

**THE EFFECT OF SELECTED INTERNAL FACTORS ON THE
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN
THE NAIROBI SECURITIES EXCHANGE**

SUBMITTED BY:

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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This research project has been submitted for examination with my approval as the candidates' university supervisor.

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DEDICATION

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Acronyms and Abbreviations

AQ	- Asset quality
CBK	- Central Bank of Kenya
CDR	-Net credit facilities to Assets ratio
CIR	- Cost Income Ratio
CRB	- Credit Reference Bureaus
D	- Income diversification
K	- Capital
LQR	- Liquidity Ratio
MFBs	- Micro finance banks
MRPs	- Money Remittance Providers
NSE	- Nairobi Securities Exchange
OCE	- Operations Cost Efficiency
ROA	- Return on Assets
SZE	- Bank size
TEA	-Total equity to Assets Ratio
TIA	-Total Investments to total Assets ratio

ABSTRACT

To ensure financial stability and growth of the Kenyan banking industry, it's necessary to find out the factors that affect the financial performance of the sector. The objective of this study was to determine the effect of selected internal factors on the financial performance of banks listed at the NSE. The period covered in the research was five years, that is, from 2010 – 2014. The study used descriptive statistics, Pearson correlation, regression analysis and ANOVA to analyze the data that was collected. Return on Assets (ROA) was used as a measure of financial performance. The findings revealed that Capital Adequacy, Liquidity, Operational cost efficiency and Size of the bank do significantly affect the financial performance of commercial banks listed at the Nairobi Stock Exchange (NSE). The results suggest that the government should set up policies that encourage commercial banks to raise their capital base. This will ensure that the banks are cushioned in case of a country wide financial crisis. Commercial banks need to invest in efficient technologies that will further enhance their management of operational costs. Income diversification is a field that the commercial banks need to venture further in so as to make the banks more competitive in the market. The findings concluded that the selected factors considered only covered 53% of the financial performance and that there was need for further research on the remaining 47%.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The financial performance of companies is a subject that has attracted a lot of attention, comments and interests from both financial experts, researchers, the general public and the management of corporate entities (Omondi, 2013) The Banking sector acts as the life blood of modern trade and commerce to provide them with a major source of finance. This increasing phenomenon of globalization has made the concept of efficiency more important both for the non-financial and financial institutions and banks are the part of them. Banks largely depend on competitive marketing strategy that determines their success and growth (Gul et al., 2014)

Kenyan Banks have realized tremendous growth in the last five years and have expanded to the east African region. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. To counter this, banks have started to invest more in technology so as to meet customer demands as well as gain competitive advantage. This means that there's a slow profit growth in the banks and a lot of this is because of rising operational expenses. The return on these investments will probably be seen on two to three years. (CNBC Africa, 2015)

As at 31st December 2014, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), 8 representative offices of foreign banks, 9 Microfinance

Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs) and 87 Foreign Exchange (forex) Bureaus. Out of the 44 banking institutions, 30 were locally owned banks comprised 3 with public shareholding and 27 privately owned while 14 were foreign owned as shown in Chart 1. The 9 MFBs, 2 CRBs, 13 MRPs and 87 forex bureaus are all privately owned. Of the 14 foreign owned banking institutions, 10 are locally incorporated subsidiaries of foreign banks and 4 are branches of foreign incorporated banks. Further, 10 of the 44 banking institutions are listed on the Nairobi Securities Exchange.

1.1.1 Internal factors

Internal factors are bank specific variables which influence the performance of banks internally and they can be controlled. Every bank has its own internal factor that affects the financial performance differently. Bank specific factors include capital adequacy, asset quality, liquidity, operational cost efficiency and income diversification (Shipho 2011).

Capital adequacy shows 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 losses and protect the bank's debtors (Ongore & Kusa, 2013).

Statistically bank specific factors significantly affect the financial performance of commercial banks in Kenya. (Ongore and Kusa 2013)

1.1.2 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Ngugi (2013) defined financial performance analysis as the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account

A commonly used measure of bank performance is the level of bank profits (Ceylan, Emre & Asl, 2008). Bank profitability can be measured by the return on a bank's assets (ROA), a ratio of a bank's profits to its total assets. The income statements of commercial banks report profits before and after taxes. Another good measure on bank performance is the ratio of pre-tax profits to equity (ROE) rather than total assets since banks with higher equity ratio should also have a higher return on assets (Ceylan et al., 2008). Bank profitability can be analyzed using three main indicators: Return on equity, Return on Asset and the indicator of financial leverage (Greuning & Bratanovic, 2003) In this study, financial performance will be measured using return on assets.

1.1.3 Effect of Internal Factors on Financial Performance

Internal factors are controllable by the management of a company. If well managed they contribute positively to the financial performance of the company. One of the biggest factor that management focuses on is operational cost management as well as income diversification. This is to ensure that firms get maximum returns at the lowest possible costs.

The operational cost efficiency of management is measured as the ratio of operating expenses to total asset. This is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005). Capital adequacy is one of the internal factors that affect financial performance. 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 also has a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

Liquidity is also an internal factor that affects performance. Jovanovic (1982) argued that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good. Therefore, the study concluded that the effect of liquidity on firms' financial performance is ambiguous

1.1.4 Commercial Banks Listed in the Nairobi Securities Exchange

For an economy to grow, money needs to shift from less to more productive activities. In other words, idle money and savings should be invested in productive activity for the economy to grow. This is where the Nairobi Securities Exchange (NSE) comes in. NSE enables idle money and savings to become productive by bringing the borrowers and lenders of money together at a low cost. NSE also educates the public about the higher profits in shares and bonds; how to buy and sell; when and why to buy and sell.

There are 10 commercial banks listed at the NSE. These are, Barclays Bank of Kenya, National Bank of Kenya, Co-operative bank of Kenya, Standard Chartered, NIC Bank Limited, Diamond Trust Bank, Kenya Commercial Bank, Equity Bank, CFC Stanbic

and I & M Holdings. The banks were listed between 1970 and 2013 with the earliest bank being CFC Stanbic while the latter is I & M Holdings.

Over the last three decades, the government has implemented significant reforms to underpin the country's development prospects including modernization of the Nairobi Securities Exchange (NSE). The modernization of the NSE include automation of trading, diversification of listed securities, and dematerialization of stocks) and the development of regulatory and supervisory frameworks. The NSE is one of the fastest growing bourses in the emerging markets and is the largest in East Africa with 50 listed companies, market capitalization of about Kshs. 2,500 billion in market capitalization, about 12 million in traded shares, about 500 million in equity turnover and about Kshs. 2 billion in total daily deals. The growth of the NSE has facilitated mobilization of resources to provide long term capital for financing investments. The government is implementing further reforms to both broaden and deepen of the country's capital market and the performance of the firms listed in the NSE to achieve its long term development goals. (Ayako, Kungu & Githui, 2015).

By having banks listed at the NSE, potential investors are able to access the necessary information that they need. The NSE facilitates good management of the banks by asking them to give periodic reports of their performance. This is enhanced by providing a daily market reports and price list to ensure that investors know the worth of their assets at all times. (NSE, 2015)

1.2 Research Problem

Banks are important cells in the economy as they have a significant role by maintaining and encouraging the development of economic sectors. They refocus the resources from those who have surplus to those which have a deficit. Therefore, as any other enterprises, performance is highly desirable for banks and, then, it is crucial to discover what the main factors that influence this objective are. Through the work they undertake, banks determine a speed-up in the development process of an economy. Therefore, for this process to be facilitated, banks need to thrive, too. Prosperity will motivate them not to leave the market. So, it becomes important to know what the factors that influence the banks 'well-being are (Gutu, 2015)

The financial sector in Kenya is dominated by commercial banks which have reported significant growth and improved financial performance. Despite the growth, the sector still faces many challenges including stiff competition from within, MFIS, mortgage firms and SACCOs and competition over the last few years resulting from increased innovations in the market. In order to survive and remain competitive they need to be profitable since a profitable banking sector is better able to withstand negative shocks. This study therefore will be motivated by the fact that banks need to understand the internal factors which they can manipulate to their advantage to maximize profits (Lukorito et al.,2014)

Gutu(2015) and Almazari (2014) both had liquidity as a factor that was analyzed to find out how it affects profitability. Contradicting results were gathered by the two researchers' i.e the former found liquidity to be insignificant while for the latter liquidity had a significant positive correlation with financial performance.

