PERFORMANCE IMPLICATIONS OF MERGERS AND ACQUISITIONS IN THE BANKING INDUSTRY IN KENYA

BY

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DECLARATION

I declare that this project is my original work and to the best of my knowledge as not been submitted for the award of a degree in any other university.

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DEDICATION

To my loving father Late Samuel Tesot who passed on so soon in tragic road Accident, his ideals continue to inspire me each day of my life.

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I wish to express my profound appreciation and gratitude to my supervisor, Mr. Nixon Omoro of School of Business University of Nairobi, whose patience, pieces of advice constructive criticism and discussion enabled me to produce this work.

I also wish to express my appreciation to all Lecturers school of Business, University of Nairobi for their valuable advice, constructive criticism and encouragement throughout the period of my study at university of University of Nairobi, School of Business.

I am forever indebted to my parents, Late Samuel Tesot and Lina Tesot for inculcating in me the spirit of hard work, determination and perseverance which enabled me to undertake this work.

ABSTRACT

Recent economic reforms in Kenya have significantly improved its macroeconomic indicators and financial sector. Banks have witnessed significant merger and acquisition activity as a result of these reforms in attempts to privatize and strengthen the banking sector. This study measures the performance implications of Kenyan banks that have undergone mergers or acquisitions during the period 2000-2010. This is done by calculating their return on equity, Return on Asset, Debt to Equity and Capital Adequacy Ratio, ratios in order to determine the degree of success of banking reforms in strengthening and consolidating the Kenya banking sector. Secondary data from audited annual reports of accounts of the population of interest and CBK bank supervision annual reports were used. The analysis of the financial institutions performance for pre and post-merger was collected for 4 years pre and post-merger. The research findings indicate that banks that have undergone deals of mergers or acquisitions have shown significant improvements in performance and return on equity and Return on Asset when compared to their performance before the deals. CAR significantly improved signifying that mergers and acquisitions internal strength to withstand losses in case of emergency improved. Debt to equity ratio increase clear indication that leverage increased. It was concluded that mergers and acquisitions have had clear positive performance implication of mergers and acquisition of banks in the Kenyan banking sector. These findings do support the process of financial consolidation and banking reforms observed in Kenya, and provide evidence to support their constructive role in improved bank profitability and economic restructure.

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ABBREVIATIONS AND ACRYONYMS

M&A	Mergers & Acquisutions
CBK	Central Bank of Kenya
KBA	Kenya Bankers Associations
CEO	Chief Executive Officer
ROA	Return on Asset
ROE	Return on Equity
CAR	Capital Adequacy Ratio
D/E	Debt to Equity Ratio

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In today's globalize economy, mergers and acquisitions (M&A) are being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale among other (Kemal, 2011). The reasoning behind any corporate merger is that two companies are better than one because they increase shareholder value over and above that of the two separate firms (Sharma, 2009). The motives behind mergers and acquisitions are economies of scale, increase in market share and revenues, taxation, synergy, geographical and other diversification.

The main corporate objectives are to gain greater market power, gain access to innovative capabilities, thus reducing the risks associated with the development of a new product or service, maximize efficiency through economies of scale and scope and finally in some cases, reshape a firm's competitive scope (Hitt, Ireland, and 2007). According to Gaughan (2007), operational synergy appears in the form of revenue enhancements and cost reductions. Financial synergy is achieved when the cost of capital may be reduced through the combination of two companies. Second, Hitt (2001) presents three components of synergy; operational, financial, and managerial synergies. Operational synergy is achieved when the cash flow from operations is improved whereas financial synergy is achieved by interest tax shields, the change in structure, and financing.

The study will be based The theory of efficiency which suggests, in fact, that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a friendly merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the target firm's owners would not sell or submit to the acquisition, and if the gains were negative to the bidders' owners, the bidder would not complete the deal. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Klein (2001) evidences this suggestion. And market power theory; firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus. Indeed, a number of studies find increased profits and decreased sales after many mergers (Sapienza, 2002) - a finding which has been interpreted by many as evidence of increasing market power and allocative synergy gains (see e.g., Gugler et al., 2003). From a dynamic point of view too, market power is said to allow for the deterrence of potential future entrants (Motta, 2004; Bosanko, 2006), which can again afford the firm a significant premium, and so offer another long-term source of gain.

In 2008, the then Finance proposed to raise the minimum core capital for banks to 1 billion shillings from 250 million shillings, giving 2012 as the deadline for all banks to comply (Kenyan banks consolidation, 2010). Subsequently, Kenyan banks are set for consolidation to meet the deadline to boost minimum core capital.

1.1.1 Corporate Performance

The process of performance involves identifying key performance indicators. Once organization has analyzed its mission, identified all its stakeholders, and defined its long term and short term goals, it needs a way to measure progress toward those goals (Heinrich, 2002,). Key performance indicators are financial and non-financial parameters used to help an organization define and measure progress towards organizational goals.

Corporate performances are the end results or effects of mergers and acquisition, corporates performances are likes goals and objectives, there are different results experienced in the market. In corporate organization, there are three primary outcomes analyzed: Financial performances, Market performances and shareholders' value performance**.** Performance can be measured on basis of long term and short term time period; long term performance can be checked on the basis of profitability of the firm. Fundamental analysis of the company with the help of ratio analysis, Comparative statement analysis is there to see the potential and capitalized synergy in Cases of M&As. (Heinrich, 2002,).

The objectives of mergers and acquisition are to diversify risk which is achieved when returns of merging company are likely to be negatively correlated, to gain competitive edge in the market by broader market access e.g. acquiring foreign company to gain access to emerging global markets, acquiring human resource and intellectual capital to enhance innovative thinking and development within the company. Positioning where company's merge to take advantages of future opportunities that can be exploited after the merger from emerging trends in the

market place, Asset backing, Empire building, to achieve short term growth and profitability.

Other goals are to achieve operating synergy which could results from reduction in procurement costs, bargaining problem with suppliers, coordination logistics problems and increase in guarantee in supply of raw materials after vertical merger, reduction in production due to economies of scale. Financial synergy which is the benefits associated with financing decision such as, Tax savings, Reduction of capital due to increase in borrowing power and access to capital markets after mergers and acquisition and stability of cash flows resulting from diversification.

1.1.2 Mergers and acquisitions

A merger is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock where one company or both loose entity. According to Pike and Neale (2002), merger strategies are associated with the pooling of the interests of two companies into a new enterprise requiring the agreement by both sets of shareholders. Firms will thus seek that strategic position that will provide them with the maximum impact on the external environment, internal resources and competencies, and the expectations and influence of stakeholders (Johnson and Scholes, 2002).

Acquisition Or takeover ,on the other hand is where one firm called predator will acquire another called the target where after acquisition the target loses its identity since its absorbed by predator. According to Hill and Jones (2001), takeover is when

the acquiring company gains control of another without the co-operation of its existing management.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus.

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interest's .The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off the shelf' banking products. Players in this sector have experienced increased competition over the last few years

resulting from increased innovations among the players and new entrants into the market, (Central Bank of Kenya, 2013).

1.1.4 Commercial Banks in Kenya

Kenya features a commercial banking system. CBK (2011) notes that, as at March 2011, there are 43 licensed commercial banks and 1 mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution. 10 of the major banks are listed on the NSE. 33 mergers and 3 acquisitions have taken place in the banking sector in Kenya.

According to Central Bank of Kenya(2013), Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are: to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others.

Some mergers have been occasioned by the need to meet the increasing minimum core capital requirements and to enhance the institutions' market share in the local banking environment.

In 2008, the then Finance proposed to raise the minimum core capital for banks to 1 billion shillings from 250 million shillings, giving 2012 as the deadline for all banks

to comply (Kenyan banks consolidation, 2010). Subsequently, Kenyan banks have undergone consolidation to meet the deadline to boost minimum core capital.

1.2 Research Problem

Firms go for Mergers and Acquisition with high expectation and there is conflicting evidence, both for and against, the impact of Mergers and acquisition on firm performance. In Globalized economy mergers and acquisition deals have become more apparent as organization geared up for more cut throat competition as well as exploiting of new opportunities. A number of companies found it imperative to merge with related units and subsidiaries to accomplish cost effectiveness and increased production. With increasing competition and the economy heading towards globalization mergers and acquisition are expected at much larger scale and have played a major role in achieving competitive edge, which can be achieved by having broader such as acquiring foreign company to give a company quick access to mergers to emerging global markets , organization competence such as acquiring Human resources and intellectual capital to enhance its innovative thinking and development with the company, where after mergers companies fills in strategic Gaps that are essential for long term survival. Kemal (2011) conducted a study to find the profitability of the Royal Bank of Scotland after merger deal with ABN AMRO Bank from 2006-2009 where he calculated 20 ratios and concluded that the merger failed to pull up profitability thus proved to be a failure. Ayadi & Pujals (2005) studied banking M & As in Europe in the 1990s and results from ratio analysis suggest little improvement in profit efficiency in both domestic & cross-border mergers.

Mergers and Acquisitions (M&A) are the most popular means of corporate restructuring or business combination. Following banking crisis experienced as a result of the collapse of Akiba Bank, the challenge for the authorities has been to try and contain crisis situation after realizing that a sound banking system is critical for both economic growth and for economic stability.

