THE EFFECT OF MERGERS AND ACQUISITIONS ON SHAREHOLDER'S VALUE OF COMMERCIAL BANKS IN KENYA

BY

FAITH CHEROTICH RONO

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DECLARATION

This research project report is my original work and has never been presented for a degree in any other university.

Signature ___________________________ Date: _____________________

Faith Cherotich Rono

D61/64537/2013

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

Signature: ____________________________ Date _____________________

Mr. Herick Ondigo

Lecturer

Department of Finance and Accounting

School of Business

University of Nairobi

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DEDICATION

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LIST OF ABBREVIATIONS

CBK-Central Bank of Kenya

ECB- European Central Bank

EVA- Economic Value added

GDP- Gross Domestic Product

M&A- Mergers and Acquisitions

ROA-Return on Assets

ROE-Return on Equity

ABSTRACT

The study sought to find out the effect of mergers and acquisitions and acquisitions on shareholder's value on commercial banks in Kenya. The objective of the study was to establish the effect of mergers and acquisitions on shareholder's value. The purpose of this study is to establish effect of mergers and acquisitions on shareholder's value in commercial banks in Kenya. The population comprised of 36 commercial banks that have undertaken mergers and acquisitions merged in the period 2002to 2013 in Kenya. The sample comprised of six bank institutions that had undertaken mergers and acquisitions by the year 2013. They included Kenya Commercial Bank, Equatorial Commercial Bank, CFC Stanbic Bank Ltd, Prime Bank Limited, Commercial bank of Africa Limited, and Co-operative Bank Limited. The study used secondary sources of data from the audited annual reports of accounts for the respective banks over the period. Financial data from Statement of financial position, Statement of comprehensive Income and Statement of Cash Flow of the respective commercial banks for three years before and after the mergers was used to calculate and analyze the profitability ROE, ROA and EPS) from the published financial Statements and reports for the merged banks for the period under study. The paper attempted a comparative analysis of the impact of pre-merger and post-merger on shareholder's wealth of selected banks in Kenya. This was done using chi-square analysis where it's compared if there is any significant difference accruing to efficiency in terms of Return on Assets, Return on Equity and Earnings per share. The collected data were analyzed using t - test statistic at 5% level of significant with the aids of statistical package for social sciences (SPSS) version 17 which is an improvement on the ordinary student t-test as used by the t -test statistic formula The results showed an enhanced performance leading to improved shareholder's wealth .Using chi-square analysis, the study established that following the merger or the acquisition, the Returns on Assets, Earnings per share and Returns on equity both improved as the assets of the company improved after the mergers and acquisitions. The study recommends that companies undergoing difficult times should resort to mergers and acquisitions to increase their profitability leading to maximization of shareholder's value.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Businesses are in a state of dynamism, with only innovative ones surviving. Those failing to competition often have been eliminated either through mergers, acquisitions, takeover or any other form of restructuring. In this way, M&A represent an important change agent (Depamphilis, 2010).There has been an increasing trend in mergers and acquisitions. The main motive behind mergers and acquisitions is that they create value for both shareholders of the target and acquiring companies indicating that mergers and acquisitions result in the creation of shareholder value. However, as we shall see, empirical evidence suggests that not all mergers and acquisitions lead to the creation of shareholder value. Some mergers and acquisitions simply occur because managers of the acquiring firm may want to see their corporations grow bigger so as to increase their bonuses or control of the company. In addition, some mergers occur simply because some firms want to gain monopolistic power. Acquired company shareholders typically do very well especially in cases where the acquirer pays a premium to forestall competitive bidding. The acquirers frequently experience share price underperformance in months following an acquisition with negligible long term gains. Nearly two thirds of companies lose market share in the first quarter and by the third quarter, the figure jumps to 90% (Marks and Mirvis, 2010).

1.1.1 Mergers and Acquisitions

A Merger refers to the combination of two or more companies in such a way that only one survives while the other is dissolved. Acquisition refers to a situation where one firm acquires another and the latter ceases to exist. It occurs when one company takes controlling interest in another firm or its legal subsidiary. Firm that attempts to acquire or merge with another company is called an acquiring company while a target company is a firm that is being solicited by the acquiring company, Machiraju (2007). Mergers and acquisitions constitute one of the most attractive business strategies that are increasingly adopted and utilized among banks today. Traditionally, the cycles of mergers and acquisitions are comprised of three stages: pre-merger

and acquisition stage, due diligence stage and post-merger integration stage (Daniel &Metcalf, 2001; Hitt 2004; Jeris et al, 2002).Mergers and Acquisitions (M&As) are considered as the important growth strategy for companies to satisfy the increasing demands of various stakeholders, (Krishnamurri and Vishwanath 2010). Literature on theories of M&A shows that the motives of companies behind going for M&A are gaining operating and financial synergy, diversification, achieving economies of scale and scope leading to cost and profit efficiency, acquiring management skills, increase market power, get tax benefits, Jensen (1986).A number of studies have been done in M&A and post M&A firm performance (George, 2007). Most of the studies are done using accounting measures (Kumar and Rajib, 2007); and event study methods to find out the shareholder returns through M&A. The studies also focused on the economic and financial condition of the companies in the post M&A period. But as far as literature reviewed there is insufficient evidence regarding the period for which the impact of M&A can be seen .The study is built on the premise that the success of a merger depends on the extent to which the motives are achieved and that success of a merger or acquisition is determined by how much the merger or acquisition affects the value of the shareholders. The effects of the mergers and acquisitions are measured in terms of the motives or the theories behind the formation of mergers.

1.1.2 Shareholder's Value

Shareholder's value is the value enjoyed by a shareholder by possessing shares of a company. It is the value delivered by the company to the shareholder. Increasing the shareholder value is of prime importance for the management of a company. So the management must have the interests of shareholders in mind while making decisions. The higher the shareholder value, the better it is for the company and management.

It is difficult to make a clear cut conclusion that mergers and acquisitions lead to the creation of shareholder wealth or that they do not lead to the creation of shareholder wealth. Many studies have taken a number of different approaches to arrive at different conclusions. On the one hand, accounting studies seek to understand whether there is an improvement in accounting numbers following a merger and acquisition. The evidence from these studies remains mixed with some studies demonstrating that mergers and acquisitions result in an improvement in profitability

while a significant number of studies conclude that mergers and acquisitions do not foster performance improvement. Financial and economic studies typically employ event studies, which aim at understanding how the share prices (stock returns) of the firms concerned react to the merger or acquisition announcement. The results of these studies suggest that mergers and acquisitions lead to significant positive abnormal returns to shareholders of the target firm while resulting in negative of no abnormal returns to shareholders of bidder firms, Bild and Guest, (2002). The studies also demonstrate that despite the negative abnormal returns to acquiring shareholders, there these shareholders eventually benefit from overall significant gains in the future. These results have led some authors to argue that the results obtain tend to be sensitive to the methodology employed thereby leaving one to continue doubting whether the results actually reflect reality or whether they simply reflect the authors' beliefs about mergers and acquisitions. The shareholders' value is measured in terms of Return on Assets (ROA), Return on Equity (ROE) and Earnings per share ratio (EPS).