Shipho (2011) looked into the effect of banking sectorial factors on the profitability of commercial banks. Osoro (2013) looked into financial restructuring as a factor that affect the financial performance of banks. Onuonga (2014) did a similar study to Shipho (2011) but focused mainly on the Kenya's top six commercial banks. Ongore and Kusa (2013) also did similar studies but focused as well on the external factors which were found to be insignificant. Lukorito, Muturi & Nyangau (2014) recommended that liquidity be studied further yet Ongore & Kusa, (2013) had contradicting findings, that is, liquidity was an insignificant factor on financial performance. Liquidity measures the banks' ability to cater for short term expenses and current liabilities. From the literature if found to be high it means that the bank has an opportunity cost from the excess funds which could be used for investments. Income diversification is an internal factor that was not captured by Ongore & Kusa (2013). A bank can use excess funds to invest and consequently not rely too much on interest income. No study has been done so far on the banks listed on the NSE. The findings obtained by various studies are clearly not conclusive and therefore this study will fill this knowledge gap by answering question: What is the effect of internal factors on the financial performance of commercial banks listed in the NSE?

1.3 Research Objectives

The objective of the study is to determine the effect of internal factors on the financial performance of banks listed on the NSE.

1.4 Value of the Study

The findings of this study will add more knowledge the banking sector and the data can be used as academic literature by other students or researchers both globally and locally.

The Kenyan policy makers will have information that will assist them when coming up

with policies that affect the banking sector. The general public will also be informed on the various factors that are significant in terms of analyzing the financial performance of banks. This knowledge will come in handy especially the potential investors trading at the NSE. The bank owners will benefit extensively from the findings of this study. They will understand further the internal factors that affect them and come up with strategic measures on how to improve their performance and become more competitive in the industry as well as the economy both locally and globally.

Other financial institutions will also benefit in that they can now benchmark themselves and do an analysis on whether the factors analyzed in this study affect their performance as well. Recommendations that will be proposed at the end of the study will also help them in having solutions to similar situations that have been covered in the study. The government will have more information on how the effects the regulations they put in place affect the banking sector and consequently the economy. The study findings can be used as a platform of coming up with measures that will improve the sector and consequently the economy.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks at the theoretical and empirical review. Theoretical review will focus on the theories done by scholars which for this study are the signaling theory, Risk return hypothesis and the expected structure theory. Determinants of financial performance are reviewed in this chapter. Empirical review entails studies done both globally and locally. The key areas highlighted are the context of the studies, the population covered, the year under study, the analytical models used and the findings and recommendations of the authors. The chapter ends with a summary of the empirical evidence and identifying the gap that will be filled by this study.

2.2 Theoretical Review

The relationship between capital and profitability is explained by signaling theory (Berger, 1995). Other theories are the efficiency structure theory and risk return hypothesis (Shipho, 2011).

2.2.1 The Signaling Hypothesis

The signaling hypothesis suggests that a higher capital is a positive signal to the market value of a bank (Ommeren, 2011). As Berger (1995) and Trujillo-Ponce (2013) observe, under the signaling theory, the bank management signals private information that the future prospects are good by increasing capital. Thus, a lower leverage indicates that banks perform better than their competitors who cannot raise their equity without further deteriorating the profitability (Ommeren, 2011).

Consider a firm that is raising funds for an investment project. The investment cost is c . The project brings cash flow H if successful and 0 otherwise, $H > c$. There are two types of firm. For type g , the probability of success is 1 and for type b it is θ_b , $1 > \theta_b$. The fraction of high-quality firms is f . The initial capital structure is 100% equity with n shares outstanding. To finance the project, the firm can issue either debt or equity. The firm's manager knows the firm's type which is not publicly available. The manager's objective function is $\alpha R - (1 - \alpha) K$. It means that the manager chooses the capital structure to maximize a weighted average of the shareholders payoff R net of a penalty K for bankruptcy. Higher is α , higher is the weight of shareholders' payoff in the manager's objective function. An example of penalty for bankruptcy is loss of reputation. If g were to issue equity it would be mimicked by b . The manager of b benefits from getting higher price of shares without taking any risk of bankruptcy. Then the shares of g are undervalued. (Miglio, 2015)

2.2.2 The Risk Return Hypothesis

The risk-return hypothesis suggests that increasing risks, by increasing leverage of the firm, leads to higher expected returns. Therefore, if a bank expects increased returns (profitability) and takes up more risks, by increasing leverage, the equity to asset ratio (represented by capital) will be reduced. Thus, risk-return hypothesis predicts a negative relationship between capital and profitability (Ommeren, 2011; Sharma & Gounder, 2012).

The concept of the risk-return tradeoff is used to explain the relationship between risk and return. The hypothesis states that potential return increase when risk increases, and so this relationship is linear. Basically, an investor is only accepting taking on more risk if compensated by a higher rate of return. Markowitz explains this by stating that

an investor's utility function must be quadratic, this is, if an investor prefers smaller standard deviation to larger standard deviation (expected return remains the same) then, given that the investor a) maximize the expected value of some utility function and b) her choice among portfolios depends only on her expected return and standard deviation (Harry Markowitz, 1959)

2.2.3 Efficiency Structure Theory

Efficiency Structure theories explains the relationship between the internal inefficiencies and profitability. Shipho (2011) observed that the Efficiency Structure hypothesis maintains that banks earn high profits because they are more efficient than the others. Concluding on the Efficiency structure theory, Shipho (2011) argued that theory assumes that the bank profitability is influenced by internal inefficiencies.

The efficient structure hypothesis formalizes the concept that more efficient firms have lower costs, which in turn lead to higher profits. The most efficient firms will be able to increase their market share, resulting in higher concentration. The efficient-structure theory also includes two hypotheses – the X-efficiency and scale-efficiency hypotheses. The X-efficiency hypothesis argues that banks with better management and practices control costs and raise profit, moving the bank closer to the best-practice, lower-bound cost curve. The scale-efficiency hypothesis argues some banks achieve better scale of operation and, thus, lower costs. Lower costs lead to higher profit and faster growth for the scale-efficient banks.

2.3 Determinants of Financial Performance

Determinants of profitability are both internal and external. The study will incorporate some of the internal factors that affect the profitability of banks in

Kenya. The CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Each of these indicators are further discussed below.

2.3.1 Capital Adequacy

This is an internal factor for the measurement of the profitability and the amount retained by the bank to meet the unexpected loss and danger involved. Capital adequacy is measured by the ratio of capital and reserves of each commercial bank to total assets or as the ratio of equity to total assets of a bank. Generally banks with high capital ratio, if other factors are constant, will face relatively lower financial difficulties during general financial crisis within the economy and this will translate to high profits. Also well capitalized banks are able to meet the capital requirements set by central bank while the excess can be used to provide loans.

Capital adequacy shows 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 losses and protect the bank's debtors (Ongore&Kusa, 2013). Capital adequacy ratio demonstrates the internal strength of the bank to support losses during crisis periods. High of this ratio shows the high profitability and lower ratio indicates the decrease of the profitability. Berger capital requirements may give incentives for some banks to increase their risks of failure. Inaccuracies in setting capital requirements distort relative prices and may create allocative inefficiencies that divert financial resources from their most productive uses. Capital adequacy is computed as a ratio of total equity to total asset.