Chesang (2002) studied implications of merger restructuring on performance of commercial banks in Kenya were she concluded that although there was improved performance in some cases, the extent of the contribution was not significant. Marangu (2007) studied effects of mergers on financial performance of non-listed banks in Kenya from 1994-2001 and results of ratio analysis concluded that there was significant improvement in performance for the non-listed banks. Which merged compared to the non-listed banks that did not merge within the same period. Maranga (2010) studied the effects of mergers and acquisitions on cost and scale efficiency and results indicated that firms which engage in takeover of subsidiary had no significant changes in levels of their cost efficiency after mergers. Kithinji (2007) carried out a study on the effects of mergers on financial performance of non-listed banks in Kenya by focusing on the profitability of banks that merged between 1994 and 2001. The results showed significant improvements in performance of non-listed that had not merged within the same period

Despite findings in previous research M&A, There are no conclusive evidence on the financial implications of M&A on banking industry in Kenya, could the Impact of M&A have change with time?. According to knowledge of researcher there are limited studies focusing on performance Implications of Mergers & Acquisitions in

the banking industry in Kenya. This study therefore sought to fill this knowledge gap by establishing performance implications of mergers and acquisitions in banking industry in Kenya, what are the performance implications of Mergers and Acquisition in the banking industry in Kenya?

1.3 Research Objectives

The research objective of this study was to establish performance implications of Mergers and Acquisitions in banking industry in Kenya

1.4 Value of the study

The research would be used by researcher who wants to do further research on this topic. The researcher would benefits from research study by gaining knowledge on how mergers and acquisition could generate synergy in Kenya context as a competitive tool in globalized and liberalized Economy. To establish control information that enable managers make decisions about improving their performance.

The study would assist in establishing whether mergers and acquisitions results in net gains through synergies as advocated by efficiency theory.

The government would benefits from the findings of this research in making policy decisions on whether mergers and Acquisitions in Kenyan Banking industry should be encouraged or not.

This study would contribute to management practices by equipping managers with tested findings on performance implications of mergers and acquisition in Kenyan banking industry and therefore make better informed decision.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will review both theoretical and empirical review. The researcher intends to review the following; cost reduction, revenue enhancement, tax gains and reduced working capital requirements.

2.2 Theoretical Underpinning of the Study

The main theory of this study would be theory of efficiency and others theories are, Market power theory, theory of corporate Control, Theory of Managerial Hubris, Theory of managerial discretion, Theory of Managerial Entrenchment, and Theory of Empire buildings.

The theory of efficiency suggests, in fact, that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a 'friendly' merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the target firm's owners would not sell or submit to the acquisition, and if the gains were negative to the bidders' owners, the bidder would not complete the deal. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Klein (2001) evidences this suggestion.

Market power theory; firms with greater market power charge higher prices and earn greater margins through the appropriation of consumer surplus. Indeed, a number of

studies find increased profits and decreased sales after many mergers (Sapienza, 2002; Cefis et al., 2008) - a finding which has been interpreted by many as evidence of increasing market power and allocative synergy gains (see e.g., Gugler et al., 2003). From a dynamic point of view too, market power is said to allow for the deterrence of potential future entrants (Motta, 2004; Bosanko, 2006; Gugler et al., 2003), which can again afford the firm a significant premium, and so offer another long-term source of gain.

Theory of corporate control; in an efficient merger market the theory of corporate control provides a third justification, beyond simply synergistic gains, for why mergers must create value. It suggests that there is always another firm or management team willing to acquire an underperforming firm, to remove those managers who have failed to capitalize on the opportunities to create synergies, and thus to improve the performance of its assets (Weston et al., 2004). Managers who offer the highest value to the owners, it suggests, will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets.

From the bidder's perspective, the theory of corporate control is partially based on efficiency theory, although there are two important differences. First, it does not assume, per se, the existence of synergies between the corporate assets of both firms, but rather between the bidder's managerial capabilities and the targets assets. Hence, corporate control predicts managerial efficiencies from the re-allocation of under-utilized assets. Second, it implies that the target's management team is likely to resist

takeover attempts, as the team itself and its managerial inefficiency is the main obstacle to an improved utilization of assets.

The theory of managerial hubris; (Roll, 1986) suggests that managers may have good intentions in increasing their firm's value but, being over-confident; they over-estimate their abilities to create synergies. Over-confidence increases the probability of overpaying (Malmendier and Tate, 2008), and may leave the winning bidder in the situation of a winner's-curse, which dramatically increases the chances of failure (Dong et al., 2006). Malmendier and Tate (2005) show that overly optimistic managers, who voluntarily retain in-the-money stock options in their own firms, more frequently engage in less profitable diversifying mergers.

Theory of managerial discretion; Jensen's (1986) theory of managerial discretion claims that it is not over-confidence that drives unproductive acquisitions, but rather the presence of excess liquidity, or free cash flow (FCF). Firms whose internal funds are in excess of the investments required to fund positive net present value projects, it is suggested, are more likely to make quick strategic decisions, and are more likely to engage in large-scale strategic actions with less analysis than their cash-strapped peers. High levels of liquidity increase managerial discretion, making it increasingly possible for managers to choose poor acquisitions when they run out of good ones (Martynova and Renneboog, 2008).

The theory of managerial entrenchment; (Shleifer and Vishny, 1989), for example, claims that unsuccessful mergers occur because managers primarily make investments that minimize the risk of replacement. It suggests that managers pursue projects not in

an effort to maximize enterprise value, but in an effort to entrench themselves by increasing their individual value to the firm. Entrenching managers will, accordingly make manager-specific investments that make it more costly for shareholders to replace them, and value will be reduced because free resources are invested in manager-specific assets rather than in a shareholder value-maximizing alternative.

The theory of empire-building and other related, well-tested theories provide both the motivations and evidence behind these objectives (Black, 1989). According to empire theory, managers are explicitly motivated to invest in the growth of their firm’s revenues (sales) or asset base, subject to a minimum profit requirement.

2.3 Mergers and acquisitions

A firm refers to absorption of one firm by another. The acquiring firm retains its name and identity, and it acquires all of the Assets and liabilities of acquiring firm, After a merger, the acquired firm ceases to exists as a separate business entity(Ross, Westfield, jaffe and kakani, 2010). A merger is a combination of two or more entities which are equally large so that after the combination a completely new entity formed and none of the merging firms dominate the other.

David (1997) explains a merger as a process that occurs when two organizations of about equal size unite to form one enterprise. Thus, mergers involve friendly restructuring of the assets and resources for the companies involved in the combination. Majority of mergers are friendly and are recommended by the directors and shareholders of both companies (Hill and Jones 2001). The important factors that influence corporate strategy are the environment in which a company is operating. It

is, in the search of suitable responses to that environment, that an organization realizes that it neither has the strengths needed, nor the time required to develop such strengths as the opportunity might get lost, that it seeks and identifies another firm with which to merge or to acquire, that has appropriate capabilities and competences (Hubert and Edward, 2006).

Acquisition firm called predator is acquire another firm called the target where after the acquisition the target losses it identity since it is absorbed/ swallowed by the predator. The predator retains its own identity. A takeover or an acquisition, on the other hand, is defined as an acquisition by one company of the share capital of another in exchange for cash, ordinary shares, loan stock, or some mixture of the two: this directly results in the identity of the acquired being absorbed into that of the acquirer. Hill and Jones (2001) posit that a takeover is when the acquiring company gains control of another without the co-operation of its existing management.

2.4 Organization Performance

Corporate performance can be measured by use of financial ratios which depict the company's profitability and ability to generate economic value and improve its operations. Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. However, the intention of this study is related to the first objective, profitability. To measure the profitability of commercial banks there are variety of ratios used of which Return on Asset, Return on Equity (Murthy and Sree, 2003;Alexandru et al., 2008).

Return on Equity (ROE); ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of Profit generation. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

It measures the rate of return on the ownership interest (that is shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every shilling of net assets, and shows how well a company uses owners' funds to generate earning growth. But not all high-return on net worth companies make good investments. Some industries have high return on equity simply because they require no assets, such as consulting firms. There is no benchmark for all industries for return on net worth.

Return on Asset (ROA) ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of acompany in generating net income from all the resources of the institution (Khrawish, 2011). Wen (2010), state that a higher ROA shows that the company is more efficient in using its resources.

More operating profits straight way give an indicator to all stakeholders that the firm is healthy and doing well operating profit is calculated by deducting all operating expenditures from net sales. In this case non-operating expenditures like interest on debt, abnormal losses, etc. are not deducted from net sales. These are straight way the profits of the business.

To see the overall efficiency profit before tax is calculated which is also referred as earnings before tax. There is high correlation between operating profits and profits before tax since profit before tax is calculated by deducting non-operating expenditures from operating profits. Profit before tax exists because tax expense is constantly changing and taking it out help an investor a good idea of changes in a company's profits or earnings from year to year. An increase in profit before tax is a clear cut indicator of increase in the efficiency of the firm and straight way assures its various stakeholders that the firms efficiency of earning profits are improving.

