ltd.	Commercial Bank Ltd.	Giro Commercial Bank	24.11.98
13.	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.98

14.	Diamond Trust Bank (K) Ltd.	Premier savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.99
15.	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05/99
16.	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.99
17.	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.99
18.	Habib A. G. Zurich	Habib Africa Bank Ltd.	Habib Bank A. G. Zurich	30.11.99
19.	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.99
20.	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
21	Fidelity Commercial Bank *	Southern Credit Bank Ltd.	Southern Fidelity Bank Ltd.	11.01.2000
22	Euro Bank Ltd.*	Daima Bank Ltd.	Euro Daima Bank Ltd.	11.01.2000
23.	Kenya Commercial Bank	Kenya Commercial Finance Co.	KCB	21.03.2001
24.	Southern Credit Bank Ltd.	Southern Credit Bank Ltd.	Southern Credit Bank Ltd.	17.12.2001
25.	Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001

* ***Mergers that did not take off***

APPENDIX IV

INSTITUTION	TOTAL ASSETS (Ksh millions)										
	2,001	2,000	1,999	1,998	1,997	1,996	1,995	1994	1993	1992	1991
Commercial Bank of Africa Ltd	16,251	12,783	11,872	12,081	9,288	7,877	5,618	4269	4269	3915	2860
Bank of Baroda (K) Ltd	3,827	3,309	3,083	2,928	2,239	2,687	2,685	3062	2773		
Bank of India	3,823	3,239	3,265	3,593	3,340	3,051	2,148				
Barclays Bank of Kenya Ltd.	73,647	70,377	69,292	70,362	60,563	52,693	46,235	42834	39322	25793	21144
Citibank-NA	27,710	38,033	25,941	23,506	18,622	17,493					
Credit Agricole Indosuez	5,794	5,732	4,621	4,176	3,759	3,452					
Delphis Bank	1,796	3,646	4,387	4,264	4,967	3,536	3,123	2422	1558		
Diamond Trust{K}Ltd **	5,530	5,170	5,996	6,436	7,248	8,983	8,194	7318	5460		
Euro/Daima Bank	2,185	2,263	1,735	1,750	1,604	1,319	1,367				
First American Bank of Kenya Ltd	6,389	5,627	5,771	5,509	5,247	4,431	4,005	3401	2262		
Giro Commercial Bank	4,119	4,068	3,745	3,880	4,295	1,625	1,170			3338	3928
Guardian Bank Ltd	3,625	4,233	4,419	3,158	3,834	4,035	2,262	2866			
Habib AG Zurich	3,514	3,094	3,118	3,164	2,693	2,462					
Kenya Commercial Bank	65,206	73,328	75,260	79,032	73,122	68,239	57,931	60608	38512	25867	22489
National Bank of Kenya	24,043	23,940	25,114	27,396	29,027	24,447	18,257	17566	12825	10691	
National Industrial Credit Bank Ltd	8,408	7,442	7,212	7,343	8,033	8,904	7,307	4916	3235	2689	
ParamountUniversal Bank Ltd	1,358	1,462	1,468	1,541	1,623	1,048	477				
Southern Credit Banking Corp Ltd	2,894	1,562	2,655	1,560	3,574	3,093	2,629				
Stanbic Bank Kenya	6,624	7,129	6,930	6,606	6,510	4,070	4,321	3537			
Standard Chartered {K} Ltd	54,480	49,188	42,772	37,942	32,708	30,771	27,173	25820	23359	18537	15815
Trans National bank Ltd	1,588	1,369	1,374	2,013	2,020	2,175	1,507	1797	2067		
Trust Bank (K) Ltd		4,199	7,330	closed	17,124	14,306	11,296				
TOTAL	322,811	331,193	317,360	308,240	301,440	270,697	207,705	180,416	135,642	90,830	66,236

INSTITUTION	TOTAL LIABILITIES Ksh millions										
	2001	2000	1999	1998	1997	1996	1,995	1994	1993	1992	1991
Bank of Baroda	3,444	2,945	2,747	2,621	1,940	2,371	2,419				
Bank of India	2,748	2,726	2,710	3,048	2,730	1,944	1,691				
Barclays Bank of Kenya	62,247	60,034	60,554	62,193	53,693	46,967	41,697	39345	38861		
Citibank NA	23,696	19,948	21,995	19,960	16,081	14,685					
Commercial Bank of Africa	14,355	11,120	10,383	10,700	8,098	6,887	4,908				
Credit Agricole Indosuez	5,071	5,087	4,019	3,790	3,474	3,202					
Delphis Bank Ltd	2,477	3,560	3,796	3,799	4,517	3,169	2,766	2183	1367		
Diamond Trust (k) Ltd	4,280	3,946	4,858	5,487	6,444	7,779	7,183	6430	4643		
Euro/Daima Bank	2,116	2,066	1,561	1,492	1,367	1,115	1,186	983			
First American Bank Ltd	5,244	4,589	4,788	4,655	4,537	3,892	3,576	3056	2025	1668	
Giro Commercial Bank Ltd	3,744	3,711	3,402	3,546	3,960	2,889	1,084	662			
Guardian Bank Ltd	2,990	3,627	3,838	1,987	1,684	1,732					
Habib AG Zurich	3,161	2,806	2,838	2,859	2,462	2,059					
Kenya Commercial Bank	56,826	65,280	66,419	68,677	63,316	60,099	51,507	56052	35315	23683	20604
National Bank of Kenya	21,586	21,804	22,997	22,828	25,699	21,256	15,264	14643	11539	9958	
National Industrial Credit Bank	5,999	5,146	5,170	5,456	6,293	7,219	6,303	3885	2815		
Paramount/Universal Bank	1,090	1,202	1,435	1,432	1,422	918	414				
Southern Credit Banking Corp Ltd	1,786	1,147	2,532	1,387	3,203	2,753	2,419				
Stanbic (K) Bank Ltd	5,881	6,177	5,944	5,631	5,616	3,496	3,784	3116			
Standard Bank of Kenya	48,680	43,003	38,250	33,938	29,483	27,993	25,046	23998	21612	17116	14691
Trans National bank Ltd	898	930	959	1,170	1,191	1,538	1,121	1231	1618		
Trust Bank (K) Ltd(under statutory management)		5,359	7,757	-	16,163	13,408	10,549				
TOTAL	**278,319**	**276,213**	**278,952**	**266,656**	**263,373**	**237,371**	**182,917**	**155584**	**119795**	**52425**	**35295**