2.3.2 Asset Quality

The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has a direct bearing on bank profitability.

The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Different types of financial ratios are used to study the performances of banks by different scholars. It is the major concern of all banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi&Nazir, 2010). Basically asset quality is the ratio of non-performing and delinquent loans to total loans. (Ginevicius & Podvieszko, 2011)

2.3.3 Management Efficiency of Operational Costs

Managers make decisions about real resource provision to maximize the value of the firm. At least in the short term, these decisions take demand, technology, capabilities and some constraints as exogenous. The study referred to decisions about resource provision collectively as “cost management.” Focus is on real resources, because these are the factors of production that managers control. The financial accounting system

records the transactions of the firm, including, of course, payment for the resources that are managed by the manager. Investors, creditors, and accounting researchers rely on the financial reports to infer the decisions made by managers as well as the effect of these decisions on firm profitability. (Anderson & Lanen, 2009)

Operational cost efficiency measures how much it is expensive for the bank operating in order to produce per unit of output. High total cost to total income ratio causes the lower profitability for the banks and low of the ratio shows the increase in the profit. Operational cost efficiency is computed as a ratio of total cost to total income.

2.3.4 Liquidity

Liquidity is the amount of short term responsibilities that could be met with the amount of liquid assets. Liquidity has been found in some studies to have a positive impact on the financial performance of banks. In other studies it has a negative effect while in others it has no effect and is insignificant. Different scholars have different ways of measuring liquidity of banks.

There are various measures that can be used to measure liquidity but all show how the company/firm are able to cover their current liabilities using their current assets. For this study liquidity will be measured as a ratio of total loans to total customer deposits.

2.4 Empirical Studies

Almazari (2014) investigated the internal factors that affect profitability of banks. The main objective was to compare the profitability of Saudi and Jordanian banks by using the internal factors for estimation. A sample of 23 Saudi and Jordanian banks were

considered with 161 observations for the period 2005 – 2011. Financial ratios were calculated and statistical tools including Pearson's correlation, descriptive analysis of variance and regression analysis were utilized in testing the hypotheses and to measure the differences and similarities between the sample banks according to their different characteristics. The factors influencing the profitability were tested empirically. However, the results indicated that there is a significant positive correlation between ROA of Saudi banks with TEA, TIA and LQR variables, as well as a negative correlation with NCA, CDR, CIR and SZE variables. Meanwhile, there is a significant positive correlation between ROA of Jordanian banks with LQR, NCA, TEA and CDR variables, also there is a negative correlation of return on assets with CIR, TIA and SZE. The study recommended that empirical studies should be undertaken in the same field to find out what more internal factors could affect profitability of banks.

Nsambu (2014) studied the factors affecting performance of domestic commercial banks in Uganda. The objective was to establish the impact of key internal factors that affect the performance of domestic commercial banks in Uganda, so that the remedial action can be taken for better performance. The study was carried out in Uganda. It included all the licensed commercial banks (four) in Uganda as at 31st December 2011. The period for the study was from 2000 – 2011. Linear multiple regression analysis was employed. The study found that, management efficiency; asset quality; interest income; capital adequacy and inflation are factors affecting the performance of domestic commercial banks in Uganda over the period 2000-2011. Policy implications emerged for commercial banks' management includes; efficient management; credit risk management; capital adequacy levels; diversification and commercial bank investment. In addition, monetary policy regulations and instruments should not enforce high

liquidity and capital adequacy levels. Regulations on non-interest income activities should be put in place to harmonize the impact of diversification on all commercial banks' performance and to avoid exploitation of bank customers

Gutu (2015) carried out a study on the microeconomic factors affecting bank's financial performance focusing on 11 entities for the period between 2003 and 2013 in the Romanian sea. The objective was to determine the most important internal factors that influence banks' performance. The performance was measured by return on assets. The independent variables used were bank's size, financial leverage, loans to assets ratio, deposits to assets ratio, number of employees, liquidity, net result and monetary policy rate. The results of the study showed that bank's size, loans to assets ratio and liquidity do not have a significant impact on performance. Financial leverage has a negative impact, meanwhile the number of employees, deposits to assets ratio and net result have a positive effect.

Mhiri & Ameer, (2013) carried out a study on the factors explaining Tunisian bank performance. They employed the GMM estimator technique described by Blundell and Bond (1998). The population of the study was the main 10 commercial Tunisian banks during the 1998 to 2011 period. They examined whether, for banks operating in similar macroeconomic and financial development environments, one can make judgments concerning the success of their competitive strategies and other managerial procedure by using different profitability measures. The investigation included bank-specific as well as industry-specific and macroeconomic factors affecting bank performance. The empirical results revealed a high degree of persistence of bank performance. By the other hand, their findings suggested that the bank capitalization, as well as the best

managerial efficiency, have a positive and significant effect on the bank performance. Private owned banks seem to be more profitable than state owned ones. Privatizing state-owned Tunisian banks was recommended in order to improve their performance. Industry-specific factors, as the concentration and that of the system bank size have a negative and a significant effect on performance. As for the impact of the macroeconomic indicators, we conclude overall that the variables do not have a significant effect on bank performance. However Inflation seems to affect negatively bank's net interest margin.

Cekrezi (2015) did a study to explore the factors that mostly affect financial performance of commercial banks which operate in Albania. The study population consisted of 16 commercial banks with domestic and foreign capital, during the period 2010-2013 with a total of 48 data. The investigation used cross-sectional time series data which are collected from the Balance Sheet Annual Reports. Based on literature review, performance is defined in different ways but the study sought to establish the underlying factors responsible on determine the return on assets (ROA) of the sample selected. The findings were that bank size has a negative but statistically insignificant effect on banks. Capital adequacy (CAP) has a negative impact and liquidity as well. Age is not a significant factor to take into consideration in analyzing bank performance. A policy on efficient management should be put in place for bank the determination of equity capital and amount of loans by finding ways to obtain the optimal utilization of resources

Obamuyi (2013) carried out a study to investigate the effects of bank capital, bank size, expense management, interest income and the economic condition on banks'

profitability in Nigeria. The fixed effects regression model was employed on a panel data obtained from the financial statements of 20 banks from 2006 to 2012. The results indicated that improved bank capital and interest income, as well as efficient expenses management and favorable economic condition, contribute to higher banks 'performance and growth in Nigeria. Thus government policies in the banking system must encourage banks to regularly raise their capital and provide the enabling environment that will accelerate economic growth in the country. Bank management must efficiently manage their portfolios in order to protect the long run interest of profit-making.

Tai (2014) carried out a study to examine the efficiency and performance of 58 publicly listed conventional and Islamic national banks in the Gulf Cooperation Council (GCC) countries between 2003 and 2011. A translog cost function was used to evaluate the efficiency of the GCC banking sector and multiple regression analysis was employed to identify factors affecting the performance of the 58 national banks. Empirical findings revealed that Masraf Al Rayan of Qatar (an Islamic bank) was the most efficient bank while Kuwait Finance House (also an Islamic bank) was the least efficient bank during the study period. Conventional banks were more profitable, liquid, and solvent than Islamic banks during the earlier years of the study period while Islamic banks were more profitable, liquid, and solvent than conventional banks during the later years of the study period. Regression results indicate that economic conditions, bank size, financial development, operating costs, and type of bank (conventional or Islamic) are significant variables affecting return on average assets.

Ongore & Kusa (2013) carried out a study on the determinants of financial performance of commercial banks in Kenya. The researchers used linear multiple regression model and generalized Least Square on panel data to estimate the parameters. The data was from 2001 to 2010 and the study was done on 37 commercial banks in Kenya. The findings showed that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. But the overall effect of macroeconomic variables was inconclusive at 5% significance level. The moderating role of ownership identity on the financial performance of commercial banks was insignificant. Thus, it can be concluded that the financial performance of commercial banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution.