1.1.3 Effect of Mergers and Acquisitions on Shareholder's Value

The outdated notion that most M&A fail in some substantive manner is not supported by recent evidence. On average, the sum of target and acquirer shareholders' gains around the deal's announcement date is positive and statistically significant. While most of the gain accrues to target shareholders, acquirer shareholders often experience financial gains in excess of what would have been realized in the absence of a takeover, Depamphillis (2014). However, in the three to five years after a takeover, it is less clear if shareholders continue to benefit from the deal. As time passes, other factors impact performance, making it increasingly difficult to determine the extent to which a change in performance is attributable to an earlier acquisition.

Theoretically, it's expected that mergers and acquisitions lead to the creation of shareholder's wealth but only in a limited number of circumstances. Some argue that mergers and acquisitions lead to the creation of shareholder's wealth while some argue that mergers and acquisitions do not result in the creation of shareholder wealth. It is therefore difficult to conclude whether mergers and acquisitions actually result in the creation of shareholder wealth or not. However, most of the studies are inclined to concluding that mergers and acquisitions do not result in shareholder wealth creation.

Researchers use a wide variety of approaches to measure the impact of takeovers on shareholder value. One of them is the average abnormal returns to target shareholders, 00during the 2000s averaged 25.1% as compared to 18.5% during the 1990s, Depamphillis (2014). This upward trend may reflect a tendency by bidders to offer a substantial premium in friendly takeovers to preempt other possible bidders and the potential for revising the initial offer because of competing bids. Other contributing factors include the increasing sophistication of takeover defenses and state laws requiring bidders to notify target shareholders of their intentions before completing the deal. The other is returns to acquirer shareholders, recent research shows that returns to acquirer shareholders are generally positive except for those involving large public firms and those using stock to pay for the deal. Unlike earlier results, these studies document that acquirer shareholders earn positive abnormal returns of about 1 to 1.5%. While earlier studies show such returns to be zero or negative, they fail to explain why the number and size of M&As continues to grow globally, implying that managers do not learn from past failures

1.1.4 Commercial Banks in Kenya

The banking industry has experienced an unprecedented level of consolidation on a belief that gains can accrue through expense reduction, increased market power, reduced earnings volatility, and scale and scope economies. The Central Bank of Kenya and shareholders of banking institutions in Kenya have a positive expectation of mergers and acquisitions. However, Kenya has witnessed a mix of negative performance by some merged banking institutions and positive performance by others. This leaves stakeholders in the banking sector in a paradox, whether mergers and acquisitions should be encouraged or not in the industry. Previous studies have found that the larger the merged banking institution, the higher was the probability of its success as a merger, also the higher expenditure levels also contributed positively to the probability of success of mergers and acquisitions.

A review of the literature suggests that the value gains that are alleged have not been verified .In 2006, Market Intelligence's banking survey concluded that at least 30 Kenyan Banks needed to be merged or acquired going by the pressures that were expected to come from regulatory changes introduced in the previous year and competitive pressure in the market place. According to (Ingo, 2004), M&A transactions in the financial sector comprise a surprisingly large share of

value of merger activity worldwide during 1985- 2000, there were approximately 23370 M&As transactions worldwide in all industries for a total of US$15.8 trillion. In all of the restricting frenzy, the financial sector has probably had far more than its share of strategic transactions that have failed or performed far below potential because of mistakes in basic strategy or mistake.

Merger activities have not been very prominent in the Kenyan scene. However there are a number of mergers of commercial banks dating back in 1989 where 9 financial institutions merged together to form Consolidated Bank of Kenya Ltd.Recent mergers are, Equatorial Commercial Bank and Southern Credit Bank and City Finance Bank Ltd and Jamii Bora Kenya Ltd to the form Jamii Bora Bank 2010.Theoretically it is assumed that mergers improve company performance as a result of synergies acquired, market power, enhanced profitability and risk diversification.

1.2 Research Problem

The fundamental motive for undertaking mergers and acquisitions (M&A) activities is to create value for the shareholders by enhancing their value. Shareholder value creation has become the new corporate paradigm. It's considered to be one of the main objectives of companies. Even though profit goal may not be fundamental, a firm that constantly reports losses returns less than it devours (Haffernan, 2005). Profit of a firm thus impacts shareholders value because it's from profits that retentions are gotten and dividends paid. Mergers are only successful if they lead to an increment in shareholders' value.

In Kenya, firms usually are tempted to get into mergers and acquisitions solely because of favorable capital market conditions. Recent mergers include, Equatorial Commercial Bank and Southern Credit Bank and City Finance Bank Ltd and Jamii Bora Kenya Ltd to form Jamii Bora Bank 2010. Firms are more likely to create more wealth to shareholders through mergers and acquisitions when stocks are booming. Aggregate financial market conditions do not impact on the nature of merger or acquisition. This study seeks to identify how mergers and acquisition affect shareholders value and the effect of the organizational factors on the post-merger performance on M&As.

Previous studies on the effects of mergers and acquisitions on shareholders' value have focused on the abnormal returns around the announcement date of the merger or acquisition. Kariri

(2013) focused on these measures yet they can only be effected for publicly traded firms .The value effects therefore cannot be known if the method study is confined to market oriented models alone. She also focused on the post-merger performance alone without considering the pre-merger performance.

Muniu (2013) studied Bank efficiency, mergers and acquisitions and shareholder effects in Kenya and found that the larger the merged banking institution, the higher was the probability of its success as a merger, this findings is contrary to other studies which have found that large firms tend to overpay more than those at smaller firms, since large-firm executives may have been involved in more deals and be overconfident also managers of large firms may pursue larger, more risky investments (such as unrelated acquisitions) in an attempt to support the firm's overvalued share price, In overall, researchers found that large firms destroyed shareholder wealth, while small firms created wealth. Maranga (2010), Kariri (2013) have all not examined the effects on organizational factors on the performance of M&As.

This study intends to provide a research question: what is the effect of mergers and acquisitions on the shareholder's value of commercial banks in Kenya?

1.3 Research Objective

To determine the effect of mergers and acquisitions on the shareholder's value of commercial banks in Kenya.

1.4 Value of the Study

Mergers and acquisitions in the financial sector are on the increase in terms of both value and volume of transactions. The research intends to provide insight into the impact of M & As on the shareholder's value based on the synergy potential factors/motives. The study findings are expected to be of great help to managers and the shareholders in knowing which areas of the M&As activity to focus on so as to make the deals succeed.

The study also intended to help the policy makers in formulating policies of M&As that will have the interest of the shareholders super-ordinate to any other interests for example the management of various corporate scenes. The study is also intended to help encourage further

research into the area of M&As since available literature show inconsistent results about such effects thereby raising the need for further research in this area of shareholder's effect on institutions undertaking mergers and acquisitions in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1Introduction

This chapter discusses the theoretical review, organizational factors, empirical studies and summary of the literature review.