INSTITUTION	SHAREHOLDERS FUNDS (Ksh Millions									
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	
Bank of Baroda (K) Ltd	383	364	336	307	299	293	265				
Bank of India	383	319	401	392	475	417	802				
Barclays Bank of Kenya Ltd	11,400	10,343	8,738	8,169	6,870	5,726	4,538	3489	2217		1991
Citibank NA	4,015	2,295	3,887	3,546	2,541	2,628					
Commercial Bank of Africa	1,896	1,662	1,489	1,383	1,186	990	710				
Credit Agricole Indosuez	723	645	605	386	285	250	-				
Delphis Bank	680	86	591	465	450	367	358	222	164		
Diamond Trust (K) Ltd	1,250	1,224	1,138	949	804	1,204	1,010	889	817		
Euro/Daima Bank	69	197	174	258	237	205	182				
First American Bank (K) Ltd	1,145	1,038	983	854	710	539	396				
Giro Commercial Bank	375	357	345	334	335	205	87	77			
Guardian Bank Ltd	635	606	581	314	204	585					
Habib AG Zurich	354	288	275	294	242	215	95				
Kenya Commercial Bank Ltd	8,380	8,048	8,841	10,356	9,806	8,140	6,424	4556	3197		
National Bank of Kenya	2,457	2,136	2,117	4,568	3,328	3,119	2,993	2923			
National Industrial Credit Bank Ltd	2,409	2,296	2,042	1,847	1,707	1,287	1,004	531	421	226	162
Paramount/Universal	268	260	279	166	210	130	63				
Southern Credit Banking Corp Ltd	1,108	415	421	173	372	340	210				
Stanbic Bank (K) Ltd	742	952	986	975	894	574	537				
Standard Bank (K) Ltd	5,800	6,185	4,522	4,004	3,225	2,778	2,127	1821	1747		
Trans National Bank Ltd	690	439	416	568	550	641	677				
Trust bank (K) Ltd(under liquidation)		1,160	427	closed	715	754	747				
TOTAL	45,162	41,315	39,594	40,308	35,445	31,387	23,225	14,508	8,563	226	2,153

TOTAL NET OPERATING INCOME

			(Ksh Millions)								
INSTITUTION	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**	**1991**
ABN-AMRO Bank		1,284	1,347	1,321	990						
Bank of India	269	250	285	295	238						
Bank of Baroda	305	284	300	303	243						
Barclays Bank of Kenya Ltd	11,262	11,324	10,653	9,948	9,057						
Bullion Bank				-	-						
Commercial Bank of Africa Ltd	1,303	1,306	1,210	1,255	1,343						
Citibank-NA	1,733	2,778	2,578	2,406	1,743						
Credit Agricole Indosuez	421	496	461	443	401						
Delphis Bank (under statutory management)	184	495	780	1,619	1,221	860	995	661	504	20	
Diamond Trust Bank*****	371	880	946	988	1767*	229	402	395			
Euro/Daima Bank	181	284	257	515	374						
First American Bank Ltd	578	547	539	592	559						
Giro Commercial Bank	257	256	260	273	244						
Guardian Bank ***	254	275	290	125	96						
Habib AG Zurich	274	261	364	473	259						
Kenya Commercial Bank Ltd	8,790	9,370	8,766	8,664	9,228						
National Bank of Kenya Ltd	2,439	1,757	2,341	1,297	2,913						
National Industrial Credit	854	941	1,418	1,912	944						
Paramount Bank	92	98	200	487	191	102	55		-		
Southern Credit Bank	164	175	437	438	81						
Stanbic Bank Ltd.	362	373	884	1,201	402						
Standard Chartered Bank Ltd	6,486	6,153	6,927	7,915	5,033						
TransNational Bank	313	132	129	173	238						
Trust Bank(under liquidation)		534	739	-	-						
Universal Bank			125	236							
TOTAL	36,892	40,253	42,236	42,879	35,798	1,191	1,452	1,056	504		

NET INCOME (BEFORE TAX)

(Ksh Millions)

INSTITUTION	2,001	2,000	1,999	1,998	1,997	1,996	1,995	1994	1993	1992	1991
Bank Baroda (K) Ltd	52	47	44	54	55	467					
Bank of India	116	123	151	105	107	120					
Barclays bank of Kenya Ltd	4,235	3,035	3,361	4,242	3,974	3,625	3,192	3398	2246	1109	812
Citibank NA	699	1,107	995	1,092	761	904					
Commercial bank of Africa Ltd	516	392	392	561	593	473	363	468	290	217	
Credit Agricole Indosuez	63	68	155	101	35	(77)					
Delphis bank (K) Ltd	(519)	(747)	36	27	51	29	46	51	71		
Diamond trust (K) Ltd	51	200	155	208	210	(73)	401	399	297	175	
Euro/Daima bank	116	48	(85)	46	58	43	46	50			
First American bank (K) ltd	227	121	207	204	352	285	253	251	153	74	
Giro commercial bank (K) Ltd	30	20	17	32	58	38					152.1
Guardian bank Kenya Ltd	56	56	42	26	42	42	53	131			
Habib AG zurich	113	106	86	119	104	128					
Kenya commercial bank	369	766	2,239	1,408	4,116	4,046	3,780	2839	2041		
National bank of Kenya Ltd	323	(1,620)	(3,471)	(3,058)	650	904	633	429	150	196	
National industrial credit bank Ltd	377	451	461	436	590	579	546	340	287	132	84
Paramount	12	17	21	22	6		3	4			
Southern credit banking corpLtd	8	(14)	8	6	9	33	41	51	29	7	
Stanbic Kenya Ltd	(294)	(443)	34	(386)	112	64	86	82			
Standard chartered bank (K) Ltd	3,224	3,172	2,566	2,291	1,790	1,763	1,762	1363	644	838	546
Trans national bank Ltd	221	22	(152)	11	35	22					
TOTAL	9,995	6,927	7,262	7,547	13,708	13,415	11,205	9,856	6,208	2,748	1,594