Onuonga (2014) did an analysis of profitability of Kenya's six commercial banks: Internal factor analysis. The aim of the study was to analyze the impact of the internal determinants of profitability of Kenya's top six commercial banks over the period 2008-2013. The paper used generalized least squares method to estimate the impact of banks asset, capital, loan, deposits and assets quality on banks profitability. Return on Assets (ROA) was used as a measure of profitability. The findings revealed that bank size, capital strength, ownership, operations expenses, diversification do significantly influence the profitability of the top six commercial banks. The results suggested that the Kenyan Government should set policies that encourage banks to raise their asset capital base as this will enhance performance of the sector. Another implication of the study was that commercial banks need to invest in technologies and management skills which minimize costs of operations as this will impact positively their growth and survival.

The Kenyan Government should set policies that encourage banks to raise their asset capital base as this will enhance performance of the sector. Another implication of the study was that commercial banks need to invest in technologies and management skills which minimize costs of operations as this will impact positively their growth and survival

Shipho (2011) did a study on the effects of banking sectorial factors on the profitability of commercial banks in Kenya. The first objective was to determine and evaluate the effects of bank – specific factors: capital adequacy, asset quality, liquidity, operational cost efficiency and income diversification on the profitability of commercial banks in Kenya. The second objective was to determine and evaluate the effects of market structure factors: foreign ownership and market concentration on the profitability of commercial banks in Kenya. The study adopted an exploratory approach by using panel data research design to fulfill the above objectives. Annual financial statements of 38 Kenyan commercial banks from 2002 to 2008 were obtained from the CBK and Banking survey 2009. The data was analyzed using multiple linear regression method. The analysis showed that all the bank specific factors had a statistically significant impact on profitability, while none of the market factors had a significant impact. Based on the findings the study recommended policies that would encourage diversification, reduce operational costs, minimize credit risk and encourage banks to minimize their liquidity holdings. Further research on factors influencing the liquidity of commercial banks in the country could add value to the profitability of banks and academic literature.

Osoro (2013) carried out a study to determine the effect of financial restructuring on the financial performance of commercial banks in Kenya. The study was conducted on 11 commercial banks in Kenya, all of which are listed in the Nairobi Securities Exchange and which were in operation in Kenya during the six-year period of the study that is from 2008 to 2013. The various ratios that make the variables under consideration, namely debt ratio, dividend payout ratio and equity ratio of these commercial banks were computed from the various data collected and extracted from the annual financial statements of the said listed commercial banks for the period of study. The data was then analyzed using a multiple linear regression model using SPSS version 20, to establish if there was any effect of financial restructuring on the financial performance of these commercial banks and if existent; how significant the said effect would be.

The findings of the study were that there exists a positive effect of financial restructuring on the financial performance of commercial banks in Kenya. The commercial banks in Kenya therefore, need to consider other factors even as they employ financial restructuring to enhance financial performance of their firms with a view to ensure survival in a competitive market while meeting their social objective.

Lukorito, Muturi & Nyangau (2014) carried out a study determined the effect of internal factors on profitability of commercial banks in Kenya particularly the banks liquidity. The study employed a descriptive research design incorporating panel data. All the 43 Commercial banks in Kenya formed the population and a census was done over a period of 5 years from 2009 to 2013 due to availability of data. The study used secondary data

obtained from the annual published financial statements which were analyzed using descriptive and inferential statistics. Internal factor was Liquidity, while Profitability was measured using ROA ratios. The findings of the study showed that all the variables, liquidity, has statistically significant and positive relationship with banks' profitability.

The study recommended that banks should invest heavily in assets if substantial gains have to be realized, maintain adequate liquidity levels though in the form of short term marketable securities in order to realize profits and aggressively identify viable investment opportunities and link such opportunities to customer deposits

2.5 Summary of the literature review

Empirical review was more on the global literature than local studies. This is because very few studies have been done in Kenya in relation to the area of the study. The empirical studies have showed various factors that affect the financial performance of banks. In all the studies financial performance has been measured using the return on assets (ROA). Factors analyzed include capital adequacy, bank size, asset quality, liquidity, income diversification and operational cost efficiency.

All the studies that incorporated capital adequacy, income and diversification found the studies to have a positive significant correlation to financial performance. Results on bank size and liquidity were inconclusive. A study on the effect of financial restricting found that its effect was very minimal and could only explain 26.7% of financial performance leaving the other more than 70% unexplained, at least not in the findings of the analysis of the study. Most studies done in Kenya have analysed very few internal factors and none of them have covered the banks listed at the NSE. This study will

cover the main factors outlined in the literature review and will focus on the impact of the same on the financial performance of commercial banks listed at the NSE.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology addresses the design strategy to be used, the study unit, who or what forms the population of the study, whether sampling will be done and if so the sampling design to be used and the sample size. It also shows the kind of data to be used, where or from whom it will be collected and the instrument that will be used and how the researcher will reach respondents or data source. Finally it explains on how the data collected will be analyzed and presented.

3.2 Research Design

Research design refers to how data collection analysis are structured in order to meet the research objectives through empirical evidence economically (Cooper &Schindler, 2003). The research uses a descriptive research design that seeks to provide more information on the various factors that affect profitability of banks in Kenya and how exactly they affect the financial performance. The study will look into the various factors that affect financial performance. This will stem from the empirical evidence that was gathered. Every bank listed will have these internal factors but affecting them in different proportions. Once that is gathered, an analysis will be done to deduce the extent to which each of the factors identified affects the performance of the banks. The level of significance of each factor will also be identified.

3.3 Population

Cooper & Emory (1995) define population as the total collection of elements about which the researcher wishes to make inferences. The population of interest in this study are the 10 commercial banks listed at the NSE as at 31st December 2014.

3.4 Data Collection

This study will use secondary data for the various variables that will be put into the model. There will be various sources of this data, including the Central Bank of Kenya, International Monetary Fund, the respective bank websites, the Nairobi Securities Exchange and the World Bank. These sources will be the best because of the element of validity and reliability of the data. Data mining techniques will be used extensively and mainly for the extraction of information from financial statements. Printouts of the published financial records of the sample will also be used.

Data to be collected will include, total loans, total customer deposits, total nonperforming loans, total assets, total costs and total income. This data will be used extensively in analyzing the various factors that affect the financial performance.

3.5 Data Analysis

The secondary data obtained in this study will be analyzed using descriptive analysis (mean, median, minimum, maximum, standard deviation). It will cover the period of 5 years from 2010 to 2014. For purposes of analysis, Pearson correlation, regression analysis, financial ratios and statistical tools including percentages, averages, the natural logarithm and analysis of variance (ANOVA) will be used in testing the hypothesis. They will also be used to measure the similarities and differences between the banks.

The financial performance will be the dependent variable in the model. The internal factors affecting financial performance will be the independent variable. The focus of this study will be to establish the link between internal factors and financial performance. The study model will be:

$$\Pi_{it} = \alpha_0 + \alpha_1 LQR_{it} + \alpha_2 OCE_{it} + \alpha_3 K_{it} + \alpha_4 AQ_{it} + \alpha_5 SZE_{it} + \alpha_6 D_{it} + \mu_{it}$$

Where:

Π_{it} is the performance of the bank which will be measured in terms of ROA

α_0 is the intercept

$\alpha_1 - \alpha_6$ are the coefficients of the parameters

LQR_{it} is liquidity ratio of bank i at time t .

OCE_{it} is operational costs efficiency of bank i at time t .

K_{it} is capital adequacy of bank i at time t .

AQ_{it} is asset quality bank i at time t .

SZE_{it} is size of the bank.