2.2Theoretical Review

Theoretical framework of mergers and acquisitions has been developed by various scholars among them management entrenchment Shleifer and Vishny, (1989), the hubris which is an overestimation of a manager’s ability to improve the performance of a target he or she perceives to be underperforming among others. Theories of M&As are not mutually exclusive. A firm could, for example, seek to gain market power and at the same time be building an empire and believe that it can more efficiently manage the business of a firm or plant it has targeted as a potential acquisition. There are propositions on theories in which some are proposed to increase shareholder’s value, others have a decreasing effect and others have a neutral effect.

2.2.1Synergy Theory

Sirower (1986) proposed the Synergy theory which holds that firm managers achieve efficiency gains by combining an efficient target with their business and then improving the target’s performance. Buyers recognize specific complementarities between their business and that of the target. Thus, even though the target is already performing well, it should perform even better when it is combined with its complementary counterpart, the buyer firm. The synergistic theory implies that target firms perform well both before and after mergers. The two types of synergies identified are: operating Synergy and financial synergy.

Operating synergy consists of both economies of scale and economies of scope, which can be important determinants of shareholder wealth creation. Gains in efficiency can come from either factor and from improved managerial operating practices. Economies of scale refers to the reduction in average total costs for a firm producing a single product for a given scale of plant

due to the decline in average fixed costs as production volume increases. Scale is defined by such fixed costs as depreciation of equipment and amortization of capitalized software, normal maintenance spending, and obligations such as interest expense, lease payments, long-term union, customer, and vendor contracts, and taxes.

Economies of scope refers to the reduction in average total costs for a firm producing two or more products, because it is cheaper to produce these products in a single firm than in separate firms. Economies of scope may reflect both declining average fixed and variable costs. Common examples of overhead- and sales-related economies of scope include having a single department (e.g., accounting and human resources) support multiple product lines and a sales force selling multiple related products rather than a single product. Savings in distribution costs can be achieved by transporting a number of products to a single location rather than a single product.

Financial synergy refers to the reduction in the acquirer's cost of capital due to a merger or acquisition. This could occur if the merged firms have cash flows that are relatively uncorrelated, that realize cost savings from lower securities' issuance and transactions costs, or that result in a better matching of investment opportunities with internally generated funds.

2.2.2 Managerial Efficiency

According to Chatterjee (1986), the theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a 'friendly' merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the target firm's owners would not sell or submit to the acquisition, and if the gains were negative to the bidders' owners, the bidder would not complete the deal. Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target. Banerjee and Eckard (1998) and Klein (2001) evidence this suggestion.

2.2.3 Free Cash Flow Theory

Jensen (2007) says free cash flow is cash flow in excess of what is required to fund projects that have positive NPV when discounted at the relevant cost of capital. When the bidding firm has substantial free cash flow and a low growth prospect, managers would likely want to keep

control of internal funds and maintain their power in that payment of excess cash flows as dividends or share buyback can reduce manager's control and power. In addition, the managers regard a pay out of dividends or buy back as a complete waste, whereas M&As conserve corporate value, Shleifer and Vishny(as cited in Wang , 2007). Jensen (as cited in Wang, 2007) argues that free cash flow is regarded as a source of value destruction for shareholders and that the returns for the newly created firm are negative.

2.2.4AgencyTheory

Jensen (1986) first proposed the agency theory suggests that value destroying mergers are driven by the manager's incentive to grow the firm beyond its optimal size. In some circumstances the agency problem might force managers to engage in M&As (Maletesta, 1983 in Frensch, 2007), with the separation of ownership and control, the agency problem implies M&As occur when managers want to increase their valueat the expense of the acquirer's shareholders benefits, Berkovitch and Narayan, (1993). Agency problem can stimulate competition among companies but cannot be itself eliminated by the competition and the gains to the target shareholders increase with the competition, Berkovitch & Narayanan, (1993).It seems therefore that the agency motive is the main reason for value destruction in M&As.

According to Guipta and Misra (2007), good managers run firms with efficient incentive and monitoring systems which work to ensure that corporate policy is focused on maximizing value.Mehran &Perisriani, (2006), found that agency problems are important factors contributing to management iniated buyouts, particularly when managers and stockholders disagree on how excess cash should be used. According to European commercial bank, (2010), the goal of any profit seeking organization is to create and preserve value for its owners.

2.2.5 Hubris and the Winner's Curse

According to Roll (1986), Hubris hypothesis explains why mergers and acquisitions occur even if the current market value of the target firm reflects its true economic value. Instead of accepting markets valuation managers or bidders believe that their own valuation of target firm is superior and tend to overpay. Bidders get caught in hubris, an animal like spirit of arrogance and pride where they are optimistic in evaluating potential synergies. The desire to win can drive the

purchase price of a company well in excess of its economic value. In an auction environment the winning bid is often in excess of the estimated value of a target company and is likely to represent a positive valuation error. The positive valuation error represents the winners curse. The winner is cursed in that he has paid more than the company's worth excess premium paid for the target company benefits the shareholders but the shareholders of the acquiring company suffer a diminution of wealth.

2.2.6The Theory of Managerial Entrenchment

Shleifer and Vishny, (1991) claim 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

2.2.7 Diversification

Theoretical arguments suggest that diversification has both value-enhancing and value-reducing effects. Diversification means growing outside a company's current industry category. The potential benefits of operating different lines of business within one firm include greater operating efficiency, less incentive to forego positive net present value projects, greater debt capacity, and lower taxes. The potential costs of diversification include the use of increased discretionary resources to undertake value-decreasing investments, cross-subsidies that allow poor segments to drain resources from better-performing segments, and mis-alignment of incentives between central and divisional managers. There is no clear prediction about the overall value effect of diversification. Berger and Ofeck (1995). Other theories predict a positive relation between diversity and value. In Lewellen (1971) diversity of cash flow variation is good if it allows greater tax benefits of leverage by reducing the volatility of cash flows and the probability of financial distress. Hadlock et al. (1999) argue that diversity might be good if

managers' private information at the segment level washes out at the firm level, reducing information asymmetry. Another argument is that diversity in investment opportunities is good when internal capital markets function better than external markets, since it maximizes the scope of the internal market. Hubbard and Palia (1999) find evidence, using acquisitions in the 1960s, that gains are greatest when a financially unconstrained buyer acquires a constrained target. Thus diversity in financial constraints is good.

2.3 Determinants of Shareholder's Value

There are various determinants that influence the shareholder's value. Among them are mergers and acquisitions, method of financing, number of bidders and size of the company.

2.3.1 Mergers and Acquisitions

Mergers and acquisitions is a fast way for companies to up the scale of their operations, broaden their product portfolio, and enter to new markets. But do they enhance or destroy shareholder value? (Forbes). The motive for undertaking mergers and acquisitions activities is to enhance value for the shareholders by increasing their value. Even though profit goal may not be fundamental, a firm that constantly reports losses returns less than it devours (Haffernan, 2005).