Earnings per share. It is the portion of a company's profit allocated to each outstanding share of common stock earnings per share serves as an indicator of a company's profitability earning per share straightway affects the market sentiments. There is close relationship between earning per share and return on net worth. Generally a high positive correlation is traced out in between earning per share and return on net worth.

Debt to equity ratio is used to check the financing composition of any firm. Debt to equity ratio is a financial ratio indicating the relative proportion of equity and debt used to finance a company's assets. This ratio identifies the leverage used in the firm.

Usage of more debt in successive years increases the financial risk of the shareholders. But if the return on capital employed is more than the fixed cost of the debt then leverage benefits can be attained by increasing the debt usage in total financing. In the present study, an increase in debt-equity ratio is interpreted as increase in financial risk to equity shareholders and considered bad for financial health.

Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou, Sophocles and Matthaios, 2005). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmiand Nazir, 2010).

2.5 Performances Implications of Mergers and acquisitions

The definition of success may vary, but any activity that fails to enhance shareholders interest and value cannot be deemed as a success (Straub, 2007). A long-term decline in shareholder wealth after an M&A can term the combination process to be a failure (Pike and Neale, 2002). Lucey (2000) indicated that the financial performance of the company can be expressed in terms of income generated from its operation, after offsetting expenses when the profitability of the firm is arrived at.

In a study carried out on bank mergers, Chesang (2000), concluded that financial performance of some banks in Kenya improved, while that of others deteriorated. Another conclusion made in the study was that small and medium sized banking system 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 study also cited some strategies, which have been used by the bigger banks, such as Barclay's Bank Corporate Restructuring merging with Barclays Merchant Finance Limited, due to dwindling business and its increase in capital base. Habib A.G. Zurich and Habib Africa Bank Limited merged resulting in an increase to capital base of Kshs. 290 million.

Mergers and Acquisitions (M&As) are important growth strategies dealing with the buying, selling, and combining of different firms that can aid , finance, or help growing company in a given industry expand rapidly without creating another business entity. M&As play key role in external growth of leading global firms. These are the fastest way to grow because target firm with its value chains already exists

(Luypaert, 2008).Pandey (2008) and Litpon (2006) present the chronological occurrence of six waves of mergers starting about 1980-1904 in United States to the most recent during 2002-2006 with significant impact on global economy. Mergers are distinguished by the relationship between two or more firms that are merging. Horizontal mergers occur between two or more firms that are in direct competition and share the same product lines and market. Vertical mergers occur where a firm merges with its customer or supplier. Conglomerates occur where two or more firms that have no common business area merge (Pandey, 2008). Another study identified Improvement in the operational efficiency of the merged firms with a significant value. It found a reduction of 0.5 percent (percent to total assets) in the operating expenses of the left out entity after M&A deal (Murthy, 2005).

It is the expectation of all the stakeholders involved in the process of M&A that the organization to emerge from the combination operates in a more efficient manner than the two organizations did separately. The reason behind this assumption is due to the fact that the new firm benefits from economies of scale and synergies drawn from the combination should reduce operating costs and/ or capital investments, thus improving cash flow. Measures that have been used by various authors to establish whether the aforementioned benefits have been harnessed following the business combination process include; evaluating the new entities financial performance and overall productivity (Devos, Kadapakkam, & Krishnmurthy, 2008). Surveys done on firms that have undergone an M&A process, reveal that there is little indication of the improvement on operations post-merger or acquisition (Ghosh, 2001. Research conducted in 1992 and 2002 on post M&A companies revealed that financial performance after a combination does indeed improve (Heron and Lie (2002).

According to Heron and Lie (2002), comparatively the new companies surveyed had improved assets turnover and experienced a reduction in capital expenditures. The research findings however; differed from a survey conducted on 41 large banks that had completed a merger process in the United States of America; the survey reports and average improved of 13% on cost savings rather than an improvement or increase in income (Houston, James, and Ryngaert, 2001).

Measuring merger performance has been one of the most difficult problems in front of Researchers, Different tools and techniques in the forms of ratio analysis etc. are used by scholars to identify the effects of M&A and interestingly different results are there in the market. Performance can be measured on the basis of long-term and short-term Time period; long-term performance can be checked on the basis of profitability of the Firm. Fundamental analysis of the company with the help of ratio analysis, Comparative statement analysis is there to see the potential and capitalized synergy in Cases of M&As in long run. Just as most of us believe that we would be happier if only we were a little richer, so every manager seems to believe that his or her firm would be more competitive if only it was a little bigger. (Brealey, Myers, Allen & Mohanty, 2007). The primary motivation for most mergers is to increase the value of combined enterprise. If company A and B merge to form company C, and if C value exceeds that of A & B separately, then synergy is said to exist. (Brigham, Ehrhardt. 2005)

Combined firm may operate more efficiently than two separate firms. When Bank of America agreed to acquire security pacific, lower cost was cited as primary reason. (Ross, et al...2009) Economies of scale; Achieving economies of scale is natural goal

of horizontal mergers, but such economies have been claimed in conglomerate mergers too. The architects of these mergers have pointed to the economies of scale that come from sharing central services such as offices such as office management and accounting, financial control, Executive Development and top level management. (Brealey, et al...2009). Economies of scale have also been an important motive for mergers in oil industry e.g. BP and Amoco planned to save $2 billion annually by consolidating operations... optimistic financial manager can see potential economies scale in almost any industry. But it is easier to buy another business than to integrate with yours afterwards. Some companies that have gotten together in pursuit of economies of scale still functions as collection of separate and sometimes competing operations with different production facilities, research efforts and marketing forces. (Brealey, et al...2009). Vertical mergers seek economies in vertical integration, some companies try to gain control over the production process by expanding back towards the output of the raw materials and forward to the ultimate consumer. (Brealey, et al...2009).

Lipton (2006) investigated external factors affecting mergers and merger waves by analyzing global M&As from the year 1985 to 2006, Observed that during 1990s merger-waves, as stock prices and earnings ratios increased, mergers volumes increased dramatically from $339 billion in 1991 to $3.3 trillion in 2000 globally, hence positive relationship between stock price increase and M&A activity, Concluded that receptive equity and debt market were critical factors in M&A activity.

Firms undertake mergers and acquisition so as to be benefits from complementary resources, Braeley and Myers (2000) observed that many firms are acquired by large ones that can provide the missing ingredients necessary for small firm's success. The small firms may have unique products but lack the engineering and sales organization required to produce and market it on large scale. The firm could develop engineering and sales talent from scratch but it may be quicker and cheaper to merge with firm that has already talent. The two firms have complementary resources- each has what the other needs and so it may make sense for them to merge. The two firms are worth together than apart because each acquires something it does not have and get cheaper than it would by acting on its own, Also the merger may open opportunities that neither firm would pursue otherwise. (Brealey, et al...2009) some firms acquire other to improve usage of existing resources. A ski equipment store merging with tennis equipment store will smooth sales over both the winter and summer seasons, thereby making better use of capacity. (Ross, et al...2010).Sometimes firm May potential tax shields but not have the profits to take advantage of them (Brealey, et al...2009)

Technology transfer is another reason for merger. An automobile manufacturer might well acquire an aircraft company if aerospace technology can improve automotive quality. This technology transfer was the motivation behind merger of general motors and Hughes Aircraft. . (Ross et al., 2009)

Elimination of inefficient management**,** a change in management can often increase firm value. Some managers overspend on perquisites and pet projects, making them ripe for takeover. For example, the leverage buyout of RJR Nabisco was institute primarily to halt the profligate behavior of CEO Ross Johnson. Alternatively,

Incumbent managers may not understand changing market conditions or new technology making it difficult for them to abandon old strategies. Although the board of directors should replace these managers, the board is often unable to act independently. Thus, merger may be needed to make necessary replacements. . (Ross et al) Cash is not the only asset that can be wasted by poor management. There are always firms with unexploited opportunities to cut cost and increase sales and earning such firms are natural candidates for acquisition by other firms, with better management, may simply means that determination to force painful cuts or realign the company operation. (Brealey, et al...2009). Merger is not the only way to improve management, but sometimes it is the only simple and practical way managers are naturally a reluctant to fire or demote themselves and stockholders of large public firms do not usually have much direct influence on how they run or who runs it. (Brealey, et al...2009).

Combined firm may generate greater revenues than two separate firms. Increased revenues can come from marketing gains, strategic benefits, and market power.

Marketing gains; due to improved marketing, mergers and acquisition can increase operating revenues. Improvements can be made in the following areas: Previously ineffective media programming advertising efforts, a weak existing Distribution network, and an unbalanced product mix.

Strategic Benefits; Some acquisitions promise a strategic benefit, which is more like an option than a standard investment opportunity. For example, imagine that Sewing Machine Company acquires a computer company. The firm will be well positioned if technological advances allow computer driven sewing machines in future. Michael

porter has used beached to denote the strategic benefit from entering a new industry. He uses the example of proctor and gamble's acquisition of Charmin paper company as beachhead that allow proctor and Gamble to develop a highly interrelated cluster of paper products-disposable diapers, paper towels, feminine hinge products, and bathroom tissue.(Ross et al., 2009).