D_{it} is income diversification

μ_{it} is the error term where i is cross sectional and t is the multiplier

Return on assets (ROA) will be measured by the ratio of net income to average total assets.

Liquidity (LQR) is the measure of the banks' ability to pay operating expenses and other short-term, or current, liabilities. It's the ratio of total loans to total customer deposits. A low liquidity measure would indicate either that the bank is having financial problems, or that the bank is poorly managed.

Operational cost efficiency (OCE) is measured as total costs divided by total income

Capital adequacy (K) is measured through dividing total equity by Total assets

Asset quality (AQ) is the ratio of nonperforming loans to total loans. It's arrived at through dividing nonperforming loans by total loans

Size (SZE) is determined by the total assets. In this study, total assets will be converted to natural logarithm so as to be consistent with other ratios in the model

Income diversification (D) will be measured as the ratio of non-interest income related to loans on operating income. It will be measured as a ratio of non-interest income to total operating income of each bank.

To check for normality, descriptive statistics will be used. Kurtosis and Skewness of the data will be examined

The existence of a strong correlation between independent variables will be tested using the correlation coefficient. Scores of 1.0 and 0.8 respectively show the existence of multicollinearity.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is a presentation of results and findings obtained from the data collected, both descriptive and inferential statistics have been employed specifically using Pearson correlation, regression analysis and ANOVA to establish the significance /fitness of the model and also to establish the link between specific internal factors and the financial performance of commercial banks listed at the Nairobi Securities Exchange.

4.2 Description Statistics of the Population

This summarizes the population characteristics between specific internal factors and financial performance. The mean, median, minimum, maximum, standard deviation, Kurtosis and Skewness were considered on all the selected internal factors. The findings were as indicated in table 4.1 below.

Table 4.1 Descriptive statistics of selected internal factors and the financial performance indicators of commercial banks (ROA) listed at the NSE

	ROA	Liquidity	Operational cost efficiency	Capital Adequacy	Asset Quality	Size of the Bank	Income Diversification
Mean	0.0338	0.7892	0.5096	0.1584	0.0236	18.8318	0.3819
Median	0.0354	0.7972	0.5092	0.1570	0.0280	18.8840	0.5223
Maximum	0.0668	1.2821	0.8492	0.2259	0.0800	19.7477	2.0896
Minimum	0.0076	0.4360	0.3462	0.0986	0.0020	17.8188	0.0267
Standard Deviation	0.0139	0.1499	0.1138	0.0277	0.0221	19.4363	0.3992
Skewness	0.0419	0.2060	0.6229	0.4272	0.6509	-0.2988	1.5465
Kurtosis	-	2.0446	0.1912	-0.0358	0.4293	-0.3919	4.1164
Observations	50	50	50	50	50	50	50

Source: Researcher 2015

From the table 4.1 above liquidity showed a percentage mean of 78.92 and standard deviation of 0.1499, Operational cost efficiency showed a percentage mean of 50.96 percent and standard deviation of 0.1138, capital adequacy showed a percentage mean of 15.18 and standard deviation of 0.0277, asset quality showed a percentage mean of 2.36 with standard deviation of 0.0221, size of the bank showed a mean of 18.8318 with a standard deviation of 19.4363 and income diversification showed a percentage mean of 38.18 with a standard deviation of 0.3992. The positive values imply that the variables under the model are significant in determining the financial performance of the commercial banks listed at the Nairobi Securities Exchange.

All the Kurtosis values are less than 3. This indicates that all variables have platykurtic distribution and therefore the variables are not normally distributed. The values of the variables are wider around the mean.

4.3 Correlation Analysis

Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variable. This is illustrated by table 4.2 in the next page.

Table 4.2 Correlation coefficients of selected internal factors and financial performance indicator

	ROA	LQR	OCE	K	AQ	SZE	D
ROA	1.0000						
LQR	0.02106	1.0000					
OCE	-0.2547	-0.5242	1.0000				
K	0.5695	0.1537	-0.0717	1.0000			
AQ	0.0571	-0.5207	0.6926	0.0441	1.0000		
SZE	0.4117	0.2691	0.0230	0.2907	0.2907	1.0000	
D	0.0141	0.0361	0.2557	0.2676	0.0545	0.1877	1.0000

Source: Researcher 2015

Table 4.2 shows the correlations between the independent variables considered in the regressions: liquidity, operational cost efficiency, capital adequacy, asset quality, size of the bank and income diversification as independent variables in the model and ROA as a measure of the financial performance of the commercial banks listed at the Nairobi Securities Exchange. The positive values indicate that the variables are moving in the same direction while the negative values indicate that the variables are moving in the opposite direction.

All the variables have a positive correlation with ROA apart from the operational cost efficiency that has a negative correlation of -0.2547. High total costs to total income ratio causes lower profitability for banks and lower ratios result in higher profits. Multicollinearity was also tested between the independent variables. The highest correlation was between asset quality and operational cost efficiency which was 0.6926.

There was no score of between 1.0 and 0.8 hence no strong correlation between the independent variables.

4.4 Regression Analysis and Hypothesis Testing

The objective of this study was to determine the effect of selected internal factors on the financial performance of commercial banks listed at the NSE.

Table 4.4.1: Regression coefficients of selected internal factors and financial performance indicator of commercial banks listed at the NSE

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-0.1400	0.0682	2.0525	0.0462	-0.2776	0.0024	0.2776	0.0024
Liquidity	-0.0319	0.0134	2.3709	0.0223	-0.0590	0.0048	0.0590	0.0048
Operational Cost	-0.0523	0.0202	2.5889	0.0131	-0.0931	0.0116	0.0931	0.0116
Efficiency	0.2479	0.0577	4.2960	0.0001	0.1315	0.3643	0.1315	0.3643
Capital adequacy	0.0342	0.1130	0.3025	0.7637	-0.1937	0.2621	0.1937	0.2621
Asset Quality	0.0101	0.0039	2.6118	0.0124	0.0023	0.0179	0.0023	0.0179
Size of the Bank	-0.0023	0.0041	0.5492	0.5857	-0.0106	0.0061	0.0106	0.0061
Income diversification								

Source: Researcher 2015

Table 4.4.2: Analysis of Variance (ANOVA)

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	6	0.0050	0.0008	8.0889	0.000007
Residual	43	0.0045	0.0001		
Total	49	0.0095			

Source: Researcher 2015

Table 4.4.3: Regression Statistics

<i>Regression Statistics</i>	
Multiple R	0.7282
R Square	0.5302
Adjusted R Square	0.4647
Standard Error	0.0102
Observations	50

Source: Researcher 2015

The Multiple R value is the correlation coefficient of the regression. It shows the strength of the linear regression. In this study the multiple R was 0.7282 which shows a strong correlation of the linear regression.

R square is the coefficient of determination. It shows the proportion of y that is explained by the independent variables. In this case the coefficient of determination was found to be 0.5302 meaning that liquidity, operational cost efficiency, capital adequacy, asset quality, size of the bank and income diversification only explains 53% of the financial performance of the commercial banks listed at the NSE.

In the ANOVA analysis, degrees of freedom (df) sum of squares (SS) and the mean of squares (MS) are used to calculate the adjusted R squared, t tests and the f tests. F value shows the level of significance of the regression analysis. It's used to calculate the significance F level which shows the probability that the results occurred randomly in the regression analysis. The significance F value was 0.000007 which means that the results were not random.

The level of significance that was applied was 5% and a confidence level of 95%. All the variables apart from asset quality and income diversification had a p-value that was less than 0.5. The case was the same when tested at a level of significance of 1% . The P value is used to determine whether to accept or reject a null hypothesis that there is no relationship between the selected internal factors and financial performance of commercial banks listed at the NSE.