TOTAL DEPOSITS

{Ksh Millions}

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Bank of Baroda (K) Ltd	3,324	2,833	2,635	2,476	1,834	2,180	2,592	2452			
Bank of India	2,602	2,594	2,540	3,178	1,862	2,507	1,581				
Barclays Bank (K) Ltd	56,788	53,132	53,882	51,262	45,177	38,758	36,012	33055	35589	23367	19623
Citibank NA	20,805	19,769	17,730	17,025	14,794	13,052					
Commercial Bank of Africa	13,444	10,200	9,951	10,289	7,475	6,448	4,649	3321	3108	2333	
Credit Agricole indosuez	3,812	4,675	3,611	3,578	2,995	2,890					
Delphis bank Ltd	2,235	3,489	3,633	3,650	4,338	2,992	2,623	2046	1313		
Diamond trust (K) Ltd	3,889	3,672	4,527	5,137	5,988	7,327	6,738	5655	3994	*2985	2513
Euro/Daima Bank	1,540	1,972	1,424	1,406	1,272	1,021	1,140	638	450		
First American Bank (K) Ltd	4,771	4,509	4,660	4,486	4,283	3,678	3,389	2834	1795	1552	
Giro Commercial Bnk Ltd	3,596	3,589	3,285	3,227	3,602	2,460	1,018	592			
Guardian Bank Ltd	2,888	3,306	3,281	1,776	1,625	1,586					
Habib AG Zurich	2,957	2,601	2,562	2,015	2,234	1,842	1,423				
Kenya Commercial Bank	46,842	48,874	55,546	54,405	56,493	54,537	46,037				
National Bank of Kenya	17,402	19,560	21,440	30,448	22,923	18,384	17,566	12687	10671	9266	
National Industrial Credit Bank Ltd	5,571	4,703	4,681	5,095	5,897	5,850					
Paramount	1,032	1,151	1,153	1,241	1,294	882	404				
Southern Credit Banking Corp Ltd	1,626	876	2,308	1,352	3,056	2,605	2,317				
Stanbic Bank (K) Ltd	5,526	5,836	5,777	5,220	5,851	6,767	5,704	3075			
Standard Chartered Bank (K) Ltd	45,059	39,311	34,939	30,821	26,262	24,656	21,536				
Trans National Bank Ltd	693	810	861	1,085	1,008	1,321	985	1099	1419		
Trust Bank(under liquidation)		692	1,094	closed	15,787	12,629	9,964				
TOTAL	246,402	238,154	241,520	239,172	236,050	214,372	165,678	67,454	58,339	36,518	22,136

INSTITUTION	TOTAL INCOME Ksh Millions										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Bank of Baroda (K) Ltd	464	436	457	530	588						
Bank of India	416	389	435	599	519						
Barclays Bank (k) Ltd	12716	13028	12499	14061	12159						
Citibank NA (K) Ltd	2467	4193	3704	4082	3811						
Commercial Bank of Africa Ltd	1900	1837	2060	2341	2055						
Credit Agricole Indosuez	667	793	652	801	735						
Delphis Bank (under statutory management)	396	508	784	1259	971						
Diamond Trust Bank Ltd	620	892	973	1617	1623						
Euro/Daima Bank	399	452	387	534	477						
First American Bank (K) Ltd	871	912	899	1270	1196						
Giro Commercial Bank Ltd	583	615	638	988	942						
Guardian Bank (K) Ltd	478	597	658	437	445						
Habib AG Zurich	428	419	364	473	405						
Kenya Commercial bank Ltd	11695	12973	14384	17903	17032						
National Bank (K) Ltd	3431	3165	4111	6031	6072						
National Industrial Credit Bank Ltd	1133	1278	1418	1910	2175						
Paramount/Universal Bank	196	167	142	164	112						
Southern Credit Banking Corp Ltd *	309	335	441	435	366						
Stanbic Bank (K) Ltd	738	807	884	1201	1051						
Standard Bank (K) Ltd	7869	7462	6927	7915	7078						
Trans National Bank (K) Ltd	505	333	396	466	508						
Trust Bank (under liquidation)	-	842.00	847.00	closed	-						

NOTE:

** Mergers that did not take off

Date of Merger

APPENDIX II - SOLVENCY RATIOS

Table 1 (a)Total Liabilities/Total Assets

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	88.33%	86.99%	87.46%	88.57%	87.19%	87.43%	87.36%	0.00%	0.00%	0.00%	0.00%
Bank Of Baroda (K) Ltd	89.99%	89.00%	89.10%	89.52%	86.65%	88.24%	90.09%	0.00%	0.00%	-	-
Bank Of India	71.88%	84.16%	83.00%	84.83%	81.74%	63.72%	78.72%	-	-	-	-
Barclays Bank Of Kenya	84.52%	85.30%	87.39%	88.39%	88.66%	89.13%	90.18%	91.85%	98.83%	0.00%	0.00%
Citibank-NA	85.51%	52.45%	84.79%	84.91%	86.35%	83.95%	-	-	-	-	-
Credit Agricole Indosuez	87.52%	88.75%	86.97%	90.76%	92.42%	92.76%	-	-	-	-	-
Delphis	137.92%	97.64%	86.53%	89.09%	90.94%	89.62%	88.57%	90.13%	87.74%	-	-
Diamond Trust(K)Ltd	77.40%	76.32%	81.02%	85.25%	88.91%	86.60%	87.66%	87.87%	85.04%	-	-
Euro/Daima Bank	96.84%	91.29%	89.97%	85.26%	85.22%	84.53%	86.76%	-	-	-	-
First American Bank	82.08%	81.55%	82.97%	84.50%	86.47%	87.84%	89.29%	89.86%	89.52%	-	-
Giro Commercial Bank	90.90%	91.22%	90.84%	91.39%	92.20%	177.78%	92.65%	-	-	0.00%	0.00%
Guardian Bank Ltd	82.48%	85.68%	86.85%	62.92%	43.92%	42.92%	0.00%	0.00%	-	-	-
Habib Ag Zurich	89.95%	90.69%	91.02%	90.36%	91.42%	83.63%	-	-	-	-	-
Kenya Commercial Bank	87.15%	89.02%	88.25%	86.90%	86.59%	88.07%	88.91%	92.48%	91.70%	91.56%	91.62%
National Bank Of Kenya	89.78%	91.08%	91.57%	83.33%	88.53%	86.95%	83.61%	83.36%	89.97%	93.14%	-
National Industrial Credit Bank Ltd	71.35%	69.15%	71.69%	74.30%	78.34%	81.08%	86.26%	79.03%	87.02%	0.00%	-
Paramount/Universal Bank Ltd	80.27%	82.22%	97.75%	92.93%	87.62%	87.60%	86.79%	-	-	-	-
Southern Credit Banking Corp Ltd	61.71%	73.43%	95.37%	88.91%	89.62%	89.01%	92.01%	-	-	-	-
Stanbic Bank Kenya	88.78%	86.65%	85.77%	85.24%	86.27%	85.90%	87.57%	88.10%	-	-	-
Standard Chartered {K} Ltd	89.35%	87.43%	89.43%	89.45%	90.14%	90.97%	92.17%	92.94%	92.52%	92.33%	92.89%
Trans National Bank Ltd	56.55%	67.93%	69.80%	58.12%	58.96%	70.71%	74.39%	68.50%	78.28%	-	-
Trust Bank (K) Ltd	-	127.63%	105.83%	-	94.39%	93.72%	93.39%	-	-	-	-
Industry Average	**85%**	**85.25%**	**87.43%**	**84.52%**	**84.66%**	**87.83%**	**82.97%**	**66.47%**	**72.78%**	**39.58%**	**36.90%**