Profit of a firm thus impacts shareholders value because it's from profits that retentions are gotten and dividends paid. Mergers are only successful if they lead to an increment in shareholder's value. Mergers are therefore considered to increase the value of shareholders among the commercial banks in Kenya.

2.3.2 Method of Financing

Mergers and acquisitions may be paid for in several ways either through equity, cash or a combination of both. Sirower (1997), finds out that use of cash to acquire a target company results in better performance that the use of stock. Chang (1998), finds evidence of positive abnormal returns for acquiring firms dependent on the method of financing. Zhao (as cited in chevalier and Redar, 2008), points out that bidder returns are low when transactions are financed with stock than alternative combined or cash offers. Equity based transactions may use stock as well as other securities like debentures (Gaughan, 2007).Becher(2000) in his studies report that

method of financing does not affect the overall merger gain. Hayward & Hambrick, D.C, (1997) also find no effect on the method of financing on stock performance**.**

Returns to acquirer shareholders often are negative when the acquirer and target are publicly traded and the form of payment consists mostly of stock. For publicly traded firms, managers tend to issue stock when they believe it is overvalued. Investors treat such decisions as signals that the stock is overvalued and sell their shares when the new equity issue is announced, causing the firm's share price to decline. Bidding firms that use cash to purchase the target firm exhibit better long-term performance than do those using stock. However, equity-financed transactions in the European Union often display higher acquirer returns than those using cash, due to the existence of large-block shareholders, whose active monitoring tends to improve the acquired firm's performance. Such shareholders are less common in the United States.

2.3.3 Number of Bidders

The winners curse refers to the one willing to pay the highest to acquire and thus gets the least out of an acquisition. The winners curse usually leads to overpayment to acquire a target company. Alsharkas, Kabir and Hassan (2010:13) in their study found out that the number of bidders is negatively related to the bidder returns. It's important to consider the number of bidders that a target received prior to the merger. The overpayment hypothesis suggests that if multiple firms bid for the same target, then the returns to the winning bidder should be lower because the bidder is overpaying for the target so as to win the deal(Al-sharkas et al; 2010)
The hypothesis holds true when bidders who face competition get lower returns while target firms experience higher returns when there are multiple bidders (Al-sharkas et al; 2010.

2.3.4 Size

Managers at large firms tend to overpay more than those at smaller firms, since large-firm executives may have been involved in more deals and be overconfident. Incentive systems at larger firms may also skew compensation to reflect more the overall size of the firm than its ongoing performance. Finally, managers of large firms may pursue larger, more risky investments (such as unrelated acquisitions) in an attempt to support the firm's overvalued share

price. Regardless of the reason, for the 20-year period ending in 2001, researchers found that large firms destroyed shareholder wealth, while small firms created wealth.

2.4 Empirical Review

As per the past studies, companies either enhance their performance or make poor performance after M&As. But the question still remains unexplored especially in Kenyan context about the value effect of M&A on the companies. The present study is an attempt to find out the shareholder's value return from M&A in the case of value creation of commercial banks in Kenya. Several studies find evidence of merger gains, but the results of these studies must be scrutinized carefully.

2.4.1 International Evidence

Houston and Ryngaert (1994) USA, examined abnormal returns from four days before the target was initially declared a takeover candidate (by any bank) to the announcement day. In their sample of 153mergers announced between 1985 and 1991, acquirers suffered a loss in value and targets enjoyed a gain. However, there was no significant aggregate effect on the overall value of the two organizations. The amount of value that was created was highest when acquirers were strong pre-merger performers and when substantial overlap existed. This relationship of value creation with the degree of overlap is consistent with the market expecting mergers best suited for improved efficiency and/or increased market power to experience the greatest level of post-merger benefits.

Madura and Wiant (1994) USA, studied abnormal returns of acquirers over a lengthy period following the merger announcement. They found that average cumulative abnormal returns of acquirers in a sample of 152 deals taking place between 1983 and 1987 were negative during the 36-month period following the merger announcement. Moreover, abnormal returns were negative in nearly every month. Acquirer losses around the time of the announcement may reflect a loss of wealth from an overly generous acquisition price. Negative abnormal returns in months after the announcement, however, are not likely to be due to the price. They seem more attributable to either the merger achieving fewer benefits than projected, or the market revising downward its expectations for the merger.

Finkelstein and Haleblian (1999) USA, find no independent effect of method of financing on the shares. They fail to find any significant relationship between stock market returns and method of financing. Also, Delong (2001); Hyward and Hambrick (1997) all report that method of financing does not affect the overall mergers gain. Finkelstein and Haleblian (2002), argue that there may be a size effect leading to larger acquirers' gains if the target is relatively large. Shelton (1998) found out that increased relative size yields higher value creation for the acquirers. Similarly, Kyei (2008) on the impact of large acquisitions on the share price performance of acquiring firms listed on the JSE concludes that large acquisitions had statistically no impact on the long term share price returns of the JSE listed firm. Al- Sharkas et al.,(2010), in their study on new evidence on shareholder value effects in bank mergers during "1980-2000" find that the number of bidders is negatively related to the returns.

2.4.2 Local Evidence

Maranga (2010) sought to determine the effects of mergers and acquisitions on cost efficiency of the combined commercial banks in Kenya. He utilized data obtained from the Banks 1994-2009. Supervision Department at the Central Bank of Kenya. The findings indicated that firm which engaged in takeover of subsidiaries had no significant changes in levels of their efficiency after mergers. However, some of the firms that merged with other banking institutions demonstrated significant declines in their cost efficiency that would most likely be attributable factors such as overstaffing due to combined workforce, the long learning curve of management on how to best use technology to reduce costs and increase operational costs occasioned by the integration of operations from the previously independent institutions. He noted a decline (or no change) in cost efficiency which does not necessarily translate to profit efficiency for the combined bank because the staffs that are responsible for bringing new business are not able to generate revenues to offset their expenses which are fixed and this affects both the cost efficiency and profit efficiency. He also noted that after the mergers and takeovers. The combined commercial banks continued to realize profits against declining cost efficiency and relatively low profit efficiency because they are key players in lending to the government through the low risk treasury bonds and bills from which they realize good returns

Ndungu (2011) sought to determine the effects of mergers and acquisitions on the financial

performance of commercial banks. The research focused on the financial performance of commercial banks in Kenya which merged between 1999 and 2005. The population used in this study was all the 36 Kenyan commercial banks that have undergone mergers. The study sample was the 16 commercial banks that have undergone mergers. He used comparative analysis of the bank's performance pre and a post-merger period was conducted to establish whether mergers lead to improved financial performance. He used data from financial statements which was collected for 3 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 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.