Basing on these findings the study rejects the null hypothesis that there is no relationship between selected internal factors and financial performance of commercial banks listed at the NSE and accepts the alternative hypothesis that there exists a relationship between selected internal factors and financial performance of commercial banks listed at the NSE.

As per the regression results above, the study model

$$\Pi_{it} = \alpha_0 + \alpha_1 LQR_{it} + \alpha_2 OCE_{it} + \alpha_3 K_{it} + \alpha_4 AQ_{it} + \alpha_5 SZE_{it} + \alpha_6 D_{it} + \mu_{it}$$

becomes:

$$\Pi_{it} = -0.14 - 0.0319LQR_{it} - 0.0523OCE_{it} + 0.2479K_{it} + 0.0342AQ_{it} + 0.0101SZE_{it} - 0.0023D_{it} + 0.0102$$

4.5 Discussion of Research Findings

From the linear regression results liquidity has a negative 0.0319 effect on the financial performance. This was expected to be either positive or negative depending on population under study. As expected in the results, management's efficiency on operational costs was found to be negative. If the operational costs are not well managed they could lead to a drop of 0.0523 on financial performance. Capital adequacy was expected to have a positive effect on the financial performance. The positive coefficient of 0.2479 means that, a 5 % increase in capital would lead to a growth of 24.79% in financial performance.

Financial performance is positively affected by asset quality. If the level of non-performing loans is kept at a minimum in comparison to total loans then the financial performance will definitely increase. The results of this study found asset quality not to be a significant factor on financial performance. The findings were a p value of 0.7637 at a significance level of 5% and a confidence level of 95%. The size of a bank was a significant factor with a positive effect of 0.0101 on the financial performance. This could be as a result of economies of scale that large banks enjoy. The coefficient of income diversification was found to be non-significant at a significance level of 5% , confidence level of 95% and a p value of 0.5857.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is a synthesis of the entire study, and contains summary of research findings, exposition of the findings, commensurate with the objectives, conclusions and recommendations based thereon.

5.2 Summary of Findings

The objective of the study was to find out if the selected internal factors have an effect on the financial performance of commercial banks listed at the NSE. Descriptive statistics, Pearson correlation, regression analysis and ANOVA were applied. The regression analysis and hypothesis testing showed that the selected factors do have an effect on the financial performance of banks listed at the NSE. However the level of significance of the independent variables was varied.

The correlation between capital and financial performance was found to be the highest at 56.95% while the co-efficient was 24.79%. This is higher than the 8% statutory requirement set by CBK (Shipho, 2011). It means that the commercial banks listed at the NSE hold more capital than is required. Liquidity, operational cost efficiency, and income diversification were found to have a negative effect on the financial performance of the commercial banks listed at the NSE. The standard error of the linear regression was 0.0102. The standard error measures the level of variability of predictions from the regression.

5.3 Conclusion

The study investigated the effect of selected internal factors on the financial performance of commercial banks listed at the NSE from 2010 to 2014. The results of the study were that Liquidity, Operational Cost efficiency, Capital Adequacy and size of the bank were found to be major factors that affect the financial performance of banks listed at the NSE. The findings revealed that capital adequacy, Asset quality and size of the bank had a positive effect on the financial performance. However Asset quality was not found to be a significant factor. Liquidity, operational cost efficiency were found to have a negative effect on the financial performance. Income diversification was found to be insignificant at 5% level of significance and 95% level of confidence.

By having a high capital adequacy means that banks are able to increase their financial performance by 24.79% if other factors remain constant. This could be owing to the fact that they are able to use the capital for income diversification and invest. It also means that the banks can use the funds to enhance their lending portfolio and can afford to do so at lower lending rates. In the event of a countrywide financial crisis, the banks with higher capital are able to stand strong. The banks will be able to attract more funds at cheaper rates and therefore will enhance their liquidity (Obamuyi, 2013)

The negative effect of operational cost efficiency on the financial performance supports the efficiency structure theory. The theory maintains that banks earn high profits because they are more efficient than others. The regression analysis has showed the same results whereby if operational costs are not well managed, they could lead to a

drop of 5.23% if all the other factors are held constant. This is an indicator that if banks control their costs then their profits will grow significantly.

5.4 Recommendations

From the findings of this study, the government should put in place policies that encourage banks to have higher levels of capital as well as their asset base. This is to ensure that in the event of a countrywide financial crisis the banking industry which is key to the economy is not adversely affected.

Commercial banks need to invest in efficient technologies and processes that foster maximum utilization of resources as well as reduction of costs. This will boost management of operational costs that from the finds affect the financial performance.

Income diversification is an area that banks need to develop. It will ensure growth of capital as well as increase liquidity and attract cheaper rates for funds. This will ultimately make the commercial banks more competitive in the market and globally develop the economy of the country.

5.5 Limitations of the Study

The findings of this study may not be generalized to all commercial banks in Kenya but can be used as a reference in both the banking industry and other industries as well that may have similar internal factors affecting their financial performance.

The selected variables in this research study only covered six internal factors that is, liquidity, capital adequacy, asset quality, income diversification, size of the bank and operational cost efficiency. From the results of the research, this covers only 53% of the factors that affect financial performance. This means that the factors considered are not all the internal factors that affect the financial performance of commercial banks listed at the NSE.

The study covered a period of five years from 2010 to 2014. From the literature commercial banks are now upgrading their technologies so as to become more competitive in the market. The results of this technological investments will only be realized in the future and are therefore not captured in this research project.

5.6 Suggestions for Further Research

From the findings of this study, it's evident that the selected internal factors only cover upto 53% of the factors that affect financial performance of commercial banks listed at the NSE. There's still 47% that is unexplained by this study and would therefore call for further research in the area.

There should be a further research that captures a larger population of the 44 commercial banks in Kenya which captures more internal factors. The effect of internal factors on the financial performance of commercial banks in Kenya is not a topic that is widely researched. The research could even go further to not only capture the banking industry but also the financial institutions in Kenya.

The return on the technological investments that commercial banks have invested in will be realized in the future. A research on the effect of new technology on the financial performance of banks would fill the gap of understanding how the return affects the banking industry especially in terms of competitiveness in the modern market both globally and locally.

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APPENDICES

APPENDIX 1: LIST OF COMMERCIAL BANKS IN KENYA LISTED AT THE NAIROBI SECURITIES EXCHANGE

1. Barclays Bank Limited	Year Listed: 1986
2. CFC Stanbic Holdings Limited	Year Listed: 1970
3. Diamond Trust Bank Kenya Limited	Year Listed: 1972
4. Equity Bank Limited	Year Listed: 2006
5. I &M Holdings Limited	Year Listed: 2013
6. Kenya Commercial Bank Limited	Year Listed: 1989
7. National Bank of Kenya Limited	Year Listed: 1994
8. NIC Bank Limited	Year Listed: 1971
9. Standard Chartered Bank Limited	Year Listed: 1988
10. The Co-operative Bank of Kenya Limited	Year Listed: 2008

APPENDIX II: RETURN ON ASSETS

ROA

		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	6.14%	4.75%	4.96%	3.89%	3.92%
2	CFC Stanbic Holdings Limited	1.33%	1.27%	2.84%	3.34%	3.00%
3	Diamond Trust Bank Kenya Limited	1.57%	3.30%	3.59%	3.89%	3.25%
4	Equity Bank Limited	5.95%	6.11%	5.60%	5.57%	6.68%
5	I & M Holdings Limited	5.68%	1.82%	3.35%	3.60%	3.47%
6	Kenya Commercial Bank Limited	3.22%	3.77%	3.49%	3.72%	4.51%
7	National Bank of Kenya Limited	3.63%	2.40%	1.07%	2.21%	0.76%
8	NIC Bank Limited	3.19%	3.42%	3.78%	3.02%	3.22%
9	Standard Chartered Bank Limited	4.23%	1.88%	5.74%	4.56%	4.77%
10	The Co-operative Bank Limited	3.31%	3.22%	5.12%	4.11%	3.45%