Table 2 (b)Shareholder Funds/Total Assets

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	11.67%	13.00%	12.54%	11.45%	12.77%	12.57%	12.64%	0.00%	0.00%	0.00%	0.00%
Bank Of Baroda (K) Ltd	10.01%	11.00%	10.90%	10.48%	13.35%	10.90%	9.87%	0.00%	0.00%	-	-
Bank Of India	10.02%	9.85%	12.28%	10.91%	14.22%	13.67%	37.34%	-	-	-	-
Barclays Bank Of Kenya	15.48%	14.70%	12.61%	11.61%	11.34%	10.87%	9.82%	8.15%	5.64%	0.00%	9.42%
Citibank-NA	14.49%	6.03%	14.98%	15.09%	13.65%	15.02%	-	-	-	-	-
Credit Agricole Indosuez	12.48%	11.25%	13.09%	9.24%	7.58%	7.24%	-	-	-	-	-
Delphis	37.86%	2.36%	13.47%	10.91%	9.06%	10.38%	11.46%	9.17%	10.53%	-	-
Diamond Trust(K)Ltd	22.60%	23.68%	18.98%	14.75%	11.09%	13.40%	12.33%	12.15%	14.96%	-	-
Euro/Daima Bank	3.16%	8.71%	10.03%	14.74%	14.78%	15.54%	13.31%	-	-	-	-
First American Bank	17.92%	18.45%	17.03%	15.50%	13.53%	12.16%	9.89%	0.00%	0.00%	-	-
Giro Commercial Bank	9.10%	8.78%	9.21%	8.61%	7.80%	12.62%	7.44%	-	-	0.00%	0.00%
Guardian Bank Ltd	17.52%	14.32%	13.15%	9.94%	5.32%	14.50%	0.00%	0.00%	-	-	-
Habib Ag Zurich	10.07%	9.31%	8.82%	9.29%	8.99%	8.73%	-	-	-	-	-
Kenya Commercial Bank	12.85%	10.98%	11.75%	13.10%	13.41%	11.93%	11.09%	7.52%	8.30%	0.00%	0.00%
National Bank Of Kenya	10.22%	8.92%	8.43%	16.67%	11.47%	12.76%	16.39%	16.64%	0.00%	0.00%	-
National Industrial Credit Bank Ltd	28.65%	30.85%	28.31%	25.15%	21.25%	14.45%	13.74%	10.80%	13.01%	8.40%	-
Paramount/Universal Bank Ltd	19.73%	17.78%	19.01%	10.77%	12.94%	12.40%	13.21%	-	-	-	-
Southern Credit Banking Corp Ltd	38.29%	26.57%	15.86%	11.09%	10.41%	10.99%	7.99%	-	-	-	-
Stanbic Bank Kenya	11.20%	13.35%	14.23%	14.76%	13.73%	14.10%	12.43%	0.00%	-	-	-
Standard Chartered {K} Ltd	10.65%	12.57%	10.57%	10.55%	9.86%	9.03%	7.83%	7.05%	7.48%	0.00%	0.00%
Trans National Bank Ltd	43.45%	32.07%	30.28%	28.22%	27.23%	29.47%	44.92%	0.00%	0.00%	-	-
Trust Bank (K) Ltd	-	27.63%	5.83%	-	4.18%	5.27%	6.61%	-	-	-	-
Industry Average	17.50%	14.50%	14.55%	13.47%	12.56%	12.99%	13.98%	5.50%	5.45%	1.20%	1.88%

PROFITABILITY & EARNINGS RATIO

Table 3 (a) Return on Equity: Net Income/Total Equity Capital%

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	27.22%	23.59%	26.33%	40.56%	50.00%	47.78%	51.13%	-	-	-	-
Bank Of Baroda (K) Ltd	13.58%	12.91%	13.10%	17.59%	18.39%	159.39%	0.00%	-	-	-	-
Bank Of India	30.29%	38.56%	37.66%	26.79%	22.53%	28.78%	0.00%	-	-	-	-
Barclays Bank Of Kenya	37.15%	29.34%	38.46%	51.93%	57.85%	63.31%	70.34%	97.39%	101.31%	-	40.78%
Citibank-NA	17.41%	48.24%	25.60%	30.80%	29.95%	34.40%	-	-	-	-	-
Credit Agricole Indosuez	8.71%	10.54%	25.62%	26.17%	12.28%	-30.80%	-	-	-	-	-
Delphis	-76.32%	-868.60%	6.09%	5.81%	11.33%	7.90%	12.85%	22.97%	43.29%	-	-
Diamond Trust(K)Ltd	4.08%	16.34%	13.62%	21.92%	26.12%	-6.06%	39.70%	44.88%	36.35%	-	-
Euro/Daima Bank	168.12%	24.37%	-48.85%	17.83%	24.47%	20.98%	25.27%	-	-	-	-
First American Bank	19.83%	11.66%	21.06%	23.89%	49.58%	52.88%	63.89%	-	-	-	-
Giro Commercial Bank	8.00%	5.60%	4.93%	9.58%	17.31%	18.54%	0.00%	0.00%	-	-	-
Guardian Bank Ltd	8.82%	9.24%	7.23%	8.28%	20.59%	7.18%	-	-	-	-	-
Habib Ag Zurich	31.92%	36.81%	31.27%	40.48%	42.98%	59.53%	0.00%	-	-	-	-
Kenya Commercial Bank	4.40%	9.52%	25.33%	13.60%	41.97%	49.71%	58.84%	62.31%	63.84%	-	-
National Bank Of Kenya	13.15%	-75.84%	-163.96%	-66.94%	19.53%	28.98%	21.15%	14.68%	-	-	-
National Industrial Credit Bank Ltd	15.65%	19.64%	22.58%	23.61%	34.56%	44.99%	54.38%	64.03%	68.17%	58.41%	51.85%
Paramount/Universal Bank Ltd	4.48%	6.54%	7.53%	13.25%	2.86%	0.00%	4.76%	-	-	-	-
Southern Credit Banking Corp Ltd	0.72%	-3.37%	1.90%	3.47%	2.42%	9.71%	19.52%	-	-	-	-
Stanbic Bank Kenya	-39.62%	-46.53%	3.45%	-39.59%	12.53%	11.15%	16.01%	-	-	-	-
Standard Chartered {K} Ltd	55.59%	51.29%	56.74%	57.22%	55.50%	63.46%	82.84%	74.85%	36.86%	-	-
Trans National Bank Ltd	32.03%	5.01%	-36.54%	1.94%	6.36%	3.43%	0.00%	-	-	-	-
Trust Bank (K) Ltd											
Industry Average	18.34%	-30.25%	5.67%	15.63%	26.62%	32.15%	28.93%	47.64%	58.30%	58.41%	46.32%