Kariri (2013) sought to determine the effects of mergers and acquisitions on shareholders wealth of commercial banks in Kenya. Using a sample of comprising 6 listed commercial banks which had merger and acquisition between 1994-2011 and listed at a point of merger and using market adjusted abnormal return (MAAR), She found out that bank mergers announcement had no significant effect on the valuation of shares in the secondary market. In addition, the announcements have no significant effect on total cumulated return for shareholders. This leads to the conclusion that past Kenyan banks M&As were not wealth creating projects for the shareholders of both the bidding entity and the combined entity. The findings of the study had shown that a majority of companies stock returns did not experience a significant reaction to merger announcements did not result to significant build –up of shareholders wealth for both the bidding and the combined entities. She also noted that is evident that having compared her study results to other findings in bank mergers literature the results for bidder shareholders returns are lower. In principle the market reaction to a M&A announcement should be to reflect the value of the expected benefit of each party from the merger, the purpose of event studies being to measure the abnormal share price changes and the announcement date as an indicator of the

perceived economic effects of the merger (Jensen & Ruback, 1983)

2.5Summary of Literature Review

The literature on the value of bank mergers and acquisitions presents a clear paradox. Empirical evidence indicates that on average there is no statistically significant gain in value or performance from merger activity. On average, acquired firm shareholders gain at the expense of the acquiring firm. This is documented over the course of many studies covering different time periods and different locations. It is true whether one looks at accounting data or the market value of equity.

International evidence does not clearly show the effects of mergers and acquisitions on the economy and also on shareholders wealth. Most of the studies have made use of event study methodology and observing abnormal returns on stock. This study will utilize comparative analysis. The local evidence clearly shows that most studies concentrated on post-merger performance alone without considering the pre-merger performance. Also most studies have not looked at effect of Mergers and Acquisitions on the economy. The study hypothesized that Merger and Acquisitions have not contributed to the growth and development of the economy. This led to the study to determine the effect on M&As on shareholder's wealth and the effects of bank M&AS on the economy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodological base for the research study specifically addressing the following; research design, study population, sample population, data collection methods and data analysis.

3.2 Research Design

The study will use a descriptive research design because it seeks to explore the variables forming the study. According to Mugenda and Mugenda (2003), a descriptive study involves collecting data which can then be used to test hypothesis or to answer questions concerning the current state of the object of study. Descriptive research design will be used where banks' performance was analyzed before and after the merger to determine whether there was any effect on the shareholder's value.

3.3 Population

The target population for the study comprises of all the 36 banks that have undertaken mergers in Kenya by the year ended 2013, (CBK, Bank mergers and acquisitions, 2013).According to Mugenda and Mugenda, (2003). The target population refers to the population, to which the researcher wants to generalize the results of the study. (Appendix I)

3.4 Sample

The banks considered in this study are those that either merged or were acquired during the study period of 2002to 2013. This period was selected so as to provide insightful information on the performance of mergers and acquisition in Kenyan Banking industry thereby the effects on the, shareholders' value creation and organizational efficiency. A representative sample of 6 banks mergers was selected for this study using non-probability sampling. Non-probability sampling method has been used in selecting the sample for the period 2002to 2013. However, the analysis

was subjected to the data available. The sampling frame was the period in which the merger took place. The study covered a 12 year period from 2002to 2013 the report was based on the three years pre-merger and three year post-merger report. (Appendix I)

3.5 Data Collection

In this study, the main variables were the elements of a merger (independent variables), the realized shareholders value indicators (dependent variable). Variables used to measure shareholders value is ROA, ROE and EPS and this show significant relationship. This means that in order to maximize shareholder's value; an organization should seek to maximize return on shareholder's equity consistent with findings in Haffernan, (2005). The study used secondary sources of data from published audited annual reports of accounts for the population of interest, C.B.K., N.S.E., C.M.A., and bank supervision annual reports from C.B.K. Financial data from Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements of the 43 banks for the 12 years in calculating and analyzing accounting ratios, also known as performance indicators.

From the financial statements the following ratios are calculated, Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS).ROA and ROE are calculated by making use of EBIT same way as calculated by CBK. The study will use quantitave data obtained from document analysis of published information from the central bank and published financial statements of the participating banks. The study examines the data between 2002 -2013. This period was considered important following issuing of IFRS 7 financial instrument on disclosures on the 18/8/2005 by International Accounting Standards Board which required banks to provide risk and financial disclosures that enable users to evaluate the significance of financial instruments to an entity's financial position and performance (CBK, 2013).The sample will concentrate on 6 banks which had their mergers approved by 2013.

The ROA results for the banks which have undertaken mergers and acquisitions has been almost equal to overall to sector average which has been better than the results for the non-merged. (Rainey, (2005), confirms that the financial management focuses on significant elements, the use of assets and the decisions pertaining to investments. The two ratios used to gain a sense a sense of how well management is using the bank's assets. A low rate may reflect excessive operating

expenses or conservative lending and investment policies, Roussakis, (1997).According to Rainey 2005, higher ROA and ROE translate to better EVA.

3.6 Data analysis

In this study, the main variables were the elements of a merger (independent variables), the realized shareholders value indicators (dependent variable). Variables used to measure shareholders value is ROA, ROE and EPS and this show significant relationship. This means that in order to maximize shareholder's value; an organization should seek to maximize return on shareholder's equity consistent with findings in Haffernan, (2005).

The analysis of data in the study took the form of hypothesis testing. In testing this hypothesis of this study, ratio analyses were employed because it helps the researcher to know the relationship between variables The statistical techniques employed include tabulation is sample percentage and chi-square to the purpose of extracting relevant information. From the financial statements the following ratios are calculated, Return on Assets (ROA), Return on Equity (ROE) and Earnings per share (EPS).ROA and ROE are calculated by making use of EBIT same way as calculated by CBK.

ROA= EBIT /Net Assets

ROE=EBIT/Shareholder's equity

EPS= Net Income/ No of Ordinary Shareholders

Table 3.1: Variables

Variable	Operationalization	Indicator
EPS	Earnings per share measures the amount attributable to each shareholder	The EPS Value
ROE	Measures the return on money provided By both owners and creditors	Value of the ROE
ROA	A measure of the return on money provided by the owners	Value of the ROA

Source: Research Findings

The study compares the pre-merger and post-merger performance using the chi-square test.

3.6.1 Analytical Model

Following Adereti and Sanni (2007), the study made use of secondary data obtained and computed from the banks' published annual reports and accounts covering the periods from years 2002 to 2013 in Table 4.15.This we did to compare if there is any significant difference accruing to efficiency in terms of Return on Assets, Return on Equity and Earnings per share. The collected data were analyzed using t - test statistic at 5% level of significant with the aids of statistical package for social sciences (SPSS) version 17 which is an improvement on the ordinary student t-test as used by the t -test statistic formula is given as:

$$t=\sum(X-\mu) \sim tn1\text{-}2/ SE\ X$$

Where, X = Sample mean; _ = Hypothesized mean; SE = Standard error, and n1 = Sample size.

Decision rule

Reject Ho if the t – calculated value is greater than the t – tabulated value at 5% level of significance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter presents the data analysis, findings and discussions of the study as set out in the research objective and research methodology. The study findings are presented on the effect of mergers and acquisition on shareholder's wealth in commercial banks in Kenya. The data was gathered exclusively from the secondary data.

4.2 Descriptive Statistics

Descriptive statistics are used to describe the basic features of the data in a study. They provide summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. (Web center, 2014).All commercial banks data were described below.

4.2.1 Kenya Commercial Bank

The aim of the study was to find out the ROA of Savings and Loan (K) Limited and Kenya Commercial Bank before and after the merger. Savings and Loan (K) Limited had ROA of 3.3, 3.9, 5.14 for the years 2007-2009 and Kenya Commercial bank had ROA of 3.1, 3, and 3.57.After the merger, the new bank posted ROA of 5.17, 4.98, 5.2 and 5.5for the period 2010 to 2013. These findings are well illustrated in table 4.1 below.

Table 4.1: Savings and Loan (K)Ltd and Kenya Commercial Bank Limited ROA

	Pre-Merger			Post-Merger			
Institution/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Savings and Loan (K) Limited	3.3	3.9	5.14				
Kenya Commercial Bank Limited	3.1	3	3.57				
Average	3.2	3.45	4.355				
Kenya Commercial Bank Limited				5.17	4.98	5.2	5.5

Source: Research Findings

The aim of the study was find out the ROE of Savings and Loan (K) Limited and Kenya Commercial Bank before and after the merger. Savings and Loan (K) Limited had ROE of 31.78, 46.8 and 48.69 and Kenya Commercial bank had ROA of 30.07, 26.9 and 28.69 for the years 2010-2013 respectively. After the merger, Kenya Commercial Bank posted ROE Of 28.23, 31.18, 29.8 and 28.4 for the years 2010-2013 respectively. These findings are well illustrated in table 4.2 below.

Table 4.2: Savings and Loan (K)Ltd and Kenya Commercial Bank Limited ROE

	Pre-Merger			Post-Merger			
Institution/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Savings and Loan (K) Limited	31.79	46.8	48.69				
Kenya Commercial Bank Limited	30.07	26.9	28.69				
Average	30.93	36.85	38.69				
Kenya Commercial Bank Limited				28.23	31.18	29.8	28.4

Source: Research Findings

The aim of the study was to find out the EPS of the Savings and Loan (K) Limited and Kenya Commercial Bank before and after the merger. KCB had an EPS of 1.5, 1.97, 1.84 for the years 2007-2009 and 2.76, 3.72, 4.11 and 4.82 for the years 2010-2013 after the merger respectively.

4.2.2 Equatorial Commercial Bank

The aim of the study was to find out the ROA of Equatorial Commercial Bank and Southern Credit Banking Corporation Ltd. Equatorial Commercial Bank had ROA of 1.4, -0.2 and 1.69 and Southern Credit Banking Corporation Ltd had ROA of 0.6, 0.1 and -14.7 for the years 2007-2009 respectively. After the acquisition, the new firm had ROA of -0.32, 0.55, -4.6 and 1for the years 2010-2013 respectively. This is well illustrated in table 4.3 below.

Table 4.3: Equatorial Commercial Bank Limited and Southern Credit Banking Ltd ROA

	Pre-Merger			**Post-Merger**			
Institution/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Equatorial Commercial Bank Ltd	1.4	-0.2	1.69				
Southern Credit Banking Corporation Ltd	0.6	0.1	-14.7				
Average	1	-0.05	-6.505				
Equatorial Commercial Bank Ltd				-0.32	0.55	-4.6	1

Source: Research Findings

The aim of the study was to find out the ROE of Equatorial Commercial Bank and Southern Credit Banking Corporation Ltd before and after the merger. Equatorial Commercial Bank had ROE of 10.89, -1.2 and -1.9 Kenya Commercial bank had ROA of 30.07, 26.9 and 28.69 for the years 2010-2013 respectively. After the merger Equatorial Commercial Bank, had ROE of -3.7, 5.91, -90.8 and 11.1 for the years 2010-2013 respectively. These findings are well illustrated in table 4.4 below.

Table 4.4: Equatorial Commercial Bank Limited and Southern Credit Banking Ltd ROE

	Pre-Merger			Post-Merger			
Institution/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Equatorial Commercial Bank Ltd	10.89	-1.2	-1.9				
Southern Credit Banking Corporation Ltd	7.36	1.1	2.3				
Average	9.125	-0.05	0.2				
Equatorial Commercial Bank Ltd				-3.7	5.91	-90.8	11.1

Source: Research Findings

4.2.3 CFC Stanbic Bank Ltd

The aim of the study was to establish the ROA of CFC Bank Limited and Stanbic Bank Ltd before and after the merger. CFC Bank Limited had ROA of 1.91, 1.54, 2.1 and 3.1 and Stanbic bank had 1.29, 2.5, 2.9 and 3.4 for the years 2004-2007.After the merger, ROA of the new bank posted ROA of 1.5, 2.8, 3.1 and 2.23 for the period 2008 to 2011. These findings are well illustrated in table 4.5 below.

Table 4.5: CFC Bank Limited and Stanbic Bank Ltd ROA

	Pre-Merger				Post-Merger			
Institution/Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
CFC Bank Ltd	1.91	1.54	2.1	3.1				
Stanbic Bank Ltd	1.29	2.5	2.9	3.4				
Average	1.6	2.02	2.5	3.25				
CFC Stanbic Bank Ltd					1.5	2.8	3.1	2.23

Source: Research Findings

The aim of the study was to establish the ROE of the CFC Bank Limited and Stanbic Bank Ltd before the merger. CFC Bank limited had ROE of 20.77, 15.4, 19.4 and 3.1while Stanbic bank had ROE of 8.7, 21.6, 24.3 and 3.4 for the years 2004-2007 respectively. After the merger, CFC Stanbic Bank Ltd posted ROE of 18.4, 25.4, 28.43 and 30.82 for the years 2008-2011 respectively. These findings are well illustrated in table 4.6 below.

Table 4.6: CFC Bank Limited and Stanbic Bank Ltd ROE

	Pre-Merger					Post-Merger		
Institution/Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
CFC Bank Ltd	20.77	15.4	19.4	3.1				
Stanbic Bank Ltd	8.7	21.6	24.3	3.4				
Average	14.735	18.5	21.85	3.25				
CFC Stanbic Bank Ltd					18.4	25.4	28.43	30.82

Source: Research Findings

The study also sought to establish the EPS of the CFC Bank Limited and Stanbic Bank Ltd before the merger. CFC Bank limited had an average EPS of 3.17, 5.04 and 6.78 for the years 2005-2007 before the merger and 7.31, -0.2, 5.1 and 6 for the years 2008-2011 respectively.

4.2.4 Prime Bank Ltd

The aim of the study was find out the ROA of Prime Capital Limited and Prime Bank Ltd before and after the merger. Prime Capital Limited had ROA of 4.33, 4.49, 4.1 and 2.35 for the years 2004-2007 and Prime Bank Ltd had ROA of 1.71, 1.4, 1.5 and 2.2. After the merger, ROA of the new bank posted ROA of 2.3, 2.8, 3.42 and 3.07, for the period 2008 to 2011. These findings are well illustrated in table 4.7 below.

Table 4.7: Prime Capital Ltd &Prime Bank Limited ROA

	Pre-Merger				Post -Merger			
Institution/Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Prime Capital &Ltd	4.33	4.49	4.1	2.5				
Prime Bank Ltd	1.71	1.4	1.5	2.2				
Average	3.02	2.945	2.8	2.35				
Prime Bank Ltd					2.3	2.8	3.42	3.07

Source: Research Findings

The aim of the study was to find out the ROE of Prime capital bank and Prime bank Ltd before and after the merger. Prime capital bank had ROA of 17.27, 17.2, 11.86 and 5.6 and Prime bank Ltd had ROA 15.33, 17.3, 14.51 and 16.45 for the years 2004-2007 respectively. After the merger, the new bank posted ROE of 15, 17.36, 21.03 and 28.83 for the years 2008-2011 respectively. These findings are well illustrated in table 4.8 below.

Table 4.8: Prime Capital Ltd &Prime Bank Limited ROE

	Pre-Merger				**Post -Merger**			
Institution/Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Prime Capital Ltd	17.27	17.2	11.86	5.6				
Prime Bank Ltd	15.33	17.3	14.51	16.45				
Average	16.3	17.25	13.185	11.025				
Prime Bank Ltd					15	17.36	21.03	28.88

Source: Research Findings

4.2.5 Commercial Bank of Africa Ltd

The aim of the study was to find out the ROA of First American Bank Limited and Commercial Bank of Africa before and after the merger. First American Bank Limited had a ROA of 2.3, 2.23 and 2.23 and Commercial Bank of Africa had ROA of 1.8, 1.8 and 1.94 for the years 2002-2004 respectively. After the merger the new institution posted ROA of 1.68, 2.9, 3.5 3.3, 3.4 for the period 2005 to 2009. These findings are well illustrated in table 4.9 below

Table 4.9: First American and Commercial bank of Africa Limited ROA

	Pre-Merger				Post-Merger			
Institution/Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American	2.3	2.23	2.23					
Commercial Bank of Africa	1.8	1.8	1.94					
Average	2.05	2.015	2.085					
Commercial Bank of Africa Ltd				1.68	2.9	3.5	3.3	3.4

Source: Research Findings

The study aimed to establish the ROE of First American Bank and Commercial Bank of Africa Ltd before and after the merger. First American Bank had ROE of 15.9, 15.6 and 16.18 and Commercial bank of Africa had ROE of 22.4, 22.6 and 22.95 for the years 2002-2004 respectively. After the merger, Commercial Bank of Africa posted ROE of and 2.38, 9.17, 9.15, 5.9 and 6.25 for the years 2005-2009 respectively. These findings are well illustrated in table 4.10 below.

Table 4.10: First American and Commercial bank of Africa Limited ROE

	Pre-Merger				Post-Merger			
Institution/Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American	15.9	15.6	16.18					
Commercial Bank of Africa	22.4	22.6	22.95					
Average	19.15	19.1	19.565					
Commercial Bank of Africa Ltd				2.38	9.17	9.15	5.9	6.25

Source: Research Findings

First American bank had an EPS of 4.25, 5.23 and 2.23 for the years 2002-2004.Commercial Bank of Africa had an EPS of 5, 7.93 and the average EPS for the two banks before the

acquisition was 4.41, 5.66, 4.76 and 6.58 for the period 2001 to 2004 respectively. In the year of the acquisition, the EPS of the new institution dropped to 2.38 before picking up in the following years of the merger to 12.86, 15.29, 14.1 and 13.02 for the years 2005- 2007 respectively. This is illustrated in table 4.11 below.

Table 4.11: First American and Commercial bank of Africa Limited EPS

	Pre-Merger				**Post-Merger**		
Institution/Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
First American	4.25	5.23	2.23				
Commercial Bank of Africa	5	7.93	1.94				
Average	4.625	6.58	2.085				
Commercial Bank of Africa Ltd				12.86	15.29	14.1	13.02

Source: Research Findings

4.2.6Co-operative Bank of Kenya Ltd

The aim of the study was to find out the ROA of the Co-operative bank Ltd before and after the merger. The average ROA was -5.8,-4.3 and -5.04 for the years 1999-2001. The ROA improved after the merger to 0.2, 0.36, 0.57 and 0.99 for the years 2002-2005 respectively. This is illustrated in table 4.12 below.

Table 4.12: Co-operative Merchant Bank Ltd and Co-operative Bank Ltd ROA

	Pre-Merger				Post-Merger		
Institution/Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Co-operative Merchant Bank Ltd	-6.34	-3.58	-8.63				
Co-operative Bank Ltd	-5.1	-5.08	-1.43				
Average	-5.8	-4.3	-5.04				
Co-operative Bank of Kenya Ltd				0.2	0.36	0.57	0.99

Source: Research Findings

The aim of the study was to find out the ROE of the Co-operative bank Ltd before and after the merger. The average ROE was 92.47, 99.31 and 8.5 for the years 1999-2001. The ROE improved after the merger to 0.2, 0.36, 0.57 and 0.99 for the years 2002-2005 respectively. This is illustrated in table 4.13 below.

Table 4.13:Co-operative Merchant Bank Ltd and Co-operative Bank LtdROE

	Pre-Merger				Post-Merger		
institution/Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Co-operative Merchant Bank Ltd	-4.86	-3.58	-5.08				
Co-operative Bank Ltd	189.8	202.2	22.1				
Average	92.47	99.31	8.51				
Co-operative Bank of Kenya Ltd				5.7	8.94	10.72	17.4

Source: Research findings

The aim of the study was to find out the EPS of the Co-operative bank Ltd before and after the merger. The average EPS was 3.5, 1.6, and 0.125 for the years 1999-2001. The ROE improved after the merger to 5.7, 8.94, 10.72 and 17.4 for the years 2002-2005 respectively. This illustrated in the table 4.14 below.

Table 4.14: Co-operative Merchant Bank Ltd and Co-operative Bank Ltd EPS

	Pre-Merger				Post-Merger		
Institution/Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Co-operative Merchant Bank Ltd	1.4	-3.64	-4.5				
Co-operative Bank Ltd	5.6	6.75	4.75				
Average	3.5	1.555	0.125				
Co-operative Bank of Kenya Ltd				6.38	7.58	9.72	9.12

Source: Research findings

4.3 Inferential Statistics

In order to establish the effect of mergers and acquisitions on shareholder's wealth, the study employed chi-square using t-test and SPSS 17 to analyze the findings. The study utilized secondary data and analyzed pre and post-merger using t-test and the findings are as below in table 4.15.