APPENDIX III: LIQUIDITY

Liquidity

		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	70%	80%	76%	78%	76%
2	CFC Stanbic Holdings Limited	105%	128%	78%	73%	92%
3	Diamond Trust Bank Kenya Limited	84%	85%	83%	74%	111%
4	Equity Bank Limited	75%	85%	86%	96%	93%
5	I & M Holdings Limited	74%	78%	81%	95%	99%
6	Kenya Commercial Bank Limited	75%	77%	73%	84%	90%
7	National Bank of Kenya Limited	44%	49%	51%	51%	63%
8	NIC Bank Limited	85%	84%	86%	89%	100%
9	Standard Chartered Bank Limited	60%	79%	80%	84%	80%
10	The Co-operative Bank Limited	70%	77%	73%	78%	83%

APPENDIX IV: OPERATIONAL COST EFFICIENCY

Operational Cost Efficiency

		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	59%	54%	53%	57%	57%
2	CFC Stanbic Holdings Limited	74%	36%	63%	51%	52%
3	Diamond Trust Bank Kenya Limited	48%	50%	46%	39%	47%
4	Equity Bank Limited	60%	49%	47%	49%	51%
5	I & M Holdings Limited	36%	35%	42%	38%	37%
6	Kenya Commercial Bank Limited	63%	60%	61%	56%	53%
7	National Bank of Kenya Limited	62%	69%	85%	76%	71%
8	NIC Bank Limited	48%	43%	39%	39%	39%
9	Standard Chartered Bank Limited	42%	46%	41%	45%	45%
10	The Co-operative Bank Limited	64%	53%	59%	61%	60%

APPENDIX V: CAPITAL ADEQUACY

Capital Adequacy

		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	18%	17%	16%	16%	17%
2	CFC Stanbic Holdings Limited	18%	13%	19%	18%	20%
3	Diamond Trust Bank Kenya Limited	14%	13%	16%	23%	13%
4	Equity Bank Limited	19%	20%	20%	21%	23%
5	I & M Holdings Limited	16%	14%	12%	17%	16%
6	Kenya Commercial Bank Limited	16%	13%	15%	19%	19%
7	National Bank of Kenya Limited	17%	15%	16%	13%	10%
8	NIC Bank Limited	14%	13%	15%	16%	17%
9	Standard Chartered Bank Limited	14%	13%	16%	16%	18%
10	The Co-operative Bank Limited	13%	13%	15%	16%	15%

APPENDIX VI: ASSET QUALITY

		Asset Quality				
		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	7.5%	5.5%	3.6%	3.0%	3.6%
2	CFC Stanbic Holdings Limited	1.1%	0.6%	1.1%	2.6%	3.4%
3	Diamond Trust Bank Kenya Limited	1.6%	1.1%	1.4%	1.3%	1.1%
4	Equity Bank Limited	5.0%	2.5%	2.3%	4.3%	3.0%
5	I & M Holdings Limited	0.9%	0.6%	0.2%	0.5%	1.3%
6	Kenya Commercial Bank Limited	5.0%	5.0%	5.0%	6.8%	4.6%
7	National Bank of Kenya Limited	4.3%	4.1%	7.7%	8.0%	8.0%
8	NIC Bank Limited	0.4%	0.5%	1.0%	2.6%	1.5%
9	Standard Chartered Bank Limited	2.0%	2.0%	2.0%	2.4%	7.2%
10	The Co-operative Bank Limited	4.4%	3.8%	4.5%	4.0%	4.3%

APPENDIX VII: SIZE OF THE BANK

Size of the Bank

		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	18.9670	18.9353	19.0349	19.1470	19.2366
2	CFC Stanbic Holdings Limited	18.7577	18.8273	18.7798	19.0113	19.0140
3	Diamond Trust Bank Kenya Limited	17.8863	18.1652	18.3642	18.5529	18.7655
4	Equity Bank Limited	18.7785	18.9912	19.1900	19.2886	19.4363
5	I & M Holdings Limited	18.2801	18.4982	18.7903	18.7657	18.9886
6	Kenya Commercial Bank Limited	19.3424	19.6168	19.7236	19.5922	19.7477
7	National Bank of Kenya Limited	17.9103	18.0447	18.0225	18.3426	18.6266
8	NIC Bank Limited	17.8188	18.1139	18.4382	18.5422	18.7361
9	Standard Chartered Bank Limited	18.7766	18.9157	19.0903	19.2109	19.2204
10	The Co-operative Bank Limited	18.8524	18.9381	19.1121	19.2487	19.4599

APPENDIX VIII: INCOME DIVERSIFICATION

		Income Diversification				
		2010	2011	2012	2013	2014
1	Barclays Bank of Kenya Limited	85%	93%	92%	96%	56%
2	CFC Stanbic Holdings Limited	118%	89%	165%	86%	77%
3	Diamond Trust Bank Kenya Limited	44%	30%	18%	20%	18%
4	Equity Bank Limited	95%	44%	32%	53%	60%
5	I & M Holdings Limited	19%	13%	13%	209%	41%
6	Kenya Commercial Bank Limited	59%	52%	45%	65%	35%
7	National Bank of Kenya Limited	73%	71%	59%	22%	11%
8	NIC Bank Limited	6%	5%	3%	3%	4%
9	Standard Chartered Bank Limited	62%	58%	40%	38%	44%
10	The Co-operative Bank Limited	76%	58%	42%	54%	53%

APPENDIX IX: DATA COLLECTED

Barclays Bank of Kenya Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	10,598,982	8,072,637	8,740,703	7,622,642	8,480,326
Total Assets	172,690,915	167,304,940	184,825,892	206,736,932	226,118,124
Total Loans	87,146,982	99,072,495	104,204,295	118,361,911	125,423,371
Total Customer Deposits	123,826,442	124,207,289	137,915,391	151,121,844	164,778,726
Total Costs	15,248,327	14,325,534	14,404,643	16,000,500	15,994,964
Total Income	26,023,681	26,338,089	27,424,387	27,921,939	28,288,488
Total Equity	31,464,934	29,222,907	29,583,449	32,370,886	38,186,091
Non-Performing Loans	6,539,338	5,482,310	3,771,579	3,579,909	4,554,426
Non - Interest Income	10,350,267	10,001,966	9,279,219	9,062,943	8,684,874
Total operating income (EBIT)	12,232,494	10,716,406	10,123,909	9,483,818	15,630,954

CFC Stanbic Holdings Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
Net Income	1,787,368	1,838,992	4,162,480	5,413,875	5,425,163
Total Assets	140,080,202	150,171,015	143,212,155	180,511,797	180,998,985
Total Loans	75,224,630	94,884,596	78,483,828	69,133,492	88,347,438
Total Customer Deposits	71,425,115	74,007,134	100,463,247	94,727,839	95,838,876
Total Costs	6,313,759	7,390,363	8,868,827	8,212,476	8,467,430
Total Income	8,533,260	20,759,447	14,092,344	16,203,082	16,167,676
Total Equity	24,768,615	19,329,127	27,240,888	32,425,791	36,895,193
Non- Performing Loans	856,504	592,583	893,931	1,784,847	3,023,730
Non - Interest Income	4,640,493	4,756,855	7,549,557	8,660,968	8,408,553
Total operating income (EBIT)	3,928,773	5,360,327	4,588,088	10,018,383	10,880,758

Diamond Trust Bank Kenya Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	2,058,146	2,246,892	3,087,629	4,057,897	4,152,438
Total Assets	58,605,823	77,453,024	94,511,818	114,136,429	141,175,794
Total Loans	37,850,277	50,943,685	59,930,459	75,292,211	94,059,260
Total Customer Deposits	44,903,373	59,772,275	72,505,118	101,593,506	84,671,817
Total Costs	2,693,261	3,187,746	3,983,419	4,275,284	4,637,632
Total Income	5,565,072	6,436,220	8,653,082	10,944,704	9,841,680
Total Equity	8,057,377	10,366,474	14,878,492	25,784,414	18,568,277
Non- Performing Loans	589,483	550,573	809,946	972,023	1,068,412
Non - Interest Income	2,129,905	1,719,817	1,905,795	1,993,364	2,102,116
Total operating income (EBIT)	4,838,771	5,757,738	10,604,391	9,842,515	11,740,322

Equity Bank Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	7,131,325	9,774,000	10,997,000	12,643,631	17,180,911
Total Assets	143,018,114	176,911,000	215,829,000	238,194,354	276,115,727
Total Loans	78,301,921	106,486,000	122,410,000	152,028,916	187,976,229
Total Customer Deposits	104,430,586	125,492,000	142,386,000	158,527,016	202,484,759
Total Costs	13,201,681	11,830,000	14,359,000	17,504,638	21,054,812
Total Income	22,151,970	23,934,000	30,419,000	35,737,510	41,166,394
Total Equity	27,203,913	35,047,000	42,647,100	50,686,922	62,313,580
Non- Performing Loans	3,903,568	2,688,757	2,791,214	6,563,356	5,677,115
Non - Interest Income	10,438,626	6,598,000	7,133,000	12,047,746	15,006,825
Total operating income (EBIT)	11,012,098	14,919,000	22,445,000	22,853,351	25,092,036

I & M Holdings Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	4,010,424	1,769,757	4,237,394	5,148,061	5,517,434
Total Assets	86,882,153	108,063,712	144,725,072	141,200,545	176,464,451
Total Loans	50,257,349	66,365,870	71,012,960	91,882,664	112,491,329
Total Customer Deposits	68,208,428	85,212,904	87,774,149	97,145,568	114,201,280
Total Costs	2,152,065	2,755,604	4,120,023	4,672,154	5,332,354
Total Income	5,978,861	7,959,450	9,913,437	12,325,705	14,252,432
Total Equity	13,850,437	15,166,671	17,789,828	23,677,956	28,106,142
Non- Performing Loans	438,325	410,356	145,436	423,181	1,407,884
Non - Interest Income	1,200,097	1,110,554	1,688,618	1,542,237	1,708,892
Total operating income (EBIT)	6,305,599	8,422,168	13,179,728	738,061	4,127,400

Kenya Commercial Bank Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
Net Income	7,177,973	10,981,046	12,203,531	12,856,993	15,771,856
Total Assets	251,356,200	330,716,159	368,018,785	322,684,854	376,969,401
Total Loans	148,113,364	198,724,919	211,664,226	198,370,069	248,823,710
Total Customer Deposits	196,974,651	259,308,849	288,037,367	237,212,782	276,749,766
Total Costs	18,412,941	21,828,228	26,851,195	22,550,888	25,014,659
Total Income	29,328,808	36,504,645	44,059,338	40,297,079	47,376,415
Total Equity	39,129,771	44,365,027	54,295,059	61,763,039	72,167,339
Non- Performing Loans	7,405,668	9,936,246	10,583,211	13,520,722	11,557,982
Non - Interest Income	8,558,927	9,307,557	13,423,106	16,190,969	11,296,488
Total operating income (EBIT)	14,480,414	17,986,412	29,654,129	24,834,674	32,059,557

National Bank of Kenya Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
Net Income	2,021,919	1,546,113	729,752	1,766,441	817,695
Total Assets	60,026,694	68,664,516	67,154,805	92,493,035	122,864,886
Total Loans	20,844,636	28,068,218	28,346,668	39,566,678	65,641,497
Total Customer Deposits	47,804,607	56,728,163	55,191,425	77,992,820	104,733,709
Total Costs	4,402,093	5,351,289	6,462,910	6,377,220	6,936,638
Total Income	7,099,916	7,795,139	7,610,318	8,444,304	9,793,825
Total Equity	9,929,611	10,456,474	10,449,976	11,848,292	12,113,912
Non- Performing Loans	906,634	1,154,675	2,196,072	3,165,334	5,251,320
Non - Interest Income	2,733,210	2,714,029	2,835,524	941,303	571,267
Total operating income (EBIT)	3,761,878	3,820,737	4,802,733	4,307,120	5,110,630

NIC Bank Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	1,633,802	2,192,479	3,314,239	3,245,783	4,026,333
Total Assets	54,776,432	73,581,321	101,771,705	112,916,814	137,087,464
Total Loans	38,340,879	52,025,475	66,381,215	75,038,910	92,957,230
Total Customer Deposits	45,317,661	62,008,953	77,466,042	84,236,189	92,794,078
Total Costs	2,204,748	2,515,970	2,780,146	3,401,530	3,857,483
Total Income	4,621,090	5,876,572	7,091,095	8,622,387	9,918,764
Total Equity	7,895,854	9,899,860	15,064,607	17,630,929	23,258,017
Non- Performing Loans	150,353	270,751	679,715	1,928,893	1,351,448
Non - Interest Income	135,557	164,792	263,044	253,995	286,131
Total operating income (EBIT)	2,416,342	3,360,602	9,837,794	9,000,335	6,376,775

Standard Chartered Bank Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
Net Income	5,637,786	2,889,624	10,318,256	9,486,260	10,561,072
Total Assets	142,746,249	164,046,624	195,352,756	220,391,180	222,495,824
Total Loans	60,336,829	96,097,823	112,694,523	129,672,004	122,749,233
Total Customer Deposits	100,504,065	122,323,049	140,524,846	154,720,011	154,066,931
Total Costs	5,888,524	7,245,637	8,389,595	10,472,412	11,728,697
Total Income	13,902,729	15,913,511	20,671,436	23,417,444	26,074,678
Total Equity	20,331,122	20,694,456	30,752,814	36,206,401	40,658,174
Non- Performing Loans	1,206,737	1,921,956	2,253,890	3,106,826	8,887,564
Non - Interest Income	5,787,165	6,062,217	6,929,234	7,016,388	8,169,957
Total operating income (EBIT)	9,344,009	10,415,094	17,189,466	18,480,197	18,561,286

The Co-operative Bank Limited	DATA COLLECTED				
	2010	2011	2012	2013	2014
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
Net Income	4,379,231	5,186,343	9,412,722	8,800,970	8,812,972
Total Assets	153,983,533	167,772,389	199,662,956	228,874,484	282,689,098
Total Loans	86,618,311	109,408,815	119,087,748	137,051,537	178,978,586
Total Customer Deposits	124,012,039	142,704,593	162,267,227	174,776,225	216,174,313
Total Costs	9,844,520	11,903,057	14,031,899	16,842,637	18,868,168
Total Income	15,403,548	22,576,740	23,605,830	27,548,093	31,382,898
Total Equity	20,202,453	20,971,618	28,966,946	35,625,045	42,351,119
Non- Performing Loans	3,816,545	4,137,157	5,333,610	5,426,485	7,669,784
Non - Interest Income	6,225,485	6,202,708	7,625,189	8,952,980	10,182,074
Total operating income (EBIT)	8,197,159	10,673,684	18,253,939	16,621,266	19,238,804

Commercial Bank Listed	Total assets - 2009
	Shs. '000
Barclays Bank of Kenya Limited	172,690,915
CFC Stanbic Holdings Limited	127,690,950
Diamond Trust Bank Kenya Limited	203,524,033
Equity Bank Limited	96,511,725
I & M Holdings Limited	54,434,467
Kenya Commercial Bank Limited	194,777,835
National Bank of Kenya Limited	51,404,408
NIC Bank Limited	47,558,241
Standard Chartered Bank Limited	123,778,872
The Co-operative Bank Limited	110,678,091