Table 4 (b)Return on Assets :Net Income (before Tax)/Total Assets

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	8.02%	10.22%	10.19%	10.39%	14.46%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bank Of Baroda (K) Ltd	7.97%	8.58%	9.73%	10.35%	10.85%	0.00%	0.00%	0.00%	0.00%	-	-
Bank Of India	7.04%	7.72%	8.73%	8.21%	7.13%	0.00%	0.00%	-	-	-	-
Barclays Bank Of Kenya	15.29%	16.09%	15.37%	14.14%	14.95%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Citibank-NA	6.25%	7.30%	9.94%	10.24%	9.36%	0.00%	-	-	-	-	-
Credit Agricole Indosuez	7.27%	8.65%	9.98%	10.61%	10.67%	0.00%	-	-	-	-	-
Delphis	10.24%	13.58%	17.78%	37.97%	24.58%	24.32%	31.86%	27.29%	32.35%	-	-
Diamond Trust(K)Ltd	6.71%	17.02%	15.78%	15.35%	-	2.55%	4.91%	5.40%	0.00%	-	-
Euro/Daima Bank	8.28%	12.55%	14.81%	29.43%	23.32%	0.00%	0.00%	-	-	-	-
First American Bank	9.05%	9.72%	9.34%	10.75%	10.65%	0.00%	0.00%	0.00%	0.00%	-	-
Giro Commercial Bank	6.24%	6.29%	6.94%	7.04%	5.68%	0.00%	0.00%	-	-	0.00%	0.00%
Guardian Bank Ltd	7.01%	6.50%	6.56%	3.96%	2.50%	0.00%	0.00%	0.00%	-	-	-
Habib Ag Zurich	7.80%	8.44%	11.67%	14.95%	9.62%	0.00%	-	-	-	-	-
Kenya Commercial Bank	13.48%	12.78%	11.65%	10.96%	12.62%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
National Bank Of Kenya	10.14%	7.34%	9.32%	4.73%	10.04%	0.00%	0.00%	0.00%	0.00%	0.00%	-
National Industrial Credit Bank Ltd	10.16%	12.64%	19.66%	26.04%	11.75%	0.00%	0.00%	0.00%	0.00%	0.00%	-
Paramount/Universal Bank Ltd	6.77%	6.70%	13.62%	31.60%	11.77%	9.73%	11.53%	-	-	-	-
Southern Credit Banking Corp Ltd	5.67%	11.20%	16.46%	28.08%	2.27%	0.00%	0.00%	-	-	-	-
Stanbic Bank Kenya	5.46%	5.23%	12.76%	18.18%	6.18%	0.00%	0.00%	0.00%	-	-	-
Standard Chartered {K} Ltd	11.91%	12.51%	16.20%	20.86%	15.39%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Trans National Bank Ltd	19.71%	9.64%	9.39%	8.59%	11.78%	0.00%	0.00%	0.00%	0.00%	-	-
Trust Bank (K) Ltd	-	12.72%	10.08%	-	-	0.00%	0.00%	-	-	-	-
Industry Average	9.07%	10.16%	12.09%	15.83%	11.28%	1.66%	2.54%	2.51%	2.94%	0.00%	0.00%

Table 5 (c) Equity multiplier:Total Assets/Total Equity Capital(Times)

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	8.57	7.69	7.97	8.74	7.83	7.96	7.91	-	-	-	-
Bank Of Baroda (K) Ltd	9.99	9.09	9.18	9.54	7.49	9.17	10.13	-	-	-	-
Bank Of India	9.98	10.15	8.14	9.17	7.03	7.32	2.68	-	-	-	-
Barclays Bank Of Kenya	6.46	6.80	7.93	8.61	8.82	9.20	10.19	12.28	17.74	-	10.62
Citibank-NA	6.90	16.57	6.67	6.63	7.33	6.66	-	-	-	-	-
Credit Agricole Indosuez	8.01	8.89	7.64	10.82	13.19	13.81	-	-	-	-	-
Delphis	2.64	42.40	7.42	9.17	11.04	9.63	8.72	10.91	9.50	-	-
Diamond Trust(K)Ltd	4.42	4.22	5.27	6.78	9.01	7.46	8.11	8.23	6.68	-	-
Euro/Daima Bank	31.67	11.49	9.97	6.78	6.77	6.43	7.51	-	-	-	-
First American Bank	5.58	5.42	5.87	6.45	7.39	8.22	10.11	-	-	-	-
Giro Commercial Bank	10.98	11.39	10.86	11.62	12.82	7.93	13.45	-	-	-	-
Guardian Bank Ltd	5.71	6.99	7.61	10.06	18.79	6.90	-	-	-	-	-
Habib Ag Zurich	9.93	10.74	11.34	10.76	11.13	11.45	-	-	-	-	-
Kenya Commercial Bank	7.78	9.11	8.51	7.63	7.46	8.38	9.02	13.30	12.05	-	-
National Bank Of Kenya	9.79	11.21	11.86	6.00	8.72	7.84	6.10	6.01	-	-	-
National Industrial Credit Bank Ltd	3.49	3.24	3.53	3.98	4.71	6.92	7.28	9.26	7.68	11.90	-
Paramount/Universal Bank Ltd	5.07	5.62	5.26	9.28	7.73	8.06	7.57	-	-	-	-
Southern Credit Banking Corp Ltd	2.61	3.76	6.31	9.02	9.61	9.10	12.52	-	-	-	-
Stanbic Bank Kenya	8.93	7.49	7.03	6.78	7.28	7.09	8.05	-	-	-	-
Standard Chartered {K} Ltd	9.39	7.95	9.46	9.48	10.14	11.08	12.78	14.18	13.37	-	-
Trans National Bank Ltd	2.30	3.12	3.30	3.54	3.67	3.39	2.23	-	-	-	-
Trust Bank (K) Ltd	-	3.62	17.17	-	23.95	18.97	15.12	-	-	-	-
Industry Average	8.11	9.41	8.10	8.13	9.63	8.77	8.39	9.27	11.17	11.90	5.31

Table 6 (d) Asset Utilisation: Total Income/Total Assets

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	11.69%	14.37%	17.35%	19.38%	22.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bank Of Baroda (K) Ltd	12.12%	13.18%	14.82%	18.10%	26.26%	0.00%	0.00%	0.00%	0.00%	-	-
Bank Of India	10.88%	12.01%	13.32%	16.67%	15.54%	0.00%	0.00%	-	-	-	-
Barclays Bank Of Kenya	17.27%	18.51%	18.04%	19.98%	20.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Citibank-NA	8.90%	11.02%	14.28%	17.37%	20.47%	0.00%	-	-	-	-	-
Credit Agricole Indosuez	11.51%	13.83%	14.11%	19.18%	19.55%	0.00%	-	-	-	-	-
Delphis	22.05%	13.93%	17.87%	29.53%	19.55%	0.00%	0.00%	0.00%	0.00%	-	-
Diamond Trust(K)Ltd	11.21%	17.25%	16.23%	25.12%	22.39%	0.00%	0.00%	0.00%	0.00%	-	-
Euro/Daima Bank	18.26%	19.97%	22.31%	30.51%	29.74%	0.00%	0.00%	-	-	-	-
First American Bank	13.63%	16.21%	15.58%	23.05%	22.79%	0.00%	0.00%	0.00%	0.00%	-	-
Giro Commercial Bank	14.15%	15.12%	17.04%	25.46%	21.93%	0.00%	0.00%	-	-	0.00%	0.00%
Guardian Bank Ltd	13.19%	14.10%	14.89%	13.84%	11.61%	0.00%	0.00%	0.00%	-	-	-
Habib Ag Zurich	12.18%	13.54%	11.67%	14.95%	15.04%	0.00%	-	-	-	-	-
Kenya Commercial Bank	17.94%	17.69%	19.11%	22.65%	23.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
National Bank Of Kenya	14.27%	13.22%	16.37%	22.01%	20.92%	0.00%	0.00%	0.00%	0.00%	0.00%	-
National Industrial Credit Bank Ltd	13.48%	17.17%	19.66%	26.01%	27.08%	0.00%	0.00%	0.00%	0.00%	0.00%	-
Paramount/Universal Bank Ltd	14.43%	11.42%	9.67%	10.64%	6.90%	0.00%	0.00%	-	-	-	-
Southern Credit Banking Corp Ltd	10.68%	21.45%	16.61%	27.88%	10.24%	0.00%	0.00%	-	-	-	-
Stanbic Bank Kenya	11.14%	11.32%	12.76%	18.18%	16.14%	0.00%	0.00%	0.00%	-	-	-
Standard Chartered {K} Ltd	14.44%	15.17%	16.20%	20.86%	21.64%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Trans National Bank Ltd	31.80%	24.32%	28.82%	23.15%	25.15%	0.00%	0.00%	0.00%	0.00%	-	-
Trust Bank (K) Ltd	-	20.05%	11.56%	-	0.00%	0.00%	0.00%	-	-	-	-
Industry Average	14.53%	15.68%	16.28%	21.17%	19.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Table 7 (e) Profit Margin:Net Income (before Tax)/Total Income%

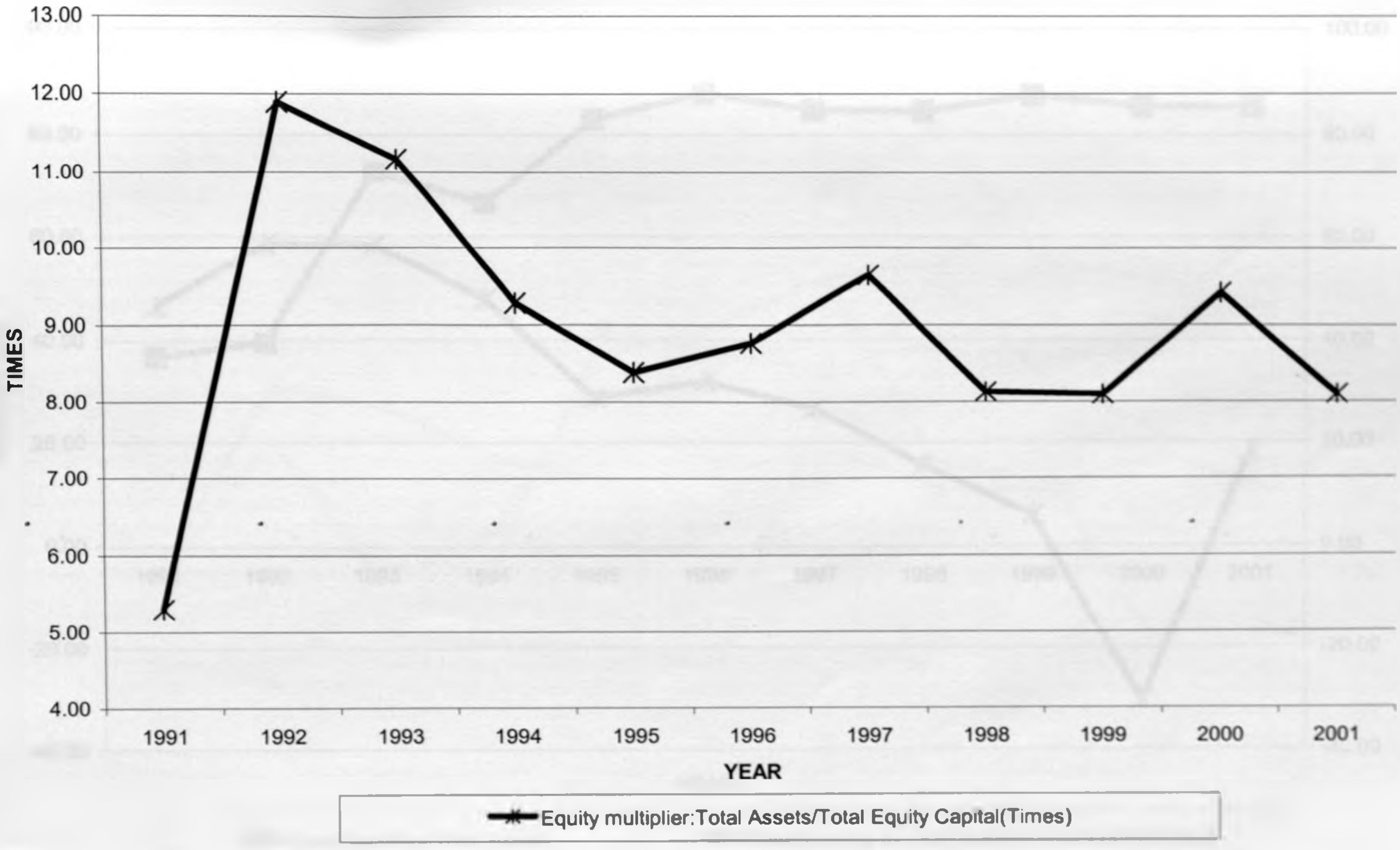
INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	27.16%	21.34%	19.03%	23.96%	28.86%	-	-	-	-	-	-
Bank Of Baroda (K) Ltd	11.21%	10.78%	9.63%	10.19%	9.35%	-	-	-	-	-	-
Bank Of India	27.88%	31.62%	34.71%	17.53%	20.62%	-	-	-	-	-	-
Barclays Bank Of Kenya	33.30%	23.30%	26.89%	30.17%	32.68%	-	-	-	-	-	-
Citibank-NA	28.33%	26.40%	26.86%	26.75%	19.97%	-	-	-	-	-	-
Credit Agricole Indosuez	9.45%	8.58%	23.77%	12.61%	4.76%	-	-	-	-	-	-
Delphis Bank	-131.06%	-147.05%	4.59%	2.14%	5.25%	-	-	-	-	-	-
Diamond Trust(K)Ltd	8.23%	22.42%	15.93%	12.86%	12.94%	-	-	-	-	-	-
Euro/Daima Bank	29.07%	10.62%	-21.96%	8.61%	12.16%	-	-	-	-	-	-
First American Bank	26.06%	13.27%	23.03%	16.06%	29.43%	-	-	-	-	-	-
Giro Commercial Bank	5.15%	3.25%	2.66%	3.24%	6.16%	-	-	-	-	-	-
Guardian Bank Ltd	11.72%	9.38%	6.38%	5.95%	9.44%	-	-	-	-	-	-
Habib Ag Zurich	26.40%	25.30%	23.63%	25.16%	25.68%	-	-	-	-	-	-
Kenya Commercial Bank	3.16%	5.90%	15.57%	7.86%	24.17%	-	-	-	-	-	-
National Bank Of Kenya	9.41%	-51.18%	-84.43%	-50.70%	10.70%	-	-	-	-	-	-
National Industrial Credit Bank Ltd	33.27%	35.29%	32.51%	22.83%	27.13%	-	-	-	-	-	-
Paramount/Universal Bank Ltd	6.12%	10.18%	14.79%	13.41%	5.36%	-	-	-	-	-	-
Southern Credit Banking Corp Ltd	2.59%	-4.18%	1.81%	1.38%	2.46%	-	-	-	-	-	-
Stanbic Bank Kenya	-39.84%	-54.89%	3.85%	-32.14%	10.66%	-	-	-	-	-	-
Standard Chartered {K} Ltd	40.97%	42.51%	37.04%	28.95%	25.29%	-	-	-	-	-	-
Trans National Bank Ltd	43.76%	6.61%	-38.38%	2.36%	6.89%	-	-	-	-	-	-
Trust Bank (K) Ltd											
Industry Average	10.11%	2.35%	8.47%	9.01%	15.71%	-	-	-	-	-	-

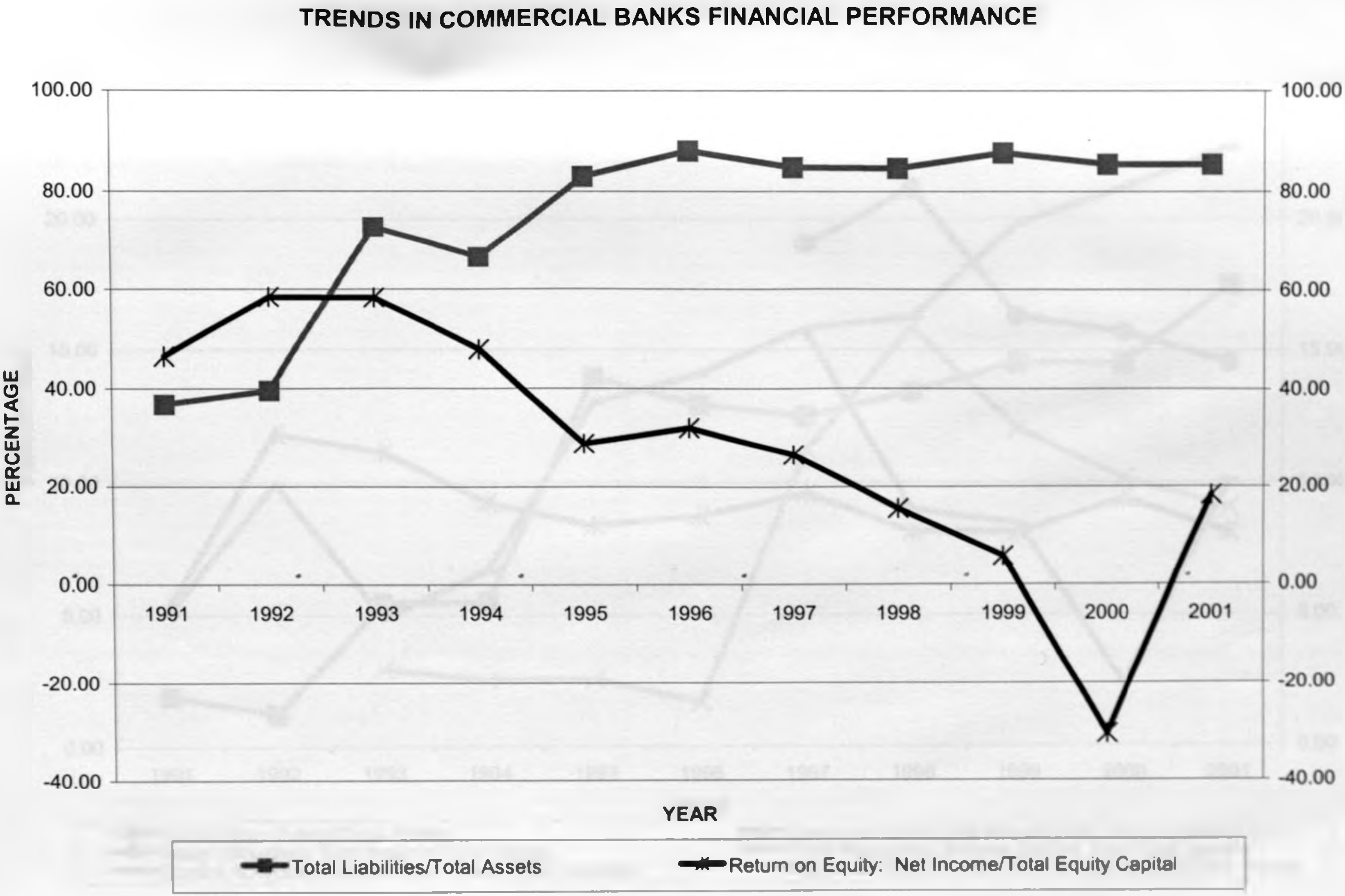
CAPITAL ADEQUACY RATIO

Table 8 (a)Capital Adequacy: Shareholder Funds/Total Deposits%

INSTITUTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Commercial Bank Of Africa Ltd	14.10%	16.29%	14.96%	13.44%	15.87%	15.35%	15.27%	0.00%	0.00%	0.00%	-
Bank Of Baroda (K) Ltd	11.52%	12.85%	12.75%	12.40%	16.30%	13.44%	10.22%	0.00%	-	-	-
Bank Of India	14.72%	12.30%	15.79%	12.33%	25.51%	16.63%	50.73%	-	-	-	-
Barclays Bank Of Kenya	20.07%	19.47%	16.22%	15.94%	15.21%	14.77%	12.60%	10.56%	6.23%	0.00%	10.15%
Citibank-NA	19.30%	11.61%	21.92%	20.83%	17.18%	20.13%	-	-	-	-	-
Credit Agricole Indosuez	18.97%	13.80%	16.75%	10.79%	9.52%	8.65%	-	-	-	-	-
Delphis	30.43%	2.46%	16.27%	12.74%	10.37%	12.27%	13.65%	10.85%	12.49%	-	-
Diamond Trust(K)Ltd	32.14%	33.33%	25.14%	18.47%	13.43%	16.43%	14.99%	15.72%	20.46%	-	0.00%
Euro/Daima Bank	4.48%	9.99%	12.22%	18.35%	18.63%	20.08%	15.96%	0.00%	0.00%	-	-
First American Bank	24.00%	23.02%	21.09%	19.04%	16.58%	14.65%	11.68%	0.00%	0.00%	0.00%	-
Giro Commercial Bank	10.43%	9.95%	10.50%	10.35%	9.30%	8.33%	8.55%	13.01%	-	-	-
Guardian Bank Ltd	21.99%	18.33%	17.71%	17.68%	12.55%	36.89%	-	-	-	-	-
Habib Ag Zurich	11.97%	11.07%	10.73%	14.59%	10.83%	11.67%	6.68%	-	-	-	-
Kenya Commercial Bank	17.89%	16.47%	15.92%	19.04%	17.36%	14.93%	13.95%	-	-	-	-
National Bank Of Kenya	14.12%	10.92%	9.87%	15.00%	14.52%	16.97%	17.04%	23.04%	0.00%	0.00%	-
National Industrial Credit Bank Ltd	43.24%	48.82%	43.62%	36.25%	28.95%	22.00%	-	-	-	-	-
Paramount/Universal Bank Ltd	25.97%	22.59%	24.20%	13.38%	16.23%	14.74%	15.59%	-	-	-	-
Southern Credit Banking Corp Ltd	68.14%	47.37%	18.24%	12.80%	12.17%	13.05%	9.06%	-	-	-	-
Stanbic Bank Kenya	13.43%	16.31%	17.07%	18.68%	15.28%	8.48%	9.41%	0.00%	-	-	-
Standard Chartered {K} Ltd	12.87%	15.73%	12.94%	12.99%	12.28%	11.27%	9.88%	-	-	-	-
Trans National Bank Ltd	45.17%	16.30%	14.98%	15.94%	23.61%	0.00%	0.00%	0.00%	0.00%	-	-
Trust Bank (K) Ltd	-	77.17%	67.55%	-	-	0.00%	0.00%	-	-	-	-
Industry Average	23%	21%	20%	16%	16%	14%	13%	7%	5%	0%	5%
											-

APPENDIX III TREND IN COMMERCIAL BANKS FINANCIAL PERFORMANCE




TRENDS IN COMMERCIAL BANKS FINANCIAL PERFORMANCE
100.00
80.00
60.00
40.00
20.00
0.00
-20.00
-40.00
PERCENTAGE
1991
1992
1993
1994
1995
1996
1997
1998
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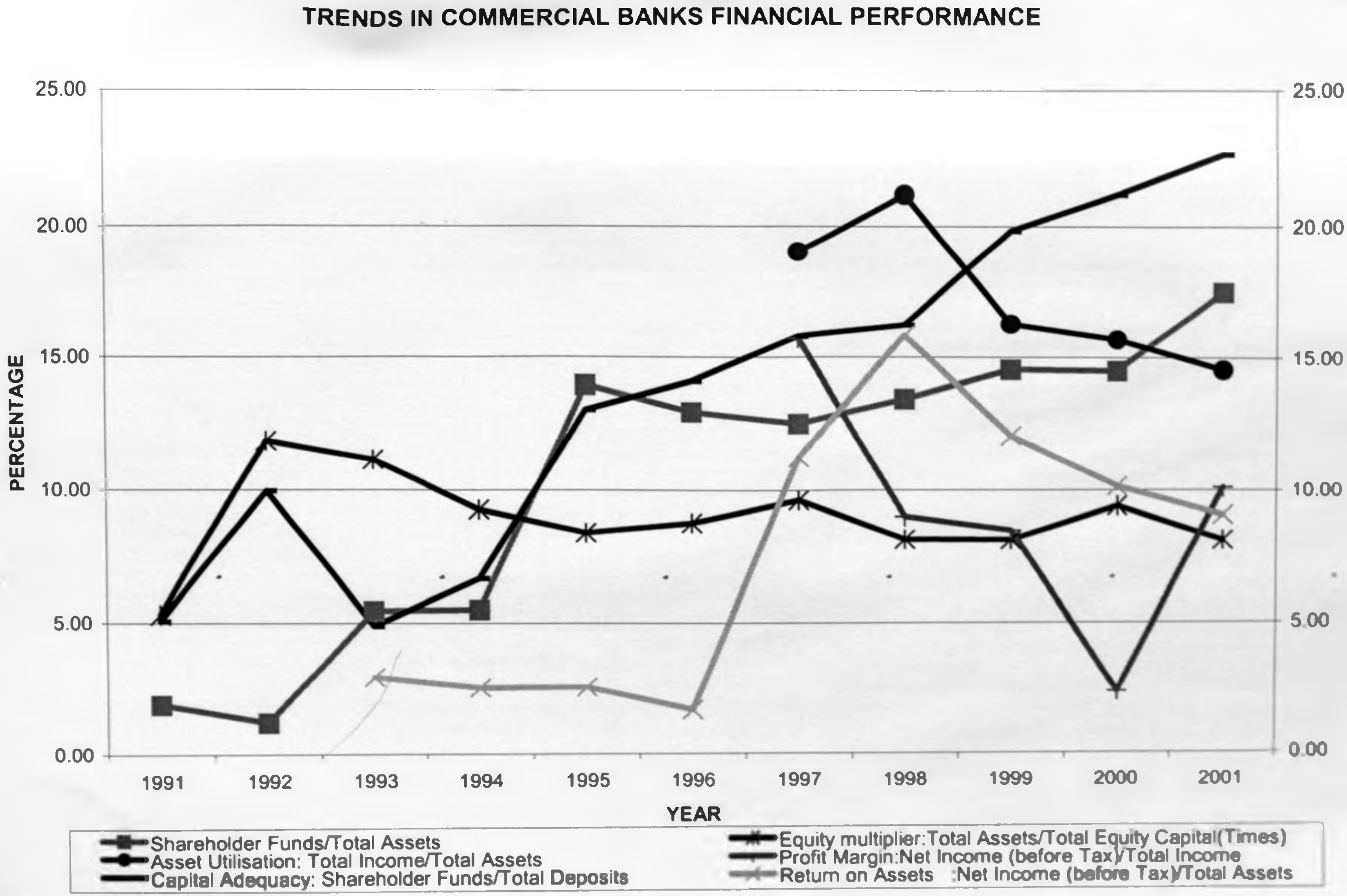
2000
2001
YEAR
Total Liabilities/Total Assets
Return on Equity: Net Income/Total Equity Capital


TRENDS IN COMMERCIAL BANKS FINANCIAL PERFORMANCE
25.00
20.00
15.00
10.00
5.00
0.00
PERCENTAGE
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
YEAR
Shareholder Funds/Total Assets
Asset Utilisation: Total Income/Total Assets
Capital Adequacy: Shareholder Funds/Total Deposits
Equity multiplier:Total Assets/Total Equity Capital(Times)
Profit Margin:Net Income (before Tax)/Total Income
Return on Assets :Net Income (before Tax)/Total Assets