EFFECTS OF SELECTED FINANCIAL MARKET REGULATIONS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I wish to affirm that this research project is my real work has not been offered to another University or Institution of Higher Learning for evaluation.

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This Research project has been submitted for examination with my approval as the university Supervisor

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DEDICATION

This work is bestowed to my dear family members for their support throughout the research process.

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of variance
CR	Capital Requirement
CMA	Capital Markets Authority
CG	Corporate Governance
CBK	Central Bank of Kenya
IOSCO	International Organization for Securities Commissions
NSE	Nairobi Securities Exchange
IRA	Insurance Regulatory Authority
LM	Liquidity Management
RBA	Retirement Benefit Authority
ROA	Return on Assets
ROE	Return on Equity
Sasra	Sacco societies regulatory agency
SACCO	Savings & Credit Co-operative societies

ABSTRACT

This research looked to examine the impact of selected financial regulations on the performance (financial) of banks listed in the NSE in Kenya. It focused on the Capital requirement, liquidity management and corporate governance and their effect on the fiscal performance of commercial banks listed in Kenya. The banks performance was gauged using the ROA. The study took up a descriptive research design to analyze the relationship between selected financial regulations and financial performance of banks listed in the NSE in Kenya. The population of study was eleven banks listed in the Nairobi securities exchange. The response rate was 100% of the total population which makes eleven listed commercial banks. The resulting data was gathered from the yearly reports of the eleven commercial banks. The data was analyzed using Advanced Excel. This study noted that all measures of capital requirement and corporate governance are significant predictors of fiscal performance of listed banks in Kenya, while liquidity management was not significant in explaining the profitability of the listed banks in Kenya. Based on the findings, another study should be conducted to determine the other financial regulation determinants of the financial performance of listed banks in Kenya. Financial institutions are the major drivers of growth in many developing nations. The study recommends the Government of Kenya to ensure that financial institutions operate in the interest of the depositors, owners and the economy as whole. Financial institutions also must carry on their activities in a manner not to interfere with the financial wellbeing of all its stakeholders.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Commercial Banks form a vital part of financial markets, which crucially contributes to the growth of Kenya's economy. They support virtually all sectors of the economy by offering diverse services which go a long way in fostering the growth of these sectors. The roles played by commercial banks include: providing a payment system for the exchange of goods and services, providing finance and financial advice to the businesses and the general public and offering safe custody for deposits. While the essential functions performed by commercial banks have remained considerably fixed for the last many years, the industry itself has undergone numerous change. Slackened domestic regulation, deepened international competition, swift inventions as regards to financial instruments, and the placid growth in information technologies trigger this change (Tidd & Hull, 2003).

Financial and economic crisis in the past and recently both globally and locally, have necessitated the need for stringent rules, guidelines and restrictions on commercial banks. Considering the relatedness of the financial institutions and the dependence that the global and national economy has on banks, it is very crucial for authorities that regulate to take charge on the regularized norms of these financial organizations. In Kenya, commercial banks are regulated by the CBK in pursuant to the Banking Act cap (488). Guideline and regulations by the CBK require banks to observe indicated guidelines, requirements and restrictions. This regulatory block creates openness and trust between financial organizations, individuals and firms that transact with one another on a daily basis among other things.

The objectives of these regulations include: to cushion depositors by minimizing the amount of risk to which banks subject them to, to relegate the adversity of disruptions originating from negative trading activities by banks creating several or major bank failure, to minimize the danger of criminal activities perpetrated by banks, e.g. money valeting which finds its way to the formal sector, and to direct credit to favoured sectors usually referred to as tier 1 in this competitive age among others.

1.1.1 Selected Financial Market Regulations.

The Banking sector is guided by a number of financial regulations in Kenya. All financial and related institutions need/must to conform to the Guidelines laid down by the authority. The Guidelines deal with a wide range of issues including capital adequacy requirements, licensing requirements, prohibited business, corporate governance, consumer protection, liquidity management, stress testing, foreign exchange exposure limits, anti-money laundering, enforcement of banking laws and regulations, agent banking, and representative offices (Sonal et al. 2013). The researcher looked at three of the regulations namely, capital adequacy, corporate governance and liquidity management to ascertain the effects of the regulations on the performance of banks listed in NSE.