Market or monopoly power. One firm may acquire another to reduce competition. If so, prices can be increased, generating monopoly profits**.** . (Ross et al., 2009). Tax reduction may be powerful incentive for some acquisition. This reduction can come from the use of tax losses, the use of unused debt capacity, the use of surplus funds. Net operating losses; a firm with profitable division and un profitable one will have a low tax bill because the loss in one division offset the income in the other. However, if two divisions are actually separate companies, the profitable firm will not be able to use the losses of unprofitable one to offset its income. Thus, in right circumstances, a merger can lower taxes. (Ross et al., 2009). Debt Capacity; There at least two cases were mergers allow for increased debt and a larger tax shield. In the first case, the target has too little debt, and acquirer can infuse the target with the missing debt. In the second case, both the target and acquirer have optimal debt levels. A merger leads to risk reduction, generating greater debt capacity and larger tax shield.

Surplus Funds, The firm might make acquisition with excess funds. Here, the shareholders of acquiring firm avoid the taxes they would have paid on a dividend. And no taxes are paid on dividend remitted from the acquired firm. (Ross et al., 2009). If a firm is generally a substantial amount of cash, but it has few profitable investments opportunities. Ideally such firms should distribute the surplus cash to

shareholders by increasing its dividend payment or repurchasing stocks, unfortunately managers are often reluctant to adopt a policy of shrinking their firm in this way. If firm is not willing to purchase its own shares it can purchase another companies shares, firms with a surplus of cash and shortage of good investment opportunities often turn to mergers financed by cash as a way of redeploying their capital. Some firms have excess cash and do not pay it out to stockholders or redeploy it by wise acquisition; such firms often find themselves targeted for takeovers by other firms that propose to redeploy cash for them. (Brealey, et al...2009).

When two firms, the managers will likely find duplicate facilities. For example, if both firms had their own headquarters, all executives in merged firm could be moved to one headquarters building, allowing the other headquarters to be sold. Some plants might be redundant as well. Or two merging firm in the same industry might consolidate their research and development, permitting some R&D to be sold. The same goes for working capital. The inventory- to- sales and cash-to-sales ratio often decreases as firm size increases. A merger permits these economies of scale to be realized, allowing a reduction in working capital. (Ross et al., 2009).

M&A activities are taking place to generate synergy. Research study attempted to develop to provide a workable model for M&As but the study revealed that only 17 percent of financial service firms those merged in the past two years over globally manage to create good returns (Mohan and Suganthi, 2001). Research showed that merger did not lead to improved performance. The only significant gains to the acquired firm were through an increased leverage. The Analysis further shows that merger did not lead to excess profits for the acquiring firm (Pawaskar, 2001). Poor

corporate performance in post-merger period has been attributed to numerous reasons– Manager's desire for position and influence, low productivity, poor quality, reduced Commitment, voluntary turnover, and related hidden costs and untapped potential (Buono, 2003).

Rationale for M&A has been traced (Dunning, 2007) to include: monopolizing industry; reorganizing production systems to reduce cost structures; gaining synergies; decreasing capital costs; solving management problems; and speculating in stocks. Several authors (Luypaert, 2008; Wang, 2008; Powell & Yawson, 2005; Andrade & Stafford, 2004; Shleifer & Vishny, 2002); have investigated determinants of M&A in various settings.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The objective of the study was to examine the performance implication of Mergers and Acquisition in the banking industry in Kenya by using different accounting ratios. This chapter outline research design, population of the study, Data collection method and data analysis to be used in the research under study.

3.2 Research design

Research design refers to the method used to carry out a research. This was a longitudinal research design study. Longitudinal studies are repeated over an extended period (Cooper & Schindler, 2006).

This study established performance implications of mergers and acquisition over a period four years before merger and four years after merger, for instance to measures profitability of banks changes over a period before and after merger, necessitated longitudinal study.

3.3 Population of the study

The population of the study was comprised of all 36 banks that had merged or been acquired in Kenya. The banks considered in this study were those that either merged or were acquired during the study period of 2000 to 2013.

The period was selected so as to provide insightful information on the performance implication of mergers and acquisition in Kenyan Banking industry thereby the effects on the profitability, shareholders' value creation and management efficiency.

Because the researcher was interested with mergers and acquisition that took place in the period under study period of 2000-2012, the researcher used 16 banks for this study that merged within the same period.

3.4 Data collection

The study used secondary sources of data from published audited annual reports of accounts for the population of interest, C.B.K bank supervision annual reports from C.B.K. Financial data from Statements of Financial position, Comprehensive Income Statements, and Cash Flow Statements of the 16 banks will be used in calculating and analyzing the accounting ratios, also known as performance indicators.

The financial data was collected for Eight years; four years pre-deal and four years post-deal of M&As. financial performance is checked on parameters to see the overall financial health of merging and acquiring companies.

3.5 Data analysis

The data mainly collected by the researcher was analyzed by use of financial ratios. Cases were selected on the basis of the required available financial data. Financial performance was checked on four accounting ratios to see the overall financial health

of merging and acquiring companies. These ratios were Return on Equity, Return on Asset, and Return on Equity and Debt to equity ratios.

For premerger ratio for both the acquirer and target were examined so as to get an indication of relative performance of the acquirer and target for post-merger period, the focus of the analysis was on combined institution. Premerger average data was compared with post-merger data in determining the changes occurred in performance following merger.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter present analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on whether M&A led to an improved performance implications of Kenyan banks regulated by Central Bank of Kenya. In order to examine the performance implication of mergers and acquisitions, the merged firm's financial data include four years before the merger is completed (year-4, year-3, year -2, and year -1), and four years after the acquisition (year+1, year+2 year+3and year+ 4). The year in which the merger was consummated is not included in the data because varying accounting practices may bias the financial measurements in the year of consolidation. Exclusion of data for year zero can minimize the effect of such 'noise'. Comparing the post-merger performance with pre-merger performance provides a measure of the change in corporate performance.

4.2 Findings of the study

The table below shows the financial data for each performance indicator for each of the four years immediately before and the four years immediately after the merger.

Table 4.1 Prime Bank ltd financial performance indicators

Pre-merger					Post-merger			
Ratio	2004	2005	2006	2007	2009	2010	2011	2012
ROA	3.02	2.95	2.8	2.35	2.33	2.37	3.07	2.7
ROE	16.3	17.24	13.19	11.03	18.4	19.74	28.88	27.8
CAR	31.25	29.62	20.95	20.69	15.74	13.76	16.51	17
D/E	5.48	7.10	5.28	3.86	6.9	7.33	8.41	9.3

Source: Researcher, 2013

Prime capital and credit ltd merger with prime bank in 2008 to form prime bank ltd. based on the findings in table 4.1 the average ROA of the two institutions was 3.02, 2.95, 2.8, and 2.35 for the years 2004-2007 respectively. After the merger the new firm's ROA was 2.33, 2.37, 3.07, and 2.7 for the years 2009 to 2012 respectively. The ROA stabilized after the formation of the new company.

The average ROE before the merger was 16.3, 17.24, 13.19, and 11.03 for the years 2004-2007 respectively. After the merger the new firm's ROE was 18.4, 19.74, 28.88, and 27.8 respectively for the years 2009-2012. Analysis of the ROE suggests an improvement in Prime banks performance after the merger.

Analysis of debt to equity ratio suggests increase in the firms' leverage used after the merger. The premerger average D/E of the institution was 5.48, 7.10, 5.28 and 3.86 respectively for the years 2004 to 2007 respectively and after the merger D/E was 6.9, 7.33, 8.41 and 9.3 respectively for the period 2009 to 2012. The findings shows debt

to equity ratio as increased, indicating financial increase in risk to shareholders and not good for financial health.

Average Capital Adequacy Ratio before the merger was 31.25, 29.62, 20.95, and 20.69 for the years 2004 to 2007 respectively. After the merger the CAR was 15.74, 13.76, 16.51, and 17 respectively for the years 2009 to 2012. Therefore the bank ability to meet their liabilities and other obligation as and when they fall due decreased.

Table 4.2 CFC Stanbic Bank ltd financial performance indicators

Pre-merger					**Post-merger**			
ratio	2004	2005	2006	2007	2009	2010	2011	2012
ROA	1.6	2.02	2.5	3.25	1.35	1.96	3.58	3.5
ROE	14.74	18.5	28.09	31.58	16.37	20.96	30.04	26
CAR	17.85	18.40	17.96	16.58	16.04	16.2	19.04	25.50
D/E	7.81	8.32	10.18	5.65	11.13	9.69	7.39	6.43

Source: Researcher, 2013

CFC bank ltd and Stanbic bank merged to form CFC Stanbic Bank Ltd in year 2008. Based on the findings in table 4.2 the average ROA of the two institutions was 1.6, 2.02, 2.5, and 3.25 for the years 2004-2007 respectively, showing a positive trend. After the merger the CFC Stanbic Bank ROA was 1.35, 1.96, 3.58, and 3.5 for the years 2009 to 2012 respectively. The ROA stabilized after the formation of the new company. Analysis shows that the ROA dropped after merger and then picked an upward trend. Therefore analysis suggests a slight improvement.

The average pre-merger ROE of the two institutions was 14.74, 18.5, 28.09, and 31.58, for the years 2004-2007 respectively. After the merger CFC Stanbic Bank posted of 16.37, 20.96, 30.04 and 26 for the years 2009 to 2012 respectively. ROE show a sharp decline immediately after merger and there after an upward trend. The findings suggest that there was a slight improvement after merger.

Analysis of debt to Equity ratio suggests increase in the firms' leverage used by the bank after the merger. The premerger average D/E of the institution was 7.81, 8.32, 10.18 and 5.65 respectively from year 2004-2007 respectively and after merger the D/E was 11.13, 9.69, 7.39 and 6.43 respectively for the period 2009-2012. The findings shows debt to equity ratio increased after the merger, indicating an increase in risk to shareholders and not good for financial health.

The average Capital Adequacy Ratio before the merger for the two institutions was 17.85, 18.40, 17.96, and 16.58 for the period 2004-2007 respectively. After the merger the CAR was 16.04, 16.2, 19.04, and 25.50 respectively for the years 2009-2012. Therefore the bank was able to meet their liabilities and other obligation as and when they fall due.

Table 4.3 Kenya Commercial Bank ltd financial performance indicators

Pre-merger					Post-merger	
ratio	2006	2007	2008	2009	2011	2012
ROA	2.5	3.2	3.45	4.36	4.98	5.2
ROE	22.85	30.93	36.85	44.48	31.18	29.8
CAR	20.74	16.96	15.19	20.18	20.69	22.7
D/E	8.1	8.67	9.49	8.8	5.24	4.73

Source: Researcher, 2013

Kenya Commercial Bank ltd merged with Savings and loans (K) ltd to form Kenya Commercial Bank ltd in year 2010. The analysis based on table 4.3, shows the average ROA of the two institutions before the merger was 2.5, 3.2, 3.45, and 4.36 for the years 2006-2009 respectively. After the merger the ROA was 4.98, 5.2 for the years 2011 to 2012 respectively suggesting an improvement in firm performance after the merger.

The average ROE of the two institutions was 22.85, 30.93, 36.85, 44.48 for the period 2006-2009 respectively and 31.18 and 29.8 for the period 2011 to 2012 respectively suggesting downwards trends after the merger.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after the merger. The premerger average D/E of the institution was 8.1, 8.67, 9.49, and 8.8 respectively from year 2006-2009 respectively and after the merger the D/E was 5.24 and 4.73 respectively for the period of 2011-2012. The finding shows debt to equity ratio increased, indicating an increase in risk to shareholders and not good for financial health.

The average Capital Adequacy Ratio before the merger for the two institutions was 20.74, 16.96, 15.19, and 20.18 for the years 2006-2009 respectively. After the merger the CAR was 20.69 and 22.7 respectively for the years 2011-2012. Therefore based on findings the banks improved its ability to meet their liabilities and other obligation as and when they fall due.

Table 4.4 Jamii Bora Bank Ltd financial performance indicators

Pre-merger					Post-merger	
ratio	2006	2007	2008	2009	2011	2012
ROA	-2.3	-3.1	-0.5	-1.26	-1.79	1.5
ROE	-4.79	-8.74	-0.9	-2.2	-2.43	2.5
CAR	75.71	77.93	78.27	94.28	110.48	83.6
D/E	1.08	1.82	0.80	0.74	0.36	0.67

Source: Researcher, 2013

Jamii Bora Bank ltd merged with City finance bank ltd to form Kenya Jamii Bora Bank ltd in year 2010. The analysis based on table 4.4 the average ROA of the two institutions before merger was -2.3,-3.1,-0.5 and -1.26 for the years 2006-2009 respectively. After the merger the ROA was -1.79, and 1.5 from year 2011 to 2012 respectively. The finding as per table 4.4 shows that although the ROA was negative before merger it improved after the merger to a positive ROA of 1.5 in 2012.

The average ROE of the two institutions was -4.79,-8.74,-0.9 and -2.2 for year 2006-2009 respectively and -2.43 and 2.5 for the years 2011 to 2012 respectively suggesting positive performance after the merger.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after the merger. The premerger average D/E of the institution was 1.08, 1.82, 0.80 and 0.74 respectively for the years 2006-2009 respectively and after the merger the D/E was 0.36 and 0.67 for the period 2011-2012. The findings indicate that, debt to equity ratio

increased, indicating an increase in risk to shareholders and not good for financial health of the firm.

The average Capital Adequacy Ratio before the merger for the two institutions was 75.71, 77.93, 78.27, and 94.28 for year 2006-2009 respectively. After the merger the CAR was 110.48 and 83.6 respectively for the years 2011-2012. Therefore the bank improved its ability to meet their liabilities and other obligation as and when they were due.

Table 4.5 Equatorial Commercial Bank ltd financial performance indicators

Pre-merger					**Post-merger**	
ratio	2006	2007	2008	2009	2011	2012
ROA	1.45	1	-0.05	-6.51	0.55	-0.46
ROE	10.66	9.13	-0.05	7305.28	5.91	-90.8
CAR	20.63	18.58	18.34	8.35	14.27	8.9
D/E	7.37	9.03	7.5	-494.28	9.7	18.74

Source: Researcher, 2013

Equatorial Commercial Bank ltd and southern Credit Banking corporation ltd joined to form Equatorial Commercial Bank in year 2010. The findings based on table 4.5 shows that the average ROA of the two institutions before the merger was 1.45, 1,-0.05 and -6.51 for the years 2006-2009 respectively. After the merger the ROA was 0.55 and -0.46 for the years 2011 to 2012 respectively. The finding as per table 4.5 shows that there was decline in firm performance after the merger.

The average ROE of the two institutions was 10.66, 9.13,-0.05 and 7305.28 for the years 2006-2009 respectively and after the merger 5.91 and -90.8 for the years 2011 to 2012 respectively suggesting negative performance after the merger.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after the merger. The premerger average D/E of the institution was 7.37, 9.03, 7.5 and -494.28 for the years 2006-2009 respectively and after merger the D/E was 9.7 and 18.74 respectively for the period 2011-2012. The findings show debt to equity ratio as increased indicating increase in risk to shareholders and not good for financial health.

The average Capital Adequacy Ratio before the merger for the two institutions was 20.63, 18.58, 18.34, and 8.35 for the years 2006-2009 respectively. After the merger CAR was 14.27 and 8.9 respectively for years 2011-2012. Therefore the bank ability to meet their liabilities and other obligation as and when they fall due declined.

Table 4.6 Kenya Commercial Bank financial performance indicators

Pre-merger					**Post-merger**			
ratio	1997	1998	1999	2000	2002	2003	2004	2005
ROA	1.08	1.07	1.25	-2.4	-3.5	1.17	1.32	1.83
ROE	3.63	6.29	3.48	-19.42	-74.1	18.28	13.49	19.5
D/E	1.61	5.2	1.79	9.7	20.17	14.62	9.22	9.46

Source: Researcher, 2013

Kenya Commercial Bank Ltd merged with Kenya commercial credit Finance Company to for Kenya commercial bank of Kenya ltd in year 2001. Based on the

findings in table 4.6 the average ROA before the merger was 1.08, 1.07, 1.25 and -2.4 for the years 1997-2000. After the merger ROA of New Bank posted positive and stable rates since acquisition for the years 2002-2005 of -3.5, 1.17, 1.32 and 1.8 3 respectively.

The analysis of average ROE suggests an improvement in firm performance after the merger. Before the merger the ROE was 3.63, 6.29, 3.48, and -19.42 for the years 1997-2000. After the merger the ROE dropped significantly to -74.1 before picking ground, 18.28, 13.49, and 19.5 respectively for the period 2002-2005.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after merger, the premerger average D/E of the institution was 1.61, 5.2, 1.79 and 9.7 from year 1997-2000 respectively and after the merger the D/E was, 20.17, 14.62, 9.22, and 9.46 respectively for the period 2002-2005. The findings show debt to equity ratio increased, indicating an increase in risk to shareholders and not good for financial health.

Table 4.7 Citi Bank NA financial performance indicators

Pre-merger					**Post-merger**			
ratio	1997	1998	1999	2000	2002	2003	2004	2005
ROA	5.05	3.07	3.72	2.86	3.2	2.39	1.37	3.47
ROE	7.55	6.97	6.25	24.14	28.5	19.81	10.14	23.99
D/E	0.71	1.43	0.64	7.56	7.91	7.29	6.4	5.91

Source: Researcher, 2013

Citi bank NA Merged with ABN Amro bank Ltd to form Citibank NA in year 2001. The analysis based table 4.7, the average ROA before merger was 5.05, 3.07, 3.72 and 2.86 for years 1997-2000. After the merger ROA of New Bank posted positive and stable rates since acquisition for the years 2002-2005 of 3.2, 2.39, 1.37 and 3.47 respectively. The findings indicate improvement in performance based on ROA.

The analysis of average ROE suggests an improvement in firm performance after the merger. Before the merger the ROE was 7.55, 6.97, 6.25, and 24.14 for the year 1997-2000 respectively. After the merger the ROE was 28.5, 19.81, 10.14 and 23.99 respectively for the period 2002-2005. The findings indicate improvements in performance after the merger.

Analysis Debt to Equity ratio suggests increase in the firms' leverage after the merger, the pre-merger average D/E of the institution was 0.71, 1.43, 0.64 and 7.56 from year 1997-2000 respectively and after merger the D/E was 7.91, 7.29, 6.4 and 5.91 respectively for the period 2002-2005. The findings shows debt to equity ratio increased after the merger, indicating an increase in risk to shareholders and not good for financial health of the firm.

Table 4.8 Southern Credit Banking Corp Bank Ltd financial performance indicators

Pre-merger					Post-merger			
ratio	1997	1998	1999	2000	2002	2003	2004	2005
ROA	2.76	-5.14	-5.83	-7.69	0.4	1.32	1.37	0.62
ROE	6.2	6.91	-4.8	-61.26	3.2	10.62	12.07	5.98
D/E	0.91	-1.025	0.69	6.23	7	7.05	7.81	8.65

Source: Researcher, 2013

Southern Credit Corp. ltd merged with bullion Bank Ltd to form Southern Credit Corp. ltd in year 2001. Based on the findings in table 4.8 the average ROA Before merger was 2.76, -5.14, 5.83 and 7.69 for the years 1997-2000. After the merger ROA of New Bank posted positive and stable rates since acquisition for year 2002-2005 of 0.40, 1.32, 1.37 and 0.62 respectively. The findings indicate improvement in performance based on ROA.

The analysis of average ROE suggests an improvement in firm performance after the merger. Before the merger the ROE was 6.2, 6.91,-4.8, and -61.26 for the years 1997-2000 respectively. After the merger the ROE was 3.2, 10.62, 12.07 and 5.98 respectively for the period 2002-2005. The findings indicate improvements in performance

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after the merger. The average premerger D/E for two institutions was 0.91, -1.025, 0.69 and

6.23 from year 1997-2000 respectively and after the merger the D/E was 7, 7.05, 7.81 and 8.65 respectively for the period 2002-2005. The findings show debt to equity ratio increased, indicating an increase in risk to shareholders and not good for financial health.

Table 4.9 Cooperative Bank ltd financial performance indicators

Pre-merger					**Post-merger**			
ratio	1998	1999	2000	2001	2003	2004	2005	2006
ROA	-10.53	-5.78	-4.33	-5.03	0.4	0.57	0.99	1.6
ROE	70.07	92.47	-89.64	90.06	8.61	10.72	17.39	25.64
D/E	-10.66	-18.9	20.15	-5	20.53	17.81	16.57	15.03

Source: Researcher, 2013

Co-operative Bank Kenya ltd merged with Co-operative merchant ltd to form Co-operative Bank Kenya ltd in year 2002. Based on the findings in table 4.9 the average ROA before merger was -10.53, -5.78, -4.33 and -5.03 for the years 1998-2001. After the merger ROA of New Bank posted positive and stable rates since acquisition for the years 2003-2006 was 0.4, 0.57, 0.99, and 1.6 respectively. The findings indicate improvement in performance based on ROA.

The analysis of average ROE suggests an improvement in firm performance after the merger. Before the merger the ROE was 70.07, 92.47-89.6 and 90.06 for the years 1998-2001. After the merger the ROE was 8.61, 10.72, 17.35, and 25.64 respectively for the period 2003-2006. The findings indicate improvements in performance.

Analysis of Debt to Equity ratio suggests an increase in the firms' use of leverage after the merger. The average premerger D/E of the two institutions was –10.66, -18.9, 20.15 and -5 from year 1998-2001 respectively and after the merger the D/E was 20.53, 17.81, 16.57 and 15.03 respectively for the period 2003-2006. The findings show debt to equity ratio as increased, indicating an increase in risk to shareholders and not good for financial health.

Table 4.10 Investment and Mortgage Bank Ltd financial performance indicators

Pre-merger					**Post-merger**			
ratio	1998	1999	2000	2001	2003	2004	2005	2006
ROA	1.84	1.95	2.04	1.86	2.23	2.37	2	3.1
ROE	8.12	6.61	14.89	14.11	17.85	21.61	23.79	33.5
D/E	3.26	2.43	6.43	6.76	7	8.12	10.9	9.8

Source: Researcher, 2013

Investment and mortgage bank ltd merged with Biashara Bank Ltd to Form Investment and mortgage bank ltd in year 2002. Based on the findings in table 4.10 the average ROA before the merger was 1.84, 1.95, 2.04 and 1.86 for the period 1998-2001. After the merger ROA of New Bank posted positive and stable rates since acquisition for the period 2003-2006 of 2.23, 2.37, 2, and 3.1 respectively. The findings indicate improvement in performance based on ROA.

The analysis of average ROE suggests an improvement in firm performance after the merger. Before the merger the ROE was 8.12, 6.61, 14.89 and 14.11 for the 1998-2001 respectively. After the merger the ROE was 17.85, 21.61, 23.79, and 33.5

respectively for the period 2003-2006. The findings indicate improvements in performance.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after merger. The premerger average D/E of the two institutions was 3.26, 2.43, 6.43 and 6.76 from year 1998-2001 respectively and after merger the D/E was 7, 8.12, 10.9 and 9.8 respectively for the period 2003-2006. The findings show debt to equity ratio as increased, indicating an increase in risk to shareholders and not good for financial health.

Table 4.11 Commercial bank of Africa Ltd financial performance indicators

Pre-merger					**Post-merger**			
ratio	2001	2002	2003	2004	2006	2007	2008	2009
ROA	2.53	2.05	2.42	2.09	2.9	3.5	3.3	3
ROE	23.95	19.15	22.55	19.57	36.1	31.03	34.2	27.96
CAR	31.8	26.85	24.05	17.8	15.29	14.1	13.02	12.85
D/E	8.64	8.68	7.86	8.55	11.45	7.87	9.36	8.32

Source: Researcher, 2013

Commercial Bank of Africa ltd merged with First American bank to form Commercial Bank of Africa ltd in 2005. The findings in 4.11 shows that the average ROA before the merger was 2.53, 2.05, 2.42 and 2.09 for the years 2001-2004. After the merger ROA of New Bank posted positive and stable rates since acquisition for the period 2006-2009 of 2.9, 3.5, 3.3, and 3 respectively.

The analysis of average ROE suggests an improvement in firm's performance after the merger. Before the merger the ROE was 23.95, 19.15, 22.55, and 19.57 for the years 2001-2004. After the merger the ROE stood at 36.1, 31.03, 34.2, and 27.96 respectively for the period 2006-2009.

The average Capital Adequacy Ratio was 31.8, 26.85, 24.05 and 17.8 for the years 2001-2004 and 15.29, 14.1, 13.02, 12.85 respectively for the period 2006-2009. This show's that the bank ability to meet it shorts term obligations as and when they fall due after merger decreased.

Analysis of Debt to Equity ratio suggests increase in the firms' leverage after the merger. The premerger average D/E was 8.64, 8.68, 7.86 and 8.55 respectively from year 2001-2004 respectively and after the merger the D/E was 11.45, 7.87, 9.36 and 8.32 respectively for the period 2006-2009. The findings shows debt to equity ratio increased, indicating an increase in risk to shareholders and not good for financial health.

Table 4.12 EABS Bank LTD financial performance indicators

Pre-merger					**Post-merger**	
ratio	2001	2002	2003	2004	2006	2007
ROA	0.49	0.4	-7.89	-0.41	0.4	1
ROE	3.64	3	-50.89	-3.51	3.01	6.94
CAR	9.35	8	15.1	14.6	20.55	18.23
D/E	6.48	6.5	6.47	7.07	6.53	5.94

Source: Researcher, 2013

East Africa Building society merged with Akiba Bank Ltd to form EABS Bank ltd in year 2005. However EABS Bank ltd was acquired in the year 2008 by Eco bank Kenya Ltd; hence post-merger period considered under this case is year 2006 and 2007. Based on the findings in table 4.12 average ROA before the merger was 0.49, 0.4, -7.89, -0.41 for the years 2001-2004. After the merger ROA steadily increased to stand at 0.4 and 1 through period 2006-2007 respectively. A comparison of average ROA before and after the merger indicates tremendous growth.

The average ROE for two institutions before the merger was declining from 3.64, 3, -50.89, and 3.51 respectively for the years 2001-2004. After the merger EABS bank had a positive ROE of stood at 3.01 and 6.94 respectively for the period 2006-2007 the growth was steady.

Average Capital Adequacy Ratio was 9.35, 8, 15.1 and 14.6 for the years 2001-2004 respectively and 20.55 and 18.23 respectively for the period 2006 to 2007. This shows that the bank is able to meet it short term obligations as and when they fall due after merger.

Analysis of Debt to Equity ratio suggests decline in the firms' leverage after the merger. The premerger average D/E was 6.48, 6.5, 6.47 and 7.07 from year 2001-2004 respectively and after the merger D/E was 6.53 and 5.94 respectively for the period 2006-2007. The findings shows debt to equity ratio decreased slightly, therefore reduction in risk to shareholders which is good for financial health.

Table 4.13 Bank of Africa Ltd financial performance indicators

Pre-acquisition					Post-acquisition			
ratio	2000	2001	2002	2003	2005	2006	2007	2008
ROA	0.84	0.71	0.7	0.01	0.09	0.7	2	3.3
ROE	10.54	8.68	5.9	0.09	1.15	6.27	12.5	23.2
CAR	21.4	19.8	28.9	15.5	18.5	16.9	14.41	13.19
D/E	11.59	11.23	7.43	6	11.78	7.96	5.25	6.03

Source: Researcher, 2013

Bank of Africa ltd acquired Credit Agricola Indosuez (K) ltd in 2004. Based on the findings in table 4.13, the ROA of the Acquirer before acquisition was 0.84, 0.71, 0.7, and 0.01 for the period 2000-2003 respectively. After the acquisition the ROA was 0.09, 0.7, 2, and 3.3 for the period 2005 to 2008 respectively. The finding shows improvement after merger.

The ROE of the Acquirer before acquisition was 10.54, 8.68, 5.9, 0.09 for the years 2000-2003 respectively and 1.15, 6.27, 12.5, 23.2 for the years 2005 to 2008 respectively after the acquisition. The finding as per the table 4.13 shows an improvement after acquisition to a positive ROE of 23.2 in 2008.

Analysis of Debt to Equity ratio shows a slight decline in the leverage after the merger. The premerger D/E of the institution was 11.59, 11.23, 7.43 and 6 respectively from year 2000-2003 respectively and after merger the D/E was 11.78, 7.96, 5.25 and 6.03 respectively for the period 2005-2008. The findings show debt to

equity ratio as decreased, indicating risk to shareholders declined and good for financial health.

The Capital Adequacy Ratio before the acquisition for the acquirer was 21.4, 19.8, 28.9 and 15.5 for the period 2000-2003 respectively. After the acquisition the CAR was 18.5, 16.9, 14.41 and 13.19 respectively for the years 2005-2008. This show's bank ability to meet it short term obligations as and when they fall due after merger because CAR declined.

Table 4.14 ECO bank ltd. financial performance indicators

Pre-acquisition					**Post-acquisition**			
ratio	2004	2005	2006	2007	2009	2010	2011	2012
ROA	0.42	0.07	0.4	1	-7.13	0.7	0.45	-4.8
ROE	3.29	0.56	3.01	6.94	-53.6	3.76	7.03	-76.7
CAR	10.7	16.97	20.55	18.23	15.67	19.33	25.58	32.5
D/E	6.83	7	6.53	5.94	6.52	4.37	14.62	14.98

Source: Researcher, 2013

ECO bank Kenya ltd acquired EABS Bank ltd and New Institutions is known as ECO bank ltd. Based on the findings in table 4.14 the pre-Acquisition ROA of the acquirer was, 0.42, 0.07, and 0.4 and 1 for the years 2004-2007 respectively. Post-acquisition ROA was -7.13, 0.7, 0.45,-4.48 for the years 2009 to 2012 respectively. The post-acquisition ROA showed a mixed reaction after the acquisition with huge negative ROA suggesting that acquisition did not improve performance.

The pre-Acquisition ROE was 3.29, 0.56, 3.01, 6.94 for the years 2004-2007 respectively and post-acquisition ROE was -53.6,3.76,7.03,-76.7 for the years 2009 to 2012 respectively suggesting positive performance after acquisition.

Analysis of Debt to Equity ratio suggests increase in firms' leverage after the merger. The premerger D/E of the institution was 6.83, 7, 6.53 and 5.94 respectively from year 2004-2007 respectively and after Acquisition the D/E was 6.52, 4.37, 14.62 and 14.98 respectively for the period 2009-2012. The findings show debt to equity ratio as increased, indicating an increase in risk to shareholders and no good for financial health.

Capital Adequacy Ratio before the acquisition for the Acquirer was 10.7, 16.97, 20.55, and 18.23 for year 2004-2007 respectively. After the acquisition the CAR was 15.67, 19.33, 25.58, and 32.5 respectively for the years 2009-2012.

4.3 Summary

The findings of Return on asset and return on Equity indicate that there was significant increase in profitability of the banks as results of mergers. The Debt to Equity ratio showed that there was significant increase in firms leverage. Results from Capital adequacy showed general increase therefore merger improved internal strength of the bank to withstand losses during crisis.

Table 4.15 ROA Summary

Banks Current Name	Avarages		Change	Relative Change
	Premerger	post-merger		
Prime Bank Ltd	2.779	2.618	-0.161	-5.803
CFC Stanbic Bank Ltd	2.343	2.598	0.255	10.886
Kenya Commercial Banks ltd	3.376	5.090	1.714	50.759
Jamii Bora Bank ltd	-1.790	-0.145	1.645	-91.899
Equatorial Commercial Bank ltd	-1.026	-2.025	-0.999	97.320
Kenya Commercial Banks LTD	0.250	0.205	-0.045	-17.918
CITI BANK NA	3.674	2.608	-1.066	-29.023
Southern Credit Banking Corp. LTD	-3.973	0.928	4.900	-123.348
Cooperative Bank Of Kenya ltd	-6.413	0.890	7.303	-113.879
Investment and mortgage Bank Ltd	1.920	2.425	0.505	26.302
Commercial Bank Of Africa	2.270	3.175	0.905	39.868
EABS BANK LTD	-1.853	0.700	2.553	-137.787
Bank of Africa ltd	0.565	1.523	0.958	169.469
Eco Bank Kenya Ltd	0.473	-2.695	-3.168	-670.370

Source: Researcher, 2013

The Analysis based on table 4.15 of the four years averages before merger and after merger indicates a general increase in average ROA after merger.

Table 4.16 ROE Summary

Banks Current Name	Averages		Change	Relative change
	Premerger	post-merger		
Prime Bank Ltd	14.438	23.705	9.268	64.190
CFC Stanbic Bank Ltd	23.226	23.343	0.116	0.501
Kenya Commercial Banks ltd	33.776	30.490	-3.286	-9.729
Jamii Bora Bank ltd	-4.158	0.035	4.193	-100.842
Equitorial Commercial Bank ltd	1831.251	-42.445	-1873.700	-102.318
Kenya Commercial Banks LTD	-1.506	-5.795	-4.289	284.730
CITI BANK NA	11.225	20.610	9.385	83.608
Southern Credit Banking Corp. LTD	-13.236	7.968	21.204	-160.195
Cooperative Bank Of Kenya ltd	40.738	15.590	-25.148	-61.731
Investment and mortage Bank Ltd	10.931	24.188	13.256	121.269
Commercial Bank Of Africa	21.303	32.323	11.020	51.731
EABS BANK LTD	-11.939	4.975	16.914	-141.671
Bank of Africa ltd	6.303	10.780	4.478	71.043
Eco Bank Kenya Ltd	3.450	-29.878	-33.328	-966.014

Source: Researcher, 2013

An analysis based on the findings in table 4.16 of four years premerger averages and four years post-merger average indicate an increase in Return on Equity confirming that banks were able to efficient to efficiently utilize shareholder funds at their disposal thereby encouraging them to invest in those particular banks.

Table 4.17 Debt to Equity ratio Summary

Banks Current Name	Averages		Change	Relative Change
	Premerger	post-merger		
Prime Bank Ltd	5.428	7.985	2.558	47.121
CFC Stanbic Bank Ltd	7.986	8.660	0.674	8.436
Kenya Commercial Banks ltd	8.783	4.985	-3.798	-43.239
Jamii Bora Bank ltd	1.110	0.515	-0.595	-53.604
Equatorial Commercial Bank ltd	-117.596	14.245	131.841	-112.113
Kenya Commercial Banks LTD	4.574	13.368	8.794	192.266
CITI BANK NA	2.584	6.878	4.294	166.183
Southern Credit Banking Corp. LTD	1.698	7.628	5.930	349.205
Cooperative Bank Of Kenya ltd	-3.601	17.485	21.086	-585.526
Investment and mortgage Bank Ltd	4.724	8.955	4.231	89.574
Commercial Bank Of Africa	8.429	9.250	0.821	9.743
EABS BANK LTD	6.629	6.235	-0.394	-5.940
Bank of Africa ltd	9.063	7.755	-1.308	-14.428
Eco Bank Kenya Ltd	6.575	10.123	3.548	53.954

Source: Researcher, 2013

Analysis of average debt to equity ratio indicates increase after merger thereby indicating increase in the leverage of the firm after merger as per table 4.17.

Table 4.18 CAR Summary

Banks Current Name	Averages		Change	Relative Change
	Premerger	post-merger		
Prime Bank Ltd	25.625	15.753	-9.873	-38.527
CFC Stanbic Bank Ltd	17.696	19.195	1.499	8.469
Kenya Commercial Banks ltd	18.265	21.695	3.430	18.779
Jamii Bora Bank ltd	81.548	97.040	15.493	18.998
Equatorial Commercial Bank ltd	16.473	11.585	-4.888	-29.671
Cooperative Bank of Kenya	3.681	19.610	15.929	432.699
Investment and mortgage Bank ltd	25.500	15.050	-10.450	-40.980
Commercial Bank Of Africa ltd	25.125	13.815	-11.310	-45.015
EABS BANK LTD	11.763	19.390	7.628	64.846
Bank of Africa Bank ltd	21.400	15.750	-5.650	-26.402
Eco Bank Ltd	16.613	23.270	6.658	40.075

Source: Researcher, 2013

As per table 4.18 Analysis of average debt to equity ratio indicate general increase in capital adequacy ratio which indicates that firms were able to meet their liabilities and other obligation as and when they fall due

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter presents a summary of results of performance implications based on findings in chapter four. The study gives recommendations on to the managements of the banking industry on what they should do to improve performance following mergers and acquisition. The recommendations are presented also based on objective of the study after which recommendation for further research.

5. 2 Summary of the findings

In this study, the performance implication of mergers and acquisitions in the banking industry in Kenya has been examined. In investigating these issues the pre-merger and post-merger behaviour was examined using performance measures based on the secondary data of the banks that underwent mergers and acquisition for the period 2000 to 2010 and CBK bank annual supervision annual reports. The four years consecutive immediately before and the four years consecutive immediately after the merger were considered in the study as the pre-merger period and post-merger period respectively.

The objective of the study was to establish performance of mergers and Acquisitions in the banking industry in Kenya from the financial statistic discussed in chapter four, Performance measures examined were: ROA, ROE, CAR and D/E.

An analysis on the performance implications of M&A on ROA finds that the banks that undergone M&A significant improvement in profitably of the institution, Where 64% of cases under study showed an improvement in the financial performance in post-acquisition period. For example CFC Stanbic Bank, The average premerger ROA was 2.343 and post -merger average ROA was 2.598 showing a net increase of 0.255. Kenya Commercial Bank Ltd Merger with Savings and Loans (K) ltd posted an average increase in ROA from 3.376 to post increase to 5.090. Jamii Bora Bank merger with city finance a posted significant growth from average premerger ROA of -1.790 to -0.145. Investment and Mortgage bank posted a significant increase from 1.920 to 2.425. Cooperative bank of ltd merger with Cooperative merchant Bank posted premerger average of -6.413 to post merger ROA of 0.890 and merger between commercial bank of Africa posted an increase in premerger ROA from 2.270 to 3.175, However ROA of some institutions dropped for example prime Bank ltd which dropped from average of 2.779 to 2.618, Equatorial commercial Bank which dropped from average of -1.026 to -2.025 and Eco bank which dropped from Average of 0.473 to -2.695.and also Average decline was witnessed in Citi Bank NA merger with Bullion from average of 3.674 to 2.608 after merger. Comparison made between merging and acquiring firms on basis of increase in ROA, then more number have increased their ROA.

An analysis of ROE indicate that 64% of cases under the study showed an improvement in the financial performance in post-acquisition period, The findings indicate that in comparison between merging firms more firms were able to efficiently utilize shareholders funds at their disposal thereby encouraging investing more in the banks.

The findings indicate that Pre merger average ROE for CFC Stanbic Bank is 23.226, and post-merger average ROE is 23.343. The findings indicate that Jamii Bora bank average ROE increased from -4.158 to -0.035. Citi Bank NA average ROE increase drastically from 11.225 to 20.610 after the merger. Analysis showed also firms with ROE reducing after merger for example Cooperative bank which average ROE Reduced from 40.738 to 15.590 after merger. The average ROE for Eco bank decreased from 3.450 to -29.878 and average ROE for merger between Kenya Commercial Bank and Savings and Loans (K) Ltd dropped from 33.776 to 30.490 after merger.

Analysis of debt to equity ratio showed an increase in the ratio, with 71% of cases under study increasing showing an increase in D/E. The findings for prime bank ltd merger with prime capital and Credit posted an increase in debt to equity ratio from 5.428 to 7.985 after the merger. An average D/E for Eco bank ltd acquisition of EABS Bank suggests an increase in debt to Equity ratio from 6.575 to 10.123 after the merger. The findings indicate marginal increase for CFC Stanbic Bank increase in D/E from 7.986 premerger to 8.660 after merger, and a significant increase in Debt to Equity for Commercial Bank of Africa for from 8.429 to 9.250 after the merger. The findings of East Africa Building society with Akiba bank ltd average D/E dropped marginally from 6.629 to 6.235 after mergers. The average D/E of Bank of Africa reduced from 9.063 to 7.755 premerger and post-merger respectively. The Average of D/E of Jamii Bora Bank reduced from 1.110 to 0.515 pre-merger and post-merger respectively.

An analysis of CAR indicate an improvement this means firms were able to meet their obligation and other liabilities as and when they are due, 63% of cases under study showed an increase in CAR. Some banks posted an increase in CAR others posted a decrease. The findings indicate some firms that have posted positive increase in CAR for example. The average CAR for CFC Stanbic bank posted an increase from 17.696 to 19.195 after merger. The findings show that Kenya Commercial Bank merger with savings and loans Kenya posted an increase in CAR from 18.265 to 21.698. The findings also find that Jamii Bora bank average CAR increased from 81.548 to 97.040 after merger. However some firms posted a decrease in CAR ratio for example Equatorial Commercial bank which average CAR ratio decreased from 16.473 to 11.585 after the merger and Prime bank ltd which posted a decrease in average CAR from 25.625 to 15.753 after the merger.

5.3 Conclusion

The study attempted to determine performance implication of mergers and acquisition in the banking industry in Kenya, based on data presentation in chapter four and summary of the findings above performance implication of mergers and acquisition in Kenyan banking industry improves with mergers and acquisition. Measurement of performance implication of mergers and acquisition that have undergone mergers and acquisition during the period 2000-2013 was achieved by calculating ROE, ROA, CAR and D/E ratio. Through the analysis, sufficient evidence to conclude that M&A have clear positive performance implication of mergers and acquisition in the banking Industry in Kenya was found.

The findings suggest that the process of financial consolidation and banking reforms in Kenyan banking industry have achieved desired results in improving performance in the banking sector and therefore support the perception that M&A generate synergy. In most banks the financial performance has improved in post-merger time period when comparing with premerger time period of the same bank. Where's in cases of M&A under study ROA and ROE showed an improvement in the financial performance in post-acquisition period, at the same time the study establishes that Debt to Equity ratio increased, a clear indication that Debt was used to finance the merger, and an increase in debt to Equity ratio increase financial risk to equity shareholders. The study indicate that banks CAR increased, thereby financial performance improved since Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations and has direct effect on the profitability of banks. The profitability of new institution formed on M&A registered high profitability as indicated in the findings and thus consistent with the theory of efficiency which suggests, in fact, that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties.

5.4 Limitation of the study

The findings in this study may not stand the test of being truly representative due to the fact that this study focused on banking industry and may not be representative to different industries. Data used was secondary data gathered for other purposes and data available was limited.

The study is also limited due to the fact that the time available for this study was too short to do thorough work. Additionally, the results could be influenced by some possible extraneous variables like sudden changes in the socio-economic and or business environment that the research did not cover.

5.5 Recommendation for Research

In further research, it could be interesting to determine if strategies undertaken by those banks that showed profitability and were involved in M&A had a role in their positive performance. Based on the findings of this paper, it might suggest that positive bank performance found can be attributed to having similar strategies in asset structure, diversity of loans or credit risk strategies.

Similar studies can be carried out on the lager sets of mergers and acquisition deals, the profitability of bidder firms and target firms and different kinds of strategies like related mergers, tender offers, and difference in regulations for M&A in different countries.

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APPENDICES

APPENDIX I: List of Banks that have undergone Mergers and acquisitions

No.	Institution	Merged with	Current Name	Date approved
1	9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	1989
2	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
3	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
4	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
5	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
6	Bank of India	Bank of India Finance Ltd.	Bank of India (Africa) Ltd.	15.11.1995
7	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
8	Mercantile Finance	Ambank Ltd.	Ambank Ltd.	15.01.1996

	Ltd.			
9	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
10	CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996
11	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.1997
12	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
13	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
14	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
15	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
16	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
17	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
18	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
19	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
20	Guilders Inter. Bank	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999

	Ltd.			
21	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
22	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
23	Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001
24	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07.12.2001
25	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
26	Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	Investment & Mortgage Bank Ltd.	01.12.2002
27	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
28	East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005
29	Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01.01.2008
30	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008
31	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010

32	City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
33	Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010

Acquisitions

No.	Institution	Acquired by	Current Name	Date approved
1	Mashreq Bank Ltd.	Dubai Kenya Ltd.	Dubai Bank Ltd.	01.04.2000
2	Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30.04.2004
3	EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16.06.2008

Source: www.centralbank.go.ke

Appendix II: DATA CAPTURE FORM

	Institution/year	**year -4**	**year-3**	**year-2**	**year -1**	**year +1**	**year+2**	**year+3**	**year+4**
ROA	Bank A								
	Bank B								
	Average								
	Combined Bank								
	Institution/year	**year -4**	**year-3**	**year-2**	**year -1**	**year +1**	**year+2**	**year+3**	**year+4**
ROE	Bank A								
	Bank B								
	Average								
	Combined Bank								
	Institution/year	**year -4**	**year-3**	**year-2**	**year -1**	**year +1**	**year+2**	**year+3**	**year+4**
CAR	Bank A								
	Bank B								
	Average								
	Combined Bank								

	Institution/year	**year -4**	**year-3**	**year-2**	**year -1**	**year +1**	**year+2**	**year+3**	**year+4**
D/E	Bank A								
	Bank B								
	Average								
	Combined Bank								