Table 4.15: Model Summary

		Mean	Variance	Std. deviation	Std. error mean	t-value
KCB	**Pre-Merger**	12.24438	254.6166	15.95671	2.659451	-0.39079
	Post-Merger	14.09125	169.9341	13.03588	2.172646	
ECB	**Pre-Merger**	0.544	31.03649	5.571041	0.928507	0.783542
	Post-Merger	-15.478	1806.744	42.50616	7.084361	
CFC	**Pre-Merger**	8.0425	58.71599	7.662636	1.277106	-1.0355
	Post-Merger	12.61	172.5476	13.013574	2.18929	
PB	**Pre-Merger**	9.322	42.95554	6.554034	1.092339	-1.1007
	Post-Merger	14.752	127.6747	11.29932	1.88322	
CBA	**Pre-Merger**	9.400625	69.25563	8.321997	1.386999	-0.23041
	Post-Merger	9.17875	21.9829	4.688592	0.781432	
CO-OP	**Pre-Merger**	24.51625	8.1325	2.851754	0.475292	0.97502
	Post-Merger	1962.257	29.27699	5.410822	0.901804	

Source: Research findings

4.3Interpretation of Findings

The study confirmed mixed results on the effect of Mergers and Acquisitions on banks profitability. Banks that showed an increase in their Return on Assets, (ROA) after the merger confirmed that they were able to efficiently utilize their assets to generate profits. On the other hand, banks that showed a relative decrease in their ROA after the merger indicated inefficient utilization of their resources to improve profitability.

Analysis of the effects of Mergers and Acquisition on the Return on Equity, (ROE) also confirms mixed results for the period after the merger. The results indicated that some bank’s ROE decreased after the merger while others it increased for the period after the merger. An increase in ROE confirms that the banks were able to efficiently utilize the shareholders’ funds at their disposal thereby encouraging them to invest more in the bank. On the other hand, a decrease in ROE confirms that the banks were not able to efficiently utilize the shareholders’ funds.

Analysis of EPS before the merger/acquisition indicate mixed results. Most of the institutions had both negative and positive EPS before the merger. However, if EPS was negative for the two institutions before the merger, the performance in the first years of the merger were low. The institutions however picked up as time passed to become more profitable.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

This chapter presents summary of findings, conclusions and recommendations based on the findings. The aim of the study was to establish the effect of mergers and acquisitions on shareholder's wealth among the commercial banks in Kenya. Section 5.2 presents conclusions, Section 5.3 presents the recommendations, and Section 5.4 presents the limitations for the study section 5.5 presents the suggestions for further research.

5.2. Conclusions

The aim of the study was to establish the effect of mergers and acquisitions on shareholder's wealth in commercial banks in Kenya. From the financial ratios discussed in chapter four above, the study established that following the merger or the acquisition, the Returns on Assets and Returns on equity both improved as the assets of the company improved. However the improvements were not significant as they were influenced by a slow growth in the returns compared to the assets.

Performance analysis based on the ROA on the banks that merged or were acquired communicate mixed signals. The new institution's ROA generally improved after the acquisition or the merger. However, the new institution's ROA at times dropped slightly compared to the average of the two institutions before the merger and acquisition. For example, using the case of Savings and Loan (K) Limited and Kenya Commercial Bank its average ROA was 3.2, 3.45 and 4.355 before the acquisition and improved to 5.17 immediately after acquisition. This showed improvement in the assets of the new institution. Further a look at the Equatorial Commercial Bank and Southern Credit Banking Corporation Ltd revealed that its average ROA was 1, -0.05, and -6.505 before the merger, it further dropped to -0.32, improved to 1 and further dropped to -4.6 before picking up again to 1.

An analysis of ROE reveals a similar trend to that revealed by ROA .Taking the case of Savings and Loan (K) Limited and Kenya Commercial Bank its average ROE was 30.93, 36.85 and 38.69 before the merger. The ROE of the new institution dropped slightly after the acquisition posting results of 28.23, 31.18, 29.3 and 28.4 which was a drop after the acquisition. Equatorial Commercial Bank and Southern Credit Banking Corporation Ltd revealed average ROE of 9.125, -0.05 and 0.2 while after the merger hence communicating mixed results in the findings.

5.3. Recommendations for Policy

The study wanted to find out the effect of mergers and acquisitions on shareholder's value in commercial banks in Kenya, It therefore recommends that banks and institutions undergoing difficult economic times should resort to mergers and acquisitions to increase their profitability as this leads maximization of shareholder's wealth.

The study also recommends that prior and thorough research should be done before the merger and acquisitions takes place to avoid paying more than the company to be acquired is worth. Experienced board members should form the board to enable the mergers and acquisitions transition successfully.

The study also recommends other studies to be done specifically to address the target or the acquiring shareholders as this would enable both the acquiring and the target shareholders to be able to know the effect of the mergers and acquisitions on their value. This study did not specify which shareholders it was studying.

5.4. Limitations of the Study

This study focused on only 6 recent mergers and acquisitions, other studies should consider increasing the sample size so as to have more accurate results as six samples may not be representative of the whole population.

The study was limited to available data in the Central bank website which had some incomplete information, this limited the studies of bank institutions to fewer years than the expected time

frame. The study also relied on the available information to analyze the data to provide the findings.

5.5. Suggestions for Further Research

Other studies should focus on other factors such as organizational factors for example the size, the experience of board members in mergers and acquisitions, the reason for merging and acquiring among others of both the acquiring and target company in determining their post-merger performance.

Other studies should employ primary data in collecting the data on the effect of the M&As on the shareholder's wealth as this would enable the researchers capture first-hand information in combination with the secondary data available in the CBK.

Future researchers should also specify the shareholders to study, either the target or the acquiring shareholders as this would enable the target and acquiring shareholders to know their position in terms of mergers and acquisitions to occurred.

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APPENDIX I

List of commercial banks that have undertaken Mergers and Acquisitions as at 31 December 2013

No.	Institution	Merged with	Current Name	Date approved
1	9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	1989
2	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
3	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
4	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
5	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
6	Bank of India	Bank of India Finance Ltd.	Bank of India (Africa) Ltd.	15.11.1995
7	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
8	Mercantile Finance 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
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	01.02.2010

			Bank Limited	
32	City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
33	Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010
Acquisitions				
No.	**Institution**	**Acquired by**	**Current Name**	**Date approved**
1	Mashreq Bank Ltd.	Dubai Kenya Ltd.	Dubai Bank Ltd.	01.04.2000
2	Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30.04.2004
3	EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16.06.2008

Source: Central Bank of Kenya (2013)

APPENDIX II

List of sample of commercial banks that have undertaken Mergers and Acquisitions as at 31 December 2013

1	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010
2	Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010
3	Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01.01.2008
4	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008
5	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
6	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002

Source: Central Bank of Kenya (2013)