Topical economic crisis have shown the need of financial policies to protect the industry from the adversities as a result of inconsistencies in banks' balance sheets. The most crucial element of financial regulation is capital regulation**.** The Central Bank of Kenya (CBK) over time has been revising its capital requirement advising banks to enhance their core capital to KES 1 billion by December 2012 way from KES 250 million in 2008. The reasoning behind the Central Bank of Kenya move was to have enough capital base which is crucial for financial industry stability and serves as a cushion against losses and eventual failures. Nonetheless, other participants in the market argue differently that high capital levels obviously increases the bank lending rate and a reduction of risk-weighted assets by banks so as to meet minimum capital ratios set which are high may push banks to limit the amount of cash extended to borrowers or put unnecessary pressure on spreads for credit in the market. These changes, taken up over the preceding years, have enormously bettered the efficiency & stability of the Kenyan banking sector. Currently, local banks are by and large better-capitalized with a general CAR of 20% as at December 2014, noticeably higher than the prudential guideline of 12% required by then.

During the latest Budget presentation by the Kenyan Cabinet Secretary to the National Treasury and the subsequent Finance Bill, Commercial Banks in Kenya have been given up to 2018 to increase their minimum core capital to KES 5 Billion from the current requirement of KES 2 billion. This is aimed to further ensure stability and encourage only

serious and able players to enter the market so as to compete effectively and prevent premature failures.

The Central Bank of Kenya is empowered to give Institutions guidelines to follow so as to ensure an efficient and effective banking & financial system by the Banking Act Section 33(4). This includes corporate governance guidelines meant to encompass all institutions governed by the Banking Act (CAP 488). These Guidelines aim to regulate and highlight minimum duties and responsibilities that institutions officials like directors and the entire management are required to follow. This is meant boost level/code of conduct and good bank practices, and also ensure that the relevant personnel discharge their roles and duties with assurance, understanding and effectiveness. However, employees and management need to use their good judgment in discharging their daily dues and not to completely rely on the guideline to replace that. The regulation should only be used as a guide. Every organization needs therefore to take into consideration its needs and operations and formulate policies that support the operations and those of the officials that implement them. The required for segregation of duties and responsibilities of the Board and the management has however been outlined in the Regulations to ensure transparency and accountability in the operation of the institutions.

Liquidity shows the ability of banks to sustain their financial obligations in a proper effective & timely manner. Different scholars have come up with ways to measure financial ratios. Customer deposit to total asset and total loan to customer deposits are some of frequently used ratios according to Samad (2004) that show the liquidity position of a bank. Other researchers use other ratios to measure liquidity. For example cash to deposit ratio was used by Ilhomovich (2009) to ascertain Malaysian banks liquidity level. Liquidity management is also another crucial decision managers of banks especially in relation to its measurement and regulation. The need of liquidity is usually an industry's concern and does not limit to a single bank as a liquidity shortfall could have dire industry consequences (CBK, 2009). It is debated, whenever banks liquidity held by banks is high, investments are adversely affected which could have otherwise generated higher returns (Kamau, 2009).

The CBK requires calls for organizations to have and maintain a minimum reserve with it in form of cash balances to cushion their depositors and other stakeholders. The ratio currently is 10%. The CBK is empowered to impose penalty and interest on any organization that chooses not to adhere to the minimum cash balance. The banking sector in Kenya is generally competitive looking at the number of banks in the industry. According to the Bank Supervision Report (2014), as at 31 December 2014 there were forty four banks, 13 of which are foreign. Beck and Fuchs (2004) however observed that most customers in Kenya face non spontaneous services hence tied to one bank. These customers are the not so wealthy compared to corporates and heavy borrowers. They too are characterized by very high moving costs which leads to high margins reported by banks.

The minimum statutory liquidity requirement in Kenya is 20%. Nonetheless, Supervision Annual Report (2009) by the Central bank, indicated the liquidity average ratio for the sector as at 2009 to be 39.8%, and 37.0 % in 2008, higher than the minimum requirement of 20%. This has puzzled analysts how banks can hold such of cash in an economy like Kenya which is always in need of cash (Kamau, 2009). The Central bank however relates this to the fact that most banks prefer to invest in government securities which are considered less risky, while Ndung'u and Ngugi (2000) through Kamau (2009) citation, ascribes this liquidity issue to the constraints placed on banks at the discount window, together with narrow bank to bank market, reserve requirement that is high and inclination of state securities. Tentatively, considering abovementioned observations, the Kenyan financial sector provides an exciting case to analyze how liquidity affects profitability.

1.1.2 Financial Performance

Muriithi (2011) defined financial performance as the act of performing financial activity in order to achieve financial objectives over a specific period of time. Nambiro, (2007) defines it as evaluation of performance of a firm's operations and policies in financial regards. In addition to measuring the overall financial position of a firm, financial

performance can be used for comparison purposes where performances of similar firms can be compared or even the whole sector aggregated.

Njoka (2010) noted that financial aspects of a business firm can be well understood and illustrated through financial performance. It shows the flow of activities over a period of time as indicated in the statement of comprehensive income, or position at a given point in time as stipulated in statement of financial position. The financial performance analysis identifies relationships between items in the statement of income and statement of financial position by comparing them and making decisions that are relevant in order to determine the financial strength and weakness of a firm (Adams & Mehran, 2013), arranging the information in a way to bring out significant relationships, interpret, draw inferences and conclusions (Kajola, 2013).

Ratio is used as a yardstick for analyzing financial performance of a firm and helps to condense large amount of financial data & make both qualitative & quantitative judgment about the firm performance. Measures of fiscal performance of a firm are ROE and ROA (Tharmila & Arulvel, 2013). The CAMEL model has been widely used in determining the financial performance of the banks. Ratios on Capital adequacy, asset quality, management efficiency, earning quality and liquidity can be computed using this model to determine financial performance of the banks.

1.1.3 Financial Market Regulations and Financial Performance

According to the International Organization for Securities Commissions (IOSCO), the three similar and often overlapping securities regulation goals are: cushioning stakeholders, minimizing systemic risk & ensuring markets fairness, efficiency & transparency. The importance to reconcile the tension in a manner conducive to investor protection and promotion of business cannot be underestimated (Njoka, 2010). Admitably, an effective and sound regulatory framework plays a vital role in the enhancement of securities markets (Muriithi, 2011). Effective regulation is the basis of confidence in the market that pulls investors. Undoubtedly, the allocation of regulatory power and its exercise is crucially important to the development of financial markets.

It is well known and widely believed that a well-built regulatory system and regulations, characterized by its supervisory practices, and governance, ensures better financial performance and economic stability (Caprio and Levine, 2006). Promoting good practices, however, has proven to be difficult as there has been rising levels of corruption, unclear democracy, and legal origin, among others, create unrelated regulatory environments that hinder the implementation of comprehensively effective policies. The need of this study was to practically evaluate how regulation and financial performance relate.

1.1.4 Regulation of Commercial Banks at NSE and Financial Performance

Banks are entities regulated by their nature & their operations and rules are set in accordance to laid down statutory guidelines. Regulatory authorities are usually tasked to ensure they strike a balance between maximizing shareholders' values and maximizing profits. They are also concerned with regulations and supervision of exchanges. According to Coleman (2013), demutualized exchanges have proposed and adopted a number of regulatory models. A separate entity can be set up by the profit stock exchanges to carry out regulatory functions, this ensures that conflict of interest is handled through separation of powers. Nasdq an American stock exchange quickly adopted this approach which has seen it grow to commendably. NASD decided in 2000 to separate its operations and to establish 2 subsidiaries; NASD Regulation Inc. running as the agent in charge of regulation NASD and Nasdaq as the one in charge of commercial trading.

Stock exchanges have critical role in the market and the financial system as whole. The stock exchange sector must be keenly looked at and monitored to avoid the possibility of them going out of business thus hindering listed companies from raising the necessary capital required to run their activities and investors experiencing liquidity problems for what they hold. In the past, large successful stock exchanges have been seen to offer to take over exchanges perceived not to be doing well. However, policymakers and regulators are required to closely monitor the performance of both financial and non-

financial markets of demutualized stock exchanges in order to intervene and solve and correct problems when they arise.

1.1.5 Commercial banks Listed in the NSE

The NSE is the 4th largest securities market in Africa. It was founded in 1954. According to the NSE 2015 report, there are 66 companies listed at the ASE in Kenya. The segments on the Nairobi Securities Exchange include Automobiles and Accessories, Agriculture, Banking, Construction and Allied, Commercial and Services, Investment and Services Insurance, Energy and Petroleum, Manufacturing and Allied and Telecommunication and Technology. The products traded are securities which consist of shares/equities and bonds/debt investments.

The Banking Act, Companies Act, the CBK Act, the Kenya Bankers Association and other statutory guides issued by the Central Bank, guides the banking industry in Kenya. The banking industry was relaxed in 1995 and exchange guides flexed easing operations. As at 31st December 2015, of the 66 companies listed at the NSE, 11 comprise of Commercial Banks which are duly regulated and supervised by CBK.

1.2 Research Problem

The financial market regulation at the NSE is expected to enhance operation of capital markets through creation of an environment that attracts long term investments in productive firms, at the same time, putting emphasis on elimination of constraints that hinder proper functioning of the financial market (Nambiro, 2007). It is also meant to facilitate wider participation of the general public in the stock market through existence of nationwide systems of stock exchanges. The regulations are also meant to enable activities to be carried and stocks traded in a fair and efficient through creation of systems that enable self-regulation of the market participants by large extent. (Muriithi, 2011).

To date, much of the research has been limited to studies of companies in the developed world. Most of the said studies too limit scope to a particular industry like Banking industry, Insurance e.t.c. Global studies done are; Pellerin, Walter and Wescot (2009)

consolidation of financial market regulation, merits, demerits, and implications for the USA; Wood and Sharif (2011) The Cost of Bank Regulation: Borrius (2012), effect of introduced financial regulations on financial market instruments in banks. These studies have tended to focus on micro-economic impacts and the relationships between companies and their recipient and shareholders' equity. There has been very little research into the financial market regulations and the impact of regulation and supervision on the development of the sector. What these research have done has tended to be in the form of descriptive case studies charting the experiences of selected firms that have been licensed in their respective countries.

Locally, there are a few studies on financial market regulations though none has focused on the performance banks listed in the NSE. For instance, Jebet (2011) focuses on commercial Banks generally, Mwangi (2012) focuses on insurance companies, Kilonzo (2012) focusses on SACCOs.

Not much research has been done on the effects of selected financial market regulations on fiscal performance of commercial banks listed in the NSE. The concern in the research was informed by the current research/ literature in addition to existing knowledge which is biased towards developed nations, limitation in scope thus creating further a gap in unique needs. The study is interested to answer the research question; what were the effects of selected financial market regulations on financial performance of commercial banks listed in the NSE in Kenya?

1.3 Research Objectives

The following are research objectives;

1.3.1 Main Objective

The primary objective of this research was to evaluate the effect of selected financial market regulations on financial performance of commercial banks listed in the NSE.

1.3.2 Specific Objectives

i. To identify the effect of capital adequacy on financial performance of commercial banks listed NSE.
ii. To evaluate the effect of corporate governance and liquidity management on financial performance of commercial banks listed at the NSE.

1.4 Value of the Study

The study will contribute to the existing literature in the area of the effects of financial market regulations on monetary performance of listed banks in the NSE. The revelations of the research will be important to future scholars and academicians because it will serve as a source of reference on the subject besides providing alternatives for subsequent studies.

The outcome of this research will also be vital to managers of firms listed in NSE in understanding the effects of financial market regulations on financial performance of banks listed in the NSE. This will help them institute measures required to stabilize the market and avoid abnormal stock returns at the market during such periods.

The findings of this study will assist investors in making more informed decisions when trading in Nairobi Securities. The findings of this study will equip financial advisors with empirical knowledge related to regulations thus informed financial advisory. The findings will also provide information to institutions, consultants and entrepreneurs with the necessary tools to plan financing their business and make informed decision for investment.

The finding of this study will also provide information and guideline to financial market regulators and other regulators in policy formulations and decision making in the investments market.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter covered analysis of literature on the theories that support the study. The research allowed for identification of literature from various sources. The sources of literatures will be textbooks, magazines, journals, earlier research works and observations that relate to consolidation of financial market regulators on financial performance of companies listed in the NSE in Kenya. This is presented in form of empiricism in line with the research objectives.

2.2 Theoretical Review

This section discusses the three theories; public interest theory and market failure, economic theory and special interest theory as detailed below.

2.2.1 Public Interest Theory and Market Failure

Pigou (1932) notes that the theory of regulation of economy is advocated in belief that markets must be regulated by the government in cases where the markets are cannot self-regulate. These much talked about market failures occur where supply and demand regulated by the price mechanism fails to regulate itself, requiring the government to step in.

Native monopolies and externalities are some of the common market failures. Native monopolies happen as a result of increased costs of supplying a product in this case (fixed) become high and thus it becomes economic for only one firm to supply the same. Public efficacies like supply of electricity require a lot of finance to put up the necessary infrastructure and thus no firm will take up such a huge responsibility of setting up if it is not assured control of a large part of the market. However, the disadvantage of this arrangement is that firms may end up using the market power and act in a manner that could adversely affect the whole community. Governmental regulation then becomes essential and inevitable to counter exploitations from the firms.

Externalities happen when the price of goods and services do not include the cost or benefit of producing/ manufacturing the same. Economists usually identify air pollution as a cost incurred by virtually each economic activity, this is however down played when arriving at the prices. When the contaminating activity is major, such as in the case of a manufacturing, the costs to the adjacent community can be noticeably high. Understandably, without governmental regulations, there would be nothing that obliges the plant to observe the emission regulations or even minimize the effect pollution would have on the environment or in case of dire effect, compensation to the community. These kind of externalities coupled with the desire to ensure public disclosure by firms makes regulation critical to ensure public interest is protected. In this regard, regulation is as a result of the desire by the government to protect the public from harmful business behaviours and the adverse effects of market failures.

2.2.**2 Economic Theory**

Regulation encompasses policy making & implementation. Economic theory gives 2 balancing principles for financial institutions regulation. Altruistic public theories looks at policies as mechanisms for ensuring transparency, efficiency across the entire system set up by the government. Agency cost theory recognizes the fact that there could exist an agency relationship where one party acts on behalf of the other and as such conflict may arise between the principal and the agent. This arises when the agent does not act in a manner so as to benefit the agent. This therefore calls for rules that enhance the welfare of one/more party that may act at the expense of the other (Diamond and Dybvig, 1983).

Each theory has unique goals & assigns responsibility for deciding & adjusting to rules differently. Altruistic empowers governmental entities absolute responsibility of looking for market failures and adjusting them. It is usually assumed that people will depend on the government to look at their interests and undertake alternatives that benefit them all. (Jensen and Michael, 1994). The theory of agency cost portrays regulation as an instrument used to promote quality of financial services by making it attractive to enter and execute contracts by not necessarily taking up the task personally but trusting it with the experts. These kind of theories give power to parties interested to identify market

failures & correct them. In financial services, the industry is run with discipline, proper control and coordinating as a result of regulatory services. Institutions benefit from regulation that, causes convenience of customer transactions, enhances customer confidence and creates cartel profit. The theory of agency cost emphasizes the need to reconcile conflicts between all the existing and available stakeholders to protect all their interests (Edwards, 1997).

2.2.3 Special Interest Theory

The special Interest theory came up as a counter or alternative to the earlier capture theory. The Capture theory advocates for single/total control of individual agencies by a small group of powerful individuals. This has however been rejected by some researchers, instead, proposing agency's activities control be done and competed by multiple groups. The ordinary citizen is not considered in this model, however, the very powerful groups compete among themselves to make rules & regulations that only favour their interests. Such rules are usually not balanced but inclined to a particular industry or group. In the capture theory, government regulation is usually considered as a good thing and as such demanded the regulated industries. The major difference between the two theories (capture & special interest) is that special holds that competition among unique interests can be extremely intense and also widespread (Becker,1983).

2.3 Determinants of Financial Performance of Listed Firms

There are a number of methods to measure a firm's performance, such as the ownership structure debt structure and the combination of the two above. From finance and accounting literature financial ratios are widely used to reflect the firms performance such as profitability measures (financial leverage), and liquidity (cash flows)

2.3.1 Capital adequacy

Capital adequacy measure is one of the major indicator of the financial stability/health of the banking system. Ultimately, banks have the duty to protect and conserve stakeholders' interests by ensuring they can meet customers' obligations always. Capital adequacy requirement ensures availability of capital at all times. It also reflects the capability of banks to deal with eventualities like unexpected loss arising in future and

also leveraging. The CBK regulates the minimum amount of capital that banks should hold with them. The liquid capital is the first prudential guideline, this is the amount stipulated that banks requiring to enter the market should raise (Staschen, 2003). This requirement is an exact solvency measure (Staschen, 2003) and it is supported so as to influence the financial system. In cases where an institution shows unhealthy position due to external factors or even its own performance liquidity capital acts as a cushion (Christen et al., 2003).

There are some cases when new players in the market are not able to raise the required minimum capital initially required for regulated institutions, this, to some people has been seen as barrier to market entry (Janson, 1997). However, on the other hand, a high capital requirement (minimum) could help to avoid unscrupulous behavior among stakeholders (Janson et al, 2004). In cases where the supervisory resources are scarce, addition, a high minimum capital requirement is used to limit the number of institutions that a supervisory authority should be responsible for, and make monitoring process easier (Schmidt, 2000).

The size of the bank's loan book & risk-based capital position dictates the minimum level of bank capital, related to the risk profile of bank assets. Regulatory capital ratios are defined as a RWA ratio mathematically presented as:

Capital Ratio (CR) = Capital (C) / Risk Weighted Assets (RWA)

2.3.2 Corporate governance

The financial solvency and personal integrity which informs the minimum standards on the nature & quality of shareholders is well stipulated in the prudential regulation that relates to ownership and governance (Hardy, Holden and Prokopenko, 2003). More than often the shareholders are called upon to raise additional capital to be injected in the business, this requires them to have enough resources so as to oblige when called upon (Christen et al, 2003). All institutions including institutions acting as deposit taking institutions, should comply with the corporate governance requirements to ensure a

proper structure. In order to diversity and build up their equity structure, and promote solvency, MFIs need to continuously incorporate some private investors as shareholders, (Jansson et al, 2004). However, enhancement of the business orientation in the microfinance industry can be achieved by ensuring open participation of the private sector in the capital structure. Nonetheless in environments that MFIs are still managed by non-profit organizations, there is a likelihood that this may face some opposition (Jansson and Mark, 1997).

Besides, BOD & top management are required to demonstrate their good ethical character and their knowledge in finance related matters. The regulatory authorities are required to clearly define the roles & responsibilities of the members of the board and the executive management as pertains financial performance of the institutions & compliance with regulation (Jansson *et al*, 2004).

2.3.3 Liquidity management

Another crucial decision that the managers of banks take is liquidity management & basically in relation to the measurement of their requirements to the operations of deposits & loans. The need of liquidity is usually an industry's concern and as opposed to individual bank as a liquidity shortfall could have dire industry consequences (CBK, 2009). It is debated that whenever there is higher liquidity by banks investments are adversely affected which could have otherwise generated higher returns (Kamau, 2009).

Their usually exists trade-offs between return & liquidity risk which are illustrated by discovering that a movement of loans in manner through which loans increases liquidity risks as well as a bank's return and the vice versa. This therefore shows that a liquidity ratio that is high indicates a less profitable & risky bank (Hempel et al, 1994). The management then is encountered with the dilemma of balancing profitability and liquidity.

The liquid assets ratio to total assets ratio measures the overall liquidity position of the bank. This include money at call, cash in hand & short notice, reserve at the Central bank and balance with banks across nations. Total assets include the revaluation of all the assets.

2.4 Empirical Review

Globally, several researches have been done that are relate to the effects of financial market regulations on financial performance.

Benh-Khedhiri, Casu, and Sheik-Rahim (2005), research on profitability & interest rates changes in Tunisian banking industry. Basically, they focused on the indicators of the banking sector's efficiency specifically looking at the determinants of the credit unions' net interest margins. The study sought to establish the express effects of capital regulations & capital requirements. Ideally, some researchers disagree the fact that capital regulation has significantly affected Financial Institutions. Jackson et al. (1999) reviewed a number of earlier researches determining the relationship between capital adequacy regulation and actual capital ratio; such as Rime (2001). Jackson et al conclusion was that most firms act to counter strict capital adequacy by minimizing lending, and the fact that capital regulation is the main driver as to why financial institutions maintain higher capital to assets ratios than the otherwise they would have done if not regulated has minimal evidence.

Karemera (2013) sought to investigate how financial regulation relates to financial performance of Rwandan commercial banks. The objective was to determine how the capital requirement ratio and financial performance or return on assets in Rwanda relate. The study finds an inverse relationship between capital requirement and financial performance or return on assets of eight commercial banks in Rwanda. These findings validate the results of the research done by Altunbas et al. (2007) through their European banks study, for example, more capital is usually held by relatively inefficient banks. Some researchers however disagree on the idea that capital regulation hasn't had major effects on financial performance. Benh-Khedhiri, Casu, and Sheik-Rahim (2005), study on profitability in Tunisian banking industry. The study seek to establish the absolute effects of capital requirements & capital regulations on profitability of banks in Tunisia.

Studies conducted in Kenya looked at financial regulation in different industries. Obiero (2002) in his study on the adequacy of the banking sector regulatory framework in reducing bank failure analyzed 39 banks which failed in Kenya in the period 1984 to

2001. He identified ineffective board and management malpractices as the most dominant reason for bank failure. Other causes of bank failure include: high incidences of nonperforming loans, unsecured insider loans, undercapitalization and insolvency, poor lending practices, run on deposits, persistent violations of the banking act leading to closure and heavy reliance on parastatal deposits. He further noted that although the legal provisions of the banking regulatory framework is relatively conclusive in coverage and adequacy of content to reduce the risