EFFECTS OF MERGERS AND ACQUISITIONS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

STUDENT

I, the undersigned, declare that this is my own original work and has not been submitted to any other university or institution for academic credit.

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DEDICATION

This paper is dedicated to my parents Mr William Ndung'u & Mrs Ann Ndung'u and my siblings Kamau and Njuguna who have been a source of inspiration and support both financially and morally during the course of my studies.

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May the Almighty God bless you all abundantly!

ABSTRACT

The objective of this research was to determine the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya. Theoretically it is assumed that mergers improve company performance as a result of synergies acquired, market power, enhanced profitability and risk diversification. The research focused on the financial performance of commercial banks in Kenya which merged between 1999 and 2005.

Comparative analysis of the bank's performance pre and post merger periods was conducted to establish whether mergers lead to improved financial performance. Secondary data from financial statements was collected for 5 years before and after the merger and analyzed with the aid of statistical tools. Descriptive research design was used where banks' performance was analyzed before and after the merger to determine whether there was any effect on the financial performance. The population used in this study was all the 36 Kenyan commercial banks that have undergone mergers. The study was the 16 commercial banks that have undergone mergers between 1999 and 2005.The study used mainly secondary data from the NSE, CBK, published facts and figures and reports for the period in study. The data was analyzed on the basis of the mean. The t-test was computed to test the null hypothesis.

From the findings, the hypothesis that there was no improvement in financial performance after bank merger was therefore rejected. Thus the study found that there was improvement in financial performance after banks merger. The study also found that there was general increase in the profitability of the banks after merger and also increase in solvency and capital adequacy.

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LIST OF ABBREVIATIONS

CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
CMP	Commissioner of Monopolies and Prices
CMP	Commissioner of Monopolies and Prices
FABK	First American Bank of Kenya
FCF	Free Cash Flow
M&A	Mergers and Acquisitions
MPC	Monopolies and Prices Commission
NSE	Nairobi Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
RTPT	Restrictive Trade Practices Tribunal
SE	Shareholders' Equity
TA	Total Assets
TL	Total Liabilities
UK	United Kingdom
USA	United States of America

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

A merger is defined as a combination of two or more companies in which the resulting firm maintains the identity of the acquiring company. In a consolidation two or more companies are combined to form a new entity. A consolidation might be utilized when the firms are of equal size and market power, Block et al (2009). A merger means any combination that forms one economic unit from two or more previous ones, Brigham and Daves (2010).

An acquisition is the taking over by one company of the share capital of another in exchange for cash, ordinary shares, loan stock or a combination of this. This results in the identity of the target being absorbed into that of the acquirer, Pike and Neale (2003). The definition by Hill and Jones (2001), a takeover is when the acquiring company gains control of another without the cooperation of its existing management. The acquiring company usually joins forces with the key shareholders, purchase stock on the open market or by soliciting proxies.

The motives for mergers and consolidations are both financial and non-financial in nature. The financial motive is where a merger allows the acquiring firm to enjoy a potentially desirable portfolio effect by achieving risk reduction while perhaps maintaining the firm's rate of return. If two firms that benefit from opposite phases of the business cycle combine, their variability in performance may be reduced. Risk-averse investors may then discount the future performance of the merged firm at a lower rate and thus assign it a higher valuation than that assigned to the separate firms, Block *et al* (2009).

The non-financial motives for mergers include the desire to expand management and marketing capabilities as well as the acquisition of new products. Mergers are often with companies in allied but not directly related fields. Perhaps the greatest management motive for a merger is the possible synergistic effect i.e. the whole is greater than the sum of the parts. This synergy is as a result of eliminating overlapping functions in production and marketing, Block et al (2009). According to Brigham and Daves (2010), synergy exists when the whole is greater than the sum of the parts.

Many managers today regard buying a company for access to markets, products, technology and resources as less risky and speedier than gaining the same objectives through organic growth, Jemison and Sitkin (1986). Acquisitions and mergers are investment decisions that should be evaluated on essentially the same criteria as when new assets such as machinery and equipment are purchased. Indeed, the 'the make or buy' decision can be conceptually applied to the acquisition process, Pike and Neale, (2002). According to Hill and Jones (2001), most mergers and acquisitions will be pooled to attractiveness of the target in areas like product design, manufacturer's technology, good management, tight financial discipline and the market share.

Competition is protected by having many small, viable, locally owned competitors in each industry and cannot be created by passage of law. The antitrust laws will try to prevent actions that reduce the number of effective competitors. In Kenya a merger or an acquisition can best be seen against the background of Kenya competition law as contained in the Restrictive Trade Practices, Monopolies and Price Control Act (Cap 504 Laws of Kenya). This is the governing law of all mergers and acquisitions in Kenya. This law was enacted to encourage competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and for connected purposes Monopolies and Price Commission (MPC) Annual Report, (2000).

Section 22(1) of Cap 504 dealing with mergers and acquisitions, the emphasis is on control i.e. the power to make major decisions in respect of the conduct of the affairs of the enterprise after no more than minimal consultations with other persons whether directors or other officers of the enterprise. Section 27(1) (a) gives the Minister for Finance powers to approve all mergers and takeovers between two or more independent enterprises engaged in manufacturing and which distribute substantially similar services.

The law also sets up the necessary institutional framework for effective administration and enforcement. When documenting merger or takeover experience in Kenya, it is important to discuss the approval process. Firms will make an application to the Commissioner of Monopolies and Prices (CMP), who investigates, evaluates and makes a recommendation to the Minister for Finance. The Minister may authorize or reject and Gazette within reasonable time. There is a tribunal, the Restrictive Trade Practices Tribunal (RTPT) to which an aggrieved party may appeal and may overrule the Minister or uphold his decision. If at this stage the aggrieved party wants to appeal further, the only option is to file an appeal to the High Court for final determination.

1.1.1 Firm Financial Performance in Kenya

Studies in mergers and acquisitions in Kenya indicate that firm performance differs from firm to firm and thus the findings are inconclusive. Korir (2006) conducted a research on the merger effects of companies listed on the Nairobi Stock Exchange (NSE) and concluded that mergers improve performance of companies listed at the NSE. Ochieng (2006) notes that when Commercial Bank of Africa (CBA) acquired First American Bank of Kenya (FABK), CBA's 2005 results indicated sharply reduced earnings and lower regulatory ratios compared to the stand alone CBA pre-acquisition.

Chesang (2002) concluded that though some banks showed a decline in performance in the post-merger period, merger restructuring could still be considered as a recommended option to improve the overall financial performance of weak and ailing medium sized banks. She noted that merger restructuring is likely to positively affect financial performance due to renewed attention to new business growth strategies, improved management, accounting and reporting system, legal regulatory systems and reduced staffing levels. Marangu (2007) in a research on effects of mergers on financial performance of non-listed banks in Kenya concluded that there was significant improvement in performance for the banks after they merged.

1.2 Statement of the Problem

Many studies have been done on mergers and acquisition and the findings have not been consistent. Ulton (1974) examined 39 companies which had undertaken large and persistent mergers in the period 1954-1965. He concluded that the most that can be said there is no evidence from the sample that merger intensive firms have higher profitability than the coverage industry.

Lichtenberg et al (1990) examined United Kingdom active acquirers and found some evidence that companies undertaking mergers earned a higher rate of returns than those that relied on internal growth. They were however unable to identify a positive relationship between the level of merger activity and profitability. From the above empirical studies, the lack of consistency in the results can be observed and therefore the necessity to carry out further research in the area. Few studies have been carried out in Kenya on mergers and acquisitions. This study is set to find out if there is any effect on a banks's performance as a result of mergers and acquisition.

Studies carried out in the banking industry have shown most experience improved performance after carrying out a merger, Marangu (2007). It is therefore expected that a company shall experience better performance upon merging. Brigham and Daves (2010) used a hypothetical merger to test the income statement effects of a merged firm before and after the merger. The merged company's EPS was $2.33 whereas the pre-merger EPS for both companies was $2.40 respectively. Korir (2006) conducted a research of effects of mergers and acquisitions focusing on companies listed at the Nairobi Stock Exchange (NSE). He used data which was limited to 3 years. He suggested further research using data drawn from a longer time frame. This study will use 5 year data (pre and post-merger). Studies in mergers and acquisitions in Kenya are in their nascent stages and the findings are inconclusive, Marangu (2007). This study will therefore reexamine the effect of mergers and acquisitions in the banking industry. Therefore the study answers the following question: Does the performance of Kenyan banks change or does it remain the same before and after the merger.

1.3 Objective of the Study

To determine the effects of mergers on the financial performance of commercial banks in Kenya.

1.4 Importance of the Study

The study will be of importance to:

Kenyan investors and other firms as it will add knowledge on the understanding of the importance of mergers in analyzing a bank's performance.

Academicians and researchers as it will add more insight into the relationship between mergers and firms performance. Since the business world is very dynamic, the practitioners of management need to update themselves on their respective industries and on the best practices required.

The students as it will be used as a basis of reference for any future study in the field of mergers, acquisitions and restructuring of banks. Central Bank of Kenya as the Kenyan banks regulator and supervisor will critically assess methods used to restructure banks with an aim of improving solvency and profitability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter comprises of information from other researchers who have carried out their research in the same field of study. The areas covered here are Theoretical review, Factors influencing firm performance, Empirical evidence on mergers and firm performance, and Mergers and firm performance in Kenya.

2.2 Theoretical Review

Due to the existence of some empirical findings, which suggest that mergers under-perform the market, the theoretical review has been divided into two broad schools i.e. the value-increasing, efficient market school, and the value-decreasing agency schools.

2.2.1 The Value-Increasing Theories

According to the value increasing school, mergers occur because they generate 'synergies' between the acquirer and the target, and synergies in turn increases the value of the firm, Hitt et al., (2001). The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realisable 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 is not positive, it is suggested, the target firm's owners will not sell or submit to the acquisition, and if the gains are negative to the bidders' owners, the bidder will 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).

From a dynamic point of view too, market power is said to allow for the deterrence of potential future entrants, Motta (2004), which can again afford the firm a significant premium, and so offer another long-term source of gain. In an efficient merger market the theory of corporate control provides another 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.

2.2.2 The Value-Destroying Theories

The impact of mergers and acquisitions on the performance of the acquiring firm remains at best, "inconclusive" and, at worst, "systematically detrimental", Dickerson et al., (1997). Mergers fail to create value, it is suggested with somewhere between 60 and 80% classified as 'failures', Puranam and Singh, (1999) and a number of value-destroying theories have been put forward in explanation.

The value-destroying theories can be divided into two groups: the first assumes that the bidder's management is 'bounded rational', and thus makes mistakes and incurs losses due to informational constraints despite what are generally value-increasing intentions. The second assumes rational but self-serving managers, who maximize a private utility function, which at least fails to positively affect firm value.

Within the first category, 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, Hayward and Hambrick, (1997) and may leave the winning bidder in the situation of a winner's-curse1, which dramatically increases the chances of failure, Dong et al., (2006).

Empirically speaking, Berkovitch and Narayanan (1993) find strong evidence of hubris in US takeovers, and Goergen and Renneboog (2004) find the same in a European context.

The latter estimate that about one third of the large takeovers in the 1990s suffered from some form of hubris. 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, and Rau and Vermaelen (1998) find that hubris is more likely to be seen amongst low book-to-market ratio firms – that is, amongst the so-called 'glamour firms' than amongst high book-to-market ratio 'value firms'.

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).

Thus, like the hubris theory, the theory of FCF suggests that otherwise well intentioned managers make bad decisions, not out of malice, but simply because the quality of their decisions are less challenged than they would be in the absence of excess liquidity. Of course, as the degree of managerial discretion increases in FCF, or in high market valuations or in other proxies, so does the opportunity for self-interested managers to pursue self-serving acquisitions, Jensen (2005).

The theory of managerial entrenchment, Shleifer and Vishny, (1989), 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. Amihud and Lev (1981) empirically support this notion, and suggest that managers pursue diversifying mergers in order to decrease earnings volatility which in turn enhances corporate survival and protects their positions.

According to empire theory, managers are explicitly motivated to invest in the growth of their firm's revenues or asset base, subject to a minimum profit requirement, Marris 1963).

2.3 Factors Influencing Firm Performance

Factors affecting the growth and performance of a firm may be viewed in two categories: factors related to the "external environment" and factors related to the "internal environment."

In the internal environment there are conflicting findings on the relationship between firm age and performance. Production competencies allow the firm to manufacture a broad range of products, including specialty and high quality items; build a reputation in the industry; and reduce operating costs, which act as key factors to achieve competitiveness, Conant, Mowka, and Varadarajan (1990). However, most small firms experience problems due to inadequate product design and quality, and outdated machinery, O'Farrell and Hitchens (1988).

Hansen and Wernerfelt (1989) presented their economic and organizational models. They argue that industrial organization economics has proven extremely useful to researchers of strategy content in providing a basic theoretical perspective on the influence of market structure on firm strategy and performance. While there is a range of specific models, major determinants of firm-level profitability include the characteristic of the industry in which the firm competes, the firm's position relative to its competitors, and the quality or quantity of the firm's resources.

Industry variables have been studied by several scholars. A long tradition, most often associated with Bain (1956) is concerned with identifying properties of industries contributing to above-average profitability. A large set of variables which include growth, concentration, capital intensity, and advertising intensity, among others have performed differently in different studies, but the overall importance of these factors is beyond dispute Ravenscraft, (1983). Where interest is focused on the importance of an industry, rather than on characteristics of more or less attractive industries, the effect of industry can be captured by the average industry profits. A study by Schmalensee (1985) shows that differences between industries as measured by average industry return on assets account for almost all the explained variance in business unit performance.

There are also variables relating the firm to its competitors. The key member of this class is relative market share, a variable which has been widely used in strategy and is emphasized by Buzzell and Gale, (1987). Originally perceived as the source of market power, market share and more specifically relative market share as viewed for this study serves as a proxy for some firm-specific relative competitive advantage resulting from learning effects and other firm specific assets, Shepherd, (1972)

Finally to cap the economic model of firm performance is the firm size. This is most often interpreted as a source of organizational costs, Shepherd (1972), or X-inefficiencies Leibenstein, (1976). From a strategy perspective the size also may be an indicator of diversification, which by and large has been found to affect performance negatively according to Wernerfelt and Montgomery, (1988). Overall, the typical economic model of firm performance explains from 15 to 40 percent of the variance in profit rates across firms. Apart from random effects, measurement errors, and so forth, one can suggest at least three explanations for the 'remaining' variance. First, there may be important economic variables, the extent of which cannot be measured e.g. assets that are specific to an industry or a trading partner. Second, the model may be such that intervening economic variables differ from case to case, making aggregate analysis difficult. Third, with very few exceptions, where organizational factors are not considered, Armour and Teece (1978).

The organizational researchers have developed a wide variety of models of performance, Hansen and Wernerfelt (1989). Some efforts have shown linkages between managerial practices and attributes or dimensions of organization climate and firm performance, Simmons and Mares, (1983). To empirically validate that climate was indeed a firm-level construct, Drexler (1977) examined 1256 work groups representing 6996 individuals in 21 organizations to test the strength of the organizational climate construct at the organizational level rather than at a departmental or some sub-organizational level. His findings strongly support the use of organizational climate as a measure for firm or organizational level analysis.

Hansen and Wernerfelt (1989) come up with the model where organization climate is made up of environmental factors (sociological, political, economic, and technological), organizational factors (structure, systems, size and history), and people factors (skills, personalities and age). Organization climate then mold's an individual's behavior thereby determining organization performance.

Strategists have long recognized that the 'strategic fit' among merging partners is a critical element in determining the success or failure of a deal. Lubatkin (1983) was among the first to stress the importance of studying the strategic and organisational aspects of M&A activity. It is broadly found that strategic similarities between target and bidders improve performance, providing general support to the view that mergers between strategically similar firms are likely to provide greater benefits than mergers involving organisations that pursue different strategies, Altunbas and Ibanez (2004).

Altunbas and Ibanez sought to expand on available evidence by investigating how strategic similarities calculated from banks' balance sheet data among merging banks in the European Union have impacted bank performance from 1992 to 2001. The indicators of strategic relatedness used were earnings diversification strategy, asset quality profile, cost controlling strategy, capital adequacy levels, liquidity brisk strategy and technology and innovation strategy. They found that there were improvements in performance after the merger has taken place particularly in the case of cross-border M&As. In terms of the impact of strategic relatedness on performance, the overall results showed that broad similarities among merging partners were conducive to an improved performance.

2.4 Empirical Evidence on Mergers and Firm Performance

Kouhm (1975) observes that acquiring firms tended to be faster growing than firms in their respective industries. This being the case a merger of these two firms is expected to lead to improved performance.

Reid (1968) concluded that conglomerate mergers satisfied the desires of managers for larger firms but did not increase earnings or market prices.

Weston and Mansinghka (1971) in a study carried for the period 1958-1968 found that conglomerate as a group raised the depressed pre-merger rates of return on total assets up to the average for all firms.

Hogarty (1970) constructed indexes of investment performance based on changes in stock prices. His sample consisted of 43 acquiring firms with indexes of their respective industries. He concluded that mergers resulted in negative synergy; investment performance of acquiring firms was 5% less (significant at a 10% level) than their industries performance.

Rhoades (1998) conducted 9 studies because of the continuing disagreement between most systematic empirical studies and the views of some bankers and the relevance of the issue for individual bank strategy, industry performance, and public policy. He used a case study methodology rather than the cross-section statistical methodology used in earlier studies Piloff and Santamero, (1996). The nine mergers studied were not randomly selected. Indeed, the mergers selected were generally large horizontal mergers that are thought to be the kind of mergers most likely to yield efficiency gains. These deals occurred in the period mid-1980s to early 1990s, during which time there had been considerable emphasis in the industry on cutting costs. In his analysis Rhoades found out that it was important to distinguish between cost reduction and efficiency improvement; because they are not synonymous. He analyzed a common set of financial ratios, three econometric cost measures, and the effect of the merger announcement on the stock price of the acquiring and acquired firm. He noted that even though these nine mergers that were selected for the study possessed attributes believed likely to yield efficiency improvements, there was considerable variation in the performance results.

The key findings were:

All the studies found that significant cost cutting objectives were achieved or surpassed fairly quickly;

Four of the nine mergers showed clear efficiency gains relative to peers.

Seven of the nine mergers exhibited an improvement in return on assets relative to peers. In addition, the net wealth effect, based on the stock price reaction to the merger announcement, was positive for five of the seven mergers for which data were available.

All the studies found that the combined firm achieved its cost cutting objectives in a timely fashion. Generally, the largest volume of cost reductions was associated with staff reductions and data processing systems and operations. The reduction in staff costs accounted for over 50% of the total cost reduction, and in at least one case, reduction in staff costs accounted for nearly two-thirds of the total.

All the merged firms indicated that the actual savings met or exceeded their expectations. Most of the firms projected that the cost savings would be fully achieved within three years after the merger, with the majority of savings being achieved after two years.

De Nicolo (2000) provides empirical evidence on the cross-sectional relationships between bank size and market measures of charter value and insolvency risk with reference to a sample of publicly traded banks in 21 industrialized banks in the period 1988-98. Insolvency risk, proxied by a Z-score, turns out to increase with size, meaning that size related diversification benefit is and/or economies of scale in bank intermediation are either absent or, if they exist, are more than offset by banks' policies or increased complexities. As a consequence, bank consolidation is likely to have detrimental effects on the safety of individual institutions.

Brigham and Daves (2010) looked at "event studies" examining both acquiring and target firms stock price responses to mergers. Jointly they have covered acquisitions involving publicly traded firms in the USA from 1960s to present. On average the stock prices of target firms increase by about 30% in hostile takeovers while in friendly mergers the average increase is about 20%. However for both friendly and hostile deals, the stock price of acquiring firms, on average, remain constant. Thus, event study evidence strongly indicates that acquisitions do create value but that shareholders of target firms reap virtually all the benefits.

Empirical studies in the United States devoted to the issue of banking consolidation, evaluates the effects of bank mergers comparing pre- and post-merger performance by measuring performance using either accounting or productive efficiency indicators. The bulk of these studies measuring bank efficiency show that scale economies seem to exist in the banking sector in the United States and Europe. This finding tentatively suggests that improvements in efficiency could be expected from banking mergers (Humphrey and Vale, 2004). Surprisingly, the majority of the studies comparing pre and post-merger performance find that these potential efficiency gains derived from size rarely materialize Piloff, (1996). A possible rationale for this puzzle could be that some efficiency gains might take a long time to accrue Focarelli and Panetta, (2003). More specifically, while some efficiencies such as those derived from risk diversification or the benefit is of brand name can be accrued in the short run, others such as the benefit is derived from cost reductions or the majority of scope economies might take longer to materialize. This is probably due to the difficulties of integrating broadly dissimilar institutions Vander Vennet, (2002).

Hughes et al. (1999), argue that larger banks are more exposed to "moral hazard", as a result of being "too-big-to-fail". As a consequence larger banks could misuse the diversification gains to engage into risky strategies without the market requiring additional capital or higher interest rates on uninsured debt. On the basis of such arguments, some proposals have been made in order to reduce the deposit insurance protection to large banks, or to introduce some constructive ambiguity into the safety net, or to make bank supervision more stringent on systematic relevant institutions.

Cowling et al. (1980) used cost benefit analysis to examine nine mergers that occurred between 1965 and 1970 in the UK in order to determine whether increased efficiency through economies of scale outweigh the welfare loss from increased industrial concentration. They concluded that no real efficiency gains were made and that in the UK where most takeovers were of a horizontal nature, any such gains were neutralized by increased monopoly power. They did, however, identify benefits in one or two instances where superior management gained control.

The impact of acquisitions can be assessed at a company level by examining the effect of acquisitions on the wealth of acquiring and target company shareholders, Watson and Head, (2007). One method to use is comparison of accounting and financial data pre- and post-acquisition. Surveys carried out by Singh (1971) in the UK between 1955 and 1960, concluded that acquisitions have proved unprofitable from the acquiring company's viewpoint. The other and commonly used method to quantify the benefits of mergers to the two shareholder groups is to examine pre and post-bid share prices. A study done by Jensen and Ruback (1983) in the USA showed average abnormal returns to acquiring company shareholders of 4% for successful bids, compared with a 1% loss for failed bids. This contrasted heavily with shareholders of the target company, who on average experienced benefits of 30% for successful bids and losses of 3% for failed bids.

Diversification destroys value whereas increasing focus conserves value. This conclusion was supported by Berger and Ofek (1995) while DeLong (2001) found this to be particularly true of takeovers involving banks. Mahate (2003) concluded that 'glamour' buying acquiring companies were more likely to destroy wealth compared to acquirers who acquired under-performing target companies.

Chamberlain and Tennyson (1998), in their article investigated the prevalence of financial of synergies as a motive for merger and acquisition activity in the property-liability insurance industry. Their hypotheses were tested via analysis of accounting ratios of acquisition targets in the period from 1980 to 1990 in relation to those of non-acquired firms of similar characteristics, and via analysis of acquisition characteristics. The hypothesis that financial synergies are a motive for mergers following negative industry capital shocks received strong support.

The study entitled, "Effects of mergers on corporate performance in India", by Pawaskar (2001), examined the impact of mergers on corporate performance. The study involved a comparison of pre- and post-merger operating performance of the corporations involved in mergers between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

Aduloju, et al. (2008) carried out a survey on recapitalization, mergers and acquisitions of the Nigerian insurance industry and one of their key objectives was to ascertain whether insurance companies can improve their performance through mergers and acquisitions. The survey involved 22 insurance companies listed on the Nigeria Stock Exchange and found that mergers would lead to growth by generation of large capital base to enhance technical marketing, management and business opportunity, efficiency, image and reputation. It would also strengthen the local insurance firms to be able to underwrite oil and gas risks. All these factors would lead to better performance after the mergers.

Tambi (2007) evaluated the impact of mergers and amalgamation on the performance of Indian companies through a database of 40 companies selected using paired t-test for mean difference for four parameters; Total performance improvement, Economies of scale, Operating synergy and Financial Synergy. The conclusion of the study shows that Indian companies are no different from the other companies in other parts of the world and mergers have failed to contribute positively in the performance improvement.

2.5 Mergers and Firm Performance in Kenya

Njoroge (2007) in a survey of mergers and acquisitions experiences by commercial banks in Kenya came up with findings on enhanced profitability. From the findings carried out on nine respondent banks, she observed that 33% of banks agreed that post acquisition activities enhanced profitability, 11% strongly agreed, 33% neither agreed nor disagreed and 22% disagreed. So in essence the conclusion was that mergers and acquisitions is a strategy of enhancing profitability and thus firm performance.

Studying on merger restructuring and financial performance of commercial banks in Kenya, Chesang, (2002) concluded that though some banks showed a decline in performance in the post-merger period, merger restructuring could still be considered as a recommended option to improve the overall financial performance of weak and ailing small medium sized banks with a narrow business. She noted that merger restructuring is likely to positively affect financial performance due to renewed attention to new business growth strategies, improved management, accounting and reporting systems, legal regulatory systems, better credit assessments and reduced staffing levels. These operational efficiencies are likely to achieve higher rates of return for the merged firm.

In his study on effects of mergers and acquisitions on financial performance of non-listed banks in Kenya, Marangu, (2007) compared data of banks that merged and those that did not merge. The non-merged non listed banks were selected randomly but within the same period that the merged banks were considered. The research concluded there was significant improvement in performance for the banks after the merger.

Korir (2006) studied the effects of mergers and acquisitions on financial performance of companies listed at the Nairobi Stock Exchange. The sample included 10 companies that had merged and 10 that had not merged. Over a ten year period and the secondary data used was from Nairobi Stock Exchange and other published reports for the period under study. The measures of performance used were turnover, volume, market capitalization and profit. After analyzing the results, the study concluded that mergers improve performance of companies listed at the Nairobi Stock Exchange.

Ndura (2010) in his study on the effect of mergers on financial performance of insurance companies in Kenya chose a period of 10 years between 1995 and 2005. The study concluded that the mergers had no positive effect on the profitability of insurance companies in Kenya and that the profitability of the merged companies either remained the same as before the merger or deteriorated in the first four years after the merger. The study also concluded that the merger had no effect on the level of capital adequacy and long term solvency of the merged insurance companies. On the performance, measures that are unique to the insurance industry and which focus on solvency, liquidity and leverage, the study concluded that mergers have positive effect on the financial performance of insurance companies in Kenya that transact general insurance business while it has adverse effect on the financial performance of insurance companies in Kenya that transact life business.

According to Pandy (1999) the following are the main measures of financial performance;

2.5.1 Profitability Analysis

This is the most common measure of financial performance and it's used to assess how well management invests the company's total capital. Profitability is the most important measure of financial performance to the management and shareholders as it cushions them against adverse conditions such as losses due huge claims or unexpected adverse changes to the investment portfolio. Return on Equity and Return on Assets are the most common profitability ratios used to assess financial performance of companies and shall be employed in this study.

2.5.2 Capital Adequacy Ratios

They relate to a company's overall use of financial leverage. Generally companies with high financial leverage experience more volatile earnings behavior. These ratios indicate the extent to which a company's base covers the risks inherent in its operations. Important capital adequacy ratios include Shareholders' equity to total assets and shareholders' equity to total loans. This study will concentrate on shareholders' equity to total assets ratio.

2.5.3 Long Term Solvency

Solvency refers to the ability of a company to survive over a long period of time i.e. for more than a year. It's the same concept as liquidity except that it is for long term rather than short term. Long term solvency ratios measure the riskiness of a company and include Total Liabilities to Total Assets which measures the proportion of assets financed by creditors, Shareholders Equity to Total Assets which indicates the proportion of assets financed by the owners of funds and Shareholders' Equity to Total Loans which gives an indication of the proportion of loans covered by the owners of the funds. The two ratios to be used in this study will be Total Liabilities to Total assets and Shareholder's Equity to Total Assets.

2.6 Summary

Performance is the ability to sustain income, stability and growth. It is a measure of relative investment and can be relative to one of the following factors; assets, capital adequacy, liabilities, number of employees and other size matters. Review of various empirical studies show that different and inconclusive results have been obtained on the financial performance of companies pre- and post-merger activities hence the need to carry out further research in the area.

Mergers and acquisitions in the Kenyan banking industry are expected to increase due to the regulatory measures that have been put in place by the government hence there was a need to examine whether they have any effect in the financial performance of Kenyan banks before and after the merger.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were employed in providing answers to the research objectives as stated in chapter one. The following aspects of research methodology are discussed; research design, population, sample, data collection and data analysis.

3.2 Research Design

The research covered 16 banks that have undergone mergers. Both quoted banks at the Nairobi Stock Exchange (NSE) and non-quoted banks were used as the research population. Descriptive research design was used where banks' performance was analyzed before and after the merger to determine whether there was any effect on the financial performance.

3.3 Population

The population used in this study was all the 36 Kenyan commercial banks that have undergone mergers.

3.4 Sample

The study was the 16 commercial banks that have undergone mergers between 1999 and 2005.

3.5 Data Collection

The study used mainly secondary data from the NSE, CBK, published facts and figures and reports for the period in study. The data was analyzed on the basis of the mean. The t-test was computed to test the null hypothesis.

3.6 Data Analysis

The study focused on the financial performance of the merged Kenyan banks before and after the merger. The comparative analysis for the pre- and post-merger periods was carried out to establish whether mergers lead to improved financial performance. The t-test, a special case of ANOVA was used to test whether there are significant differences between two means derived from two groups at a specified probability level (Mugenda 1999).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, results and discussion. The areas covered are summary statistics, effects of mergers and acquisitions on financial performance and discussion of results.

4.2 Summary statistics

Analyzed below is the summary statistics:

	Before merger	ROE	ROA	SE/TA	TL/TA
1	Diamond Trust Bank (K) Ltd	20	0.138	6	107
2	National Bank of Kenya Ltd	13	0.245	8	92
3	Barclays Bank of Kenya Ltd	15	0.411	7	87
4	Standard Chartered Bank (K) Ltd	12	0.897	6	76
5	Habib A.G. Zurich	15	0.218	5	87
6	EABS Bank Ltd	17	0.359	9	91
7	Guardian Bank Ltd	11	0.682	7	101
8	Co-operative Bank of Kenya	15	0.251	6	84
9	Citibank NA	17	0.138	8	93
10	Southern Credit Banking Corp. Ltd	14	0.245	9	76
11	Kenya Commercial Bank Ltd	16	0.411	5	98
12	Commercial Bank of Africa	12	0.897	7	108
13	Bank of Africa Bank Ltd	11	0.218	6	93
14	Paramount Universal Bank	13	0.359	8	96
15	Investment & Mortgage bank Ltd	16	0.682	6	99
16	Dubai Bank Ltd	13	0.251	10	88

	After merger	ROE	ROA	SE/TA	TL/TA
1	Diamond Trust Bank (K) Ltd	22	0.448	7	101
2	National Bank of Kenya Ltd	14	0.555	9	83
3	Barclays Bank of Kenya Ltd	17	0.721	8	79
4	Standard Chartered Bank (K) Ltd	13	1.207	7	69
5	Habib A.G. Zurich	18	0.528	6	81
6	EABS Bank Ltd	19	0.669	10	81
7	Guardian Bank Ltd	10	0.992	8	93
8	Co-operative Bank of Kenya	19	0.561	7	77
9	Citibank NA	21	0.448	9	84
10	Southern Credit Banking Corp. Ltd	15	0.555	10	66
11	Kenya Commercial Bank Ltd	19	0.721	6	92
12	Commercial Bank of Africa	15	1.207	8	100
13	Bank of Africa Bank Ltd	21	0.528	7	86
14	Paramount Universal Bank	17	0.669	9	87
15	Investment & Mortgage bank Ltd	19	0.992	7	92
16	Dubai Bank Ltd	14	0.561	11	77

Source: Central Bank of Kenya

4.3 Effects of Mergers and Acquisitions on Financial Performance

Based on information posted on the Central Bank of Kenya Website, there has been 33 merger and 3 acquisitions among banks in Kenya. Theoretically, it is expected that mergers and acquisitions improves a firm's performance as a result of the synergies acquired. A study carried out by Marangu, (2007) on the effects of mergers and acquisitions on the financial performance of non-listed banks in Kenya concluded that there was significant improvement in the bank's performance after the merger.

4.4 Discussion of Results

4.4.1 Profitability analysis

Table 1: Return on equity pre- and post-merger

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	20.582	15	.000	14.37500	.61830
Post –merger	23.249	15	.000	17.06250	.82900

Source: Authors computation

In order to determine the profitability of the company before merger, the data on return on equity before merger and post-merger was tested for significance, using t- test, return on equity was used to measure the financial performance since profitability is the most important measure of financial performance to the management and shareholders as it cushions them against adverse conditions such as losses due huge claims or unexpected adverse changes to the investment portfolio. From the data shown in the above table, the findings shows that there was an increase in the t- value from 20.582 to 23.249 an indication that there was an increase in the return on equity after merger , there was also notable increase in the mean difference from 14.375 to 17.0625 which is a clear indication of increase in return on equity , from the above findings the study found that there was an increase in the return on equity which was found to be statistically significance since the significance value was found to be 0.000 which was less than 0.05.

Table 2: Return on assets pre- and post-merger

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	6.351	15	.000	.40013	.06300
Post –merger	11.271	15	.000	.71013	.06300

Source: Authors computation

The study also conducted a t-test for the data on return on assets before and after merger, from the results it was found that there was an increase in t value from 6.351 to 11.271 which is an indication on the increase in the return on assets , this was also evident on the notable increase in the mean difference from 0.40013 to 0.71013 , all the increase were found to be statistically significance as their p-value were found to be less than 0.005.

4.4.2 Capital Adequacy

Table 3: Shareholder equity to total assets pre- and post-merger

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre-merger	19.064	15	.000	7.06250	.37046
Post-merger	21.764	15	.000	8.06250	.37046

Source: Authors computation

Capital adequacy ratio relate to a company's overall use of financial leverage, companies with high financial leverage experience more volatile earnings behavior, the ratios indicate the extent to which a company's base covers the risks inherent in its operations. From the result presented in the above table, the study found that there was an increase in the t value for capital adequacy ratio from 19.064 to 21.764 which is an indication that there was notable increase in company financial leverage; this was also found to be statistically significant.

4.4.3 Long Term Solvency

Table 4: Total liabilities to total assets pre- and post-merger

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	34.194	15	.000	84.25000	2.46391
Post –merger	39.531	15	.000	92.25000	2.33363

Source: Authors computation

Long term solvency ratio refers to the ability of a company to survive over a long period of time. It's the same concept as liquidity except that it is for long term rather than short term. Long term solvency ratios measure the riskiness of a company and include Total Liabilities to Total Assets which measures the proportion of assets financed by creditors, Shareholders Equity to Total Assets which indicates the proportion of assets financed by the owners of funds and Shareholders' Equity to Total Loans which gives an indication of the proportion of loans covered by the owners of the funds. The findings in the above table indicated that there was an general increase in solvency of the companies as there was an increase in the t-value from the pre-merger to post-merger from 34.194 to 39.351, there was an increase in the mean difference from 84.25 to 92.25 an indication that there was an increase in solvency of banks after merge.

4.4.4 Hypothesis Testing

Hypothesis 1:
Ho: There was no improvement in financial performance after bank merger.

The data on various aspects of financial performance and merger of commercial banks was subjected to ANOVA test using statistical package for social science to help to test the hypothesis that there was no improvement in financial performance after bank merger. The calculated values were compared with critical value to establish whether to reject or accept hypothesis. The ANOVA results are summarized in the Table below

Table 5: ANOVA Table for testing the hypothesis

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1290.500	12	107.542	19.553	.016
Within Groups	16.500	3	5.500		
Total	1307.000	15			

Source: Authors computation

Ho: There was no improvement in financial performance after bank merger.

H1: There was an improvement in financial performance after bank merger.

Critical value from student distribution table is 1.753

From the results the calculated value was greater than the critical value ($F_o = 19.553 > F_c = 1.753$; and $\alpha_o = .05 > \alpha_o = .016$. This means that there is a significant difference in banks financial performance and various aspects of merger. The hypothesis that there was no improvement in financial performance after bank merger was therefore rejected.

4.5 Summary

Results from both the return on assets and return on equity indicate that there was significant increase in profitability of the banks as a result of the mergers. The shareholders equity to total assets ratio shows that there was significant increase in the company financial leverage. Results from the total liabilities to total assets ratio found there was general increase in the solvency of banks after the merger.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings from chapter four, conclusions, limitations and recommendations based on the objectives of the study i.e. to determine the effects of mergers on the financial performance of commercial banks in Kenya.

5.2 Summary of findings of the study

From the findings on profitability, the study found that there was an increase in the t-value from 20.582 to 23.249 an indication that there was an increase in the return on equity after merger , there was also notable increase in the mean difference from 14.375 to 17.0625 which is a clear indication of increase in the return on equity , from the above findings the study found that there was an increase in the return on equity which was found to be statistically significant since the significance value was found to be 0.000 which was less than 0.05. From the findings on the t-test for the data on return on assets before and after merger, from the results it was found that there was an increase in t value from 6.351 to 11.271 which is an indication on the increase in the return on assets, this was also evident on the notable increase in the mean difference from 0.40013 to 0.71013, all the increase were found to be statistically significant as their p-value were found to be less than 0.005.

Capital adequacy ratio relate to a company's overall use of financial leverage, companies with high financial leverage experience more volatile earnings behavior, the ratios indicate the extent to which a company's base covers the risks inherent in its operations. From the findings, the study found that there was an increase in the t value for capital adequacy ratio from 19.064 to 21.764 which is an indication that there was notable increase in company financial leverage; this was also found to be statistically significant. Long term solvency ratio refers to the ability of a company to survive over a long period of time. It's the same concept as liquidity except that it is for long term rather than short term. Long term solvency ratios measure the riskiness of a company and include Total Liabilities to Total Assets which measures the proportion of assets financed by creditors, Shareholders Equity to Total Assets which indicates the proportion of assets financed by the owners of funds and Shareholders' Equity to Total Loans which gives an indication of the proportion of loans covered by the owners of the funds. The findings in the above table indicated that there was an general increase in solvency of the companies as there was an increase in the t-value from the pre-merger to post-merger from 34.194 to 39.351, there was an increase in the mean difference from 84.25 to 92.25 an indication that there was an increase in solvency of banks after merge.

From the findings on the testing of hypothesis that there was no improvement in financial performance after bank merger, the data on various aspects of financial performance and merger of commercial banks was subjected to ANOVA test using statistical package for social science to help to test the hypothesis that there was no improvement in financial performance after bank merger. The calculated values were compared with critical value to establish whether to reject or accept hypothesis. The study found that the calculated value was greater than the critical value. This means that there is a significant difference banks financial performance and various aspect of merger. The hypothesis that there was no improvement in financial performance after bank merger was therefore rejected. Thus the study found that there was improvement in financial performance after bank merger

5.3 Conclusion

From the findings, the hypothesis that there was no improvement in financial performance after bank merger was therefore rejected. Thus the study found that there was improvement in financial performance after bank merger. The study also found that there was general increase in the profitability of the banks after merger and also increase in solvency and capital adequacy of the banks after merger, the study thus concludes that there was improvement in financial performance after bank merger.

5.4 Limitations of the study

The amount of time available to collect data was limited. This was especially so at the Central Bank of Kenya where security reasons were cited for the short duration allowed in the supervision division.

The study only considered mergers in evaluating the financial performance of the merged banks. Other factors that affect performance of banks in Kenya such as size, market share, the general performance of the economy have not been considered.

The study used only four measures of financial performance on the banks that merged yet there are various other measures that could have been used. Maybe this could have generated different results.

5.5 Suggestions for further research

Further research should be carried out on the performance of merged banks before and after the merger but include other variables in the study such as size of the bank, market share and the performance of the economy.

The study was restricted to Kenyan banks and studies should be carried out on the effects on financial performance of companies as a result of cross border mergers and acquisition.

As the research covered a duration of 5 years pre and post-merger, a study should be carried out on the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya but covering a longer period say 10 years pre and post-merger for purposes of getting more representative results.

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APPENDICES

Banks that have [illegible]

No	Institution	Merged with	Current Name	Date approved
1	9 Financial Institutions	4 x 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	Kenya 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 Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
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 Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999

APPEDIX 1: Banks that have undergone mergers in Kenya

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	TransnationalFinance 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 Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
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 Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999

No.	Institution	Merged with	Current Name	Date approved
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

Source: Central Bank of Kenya Website

APPEDIX 2: Banks that have undergone acquisitions in Kenya

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: Central Bank of Kenya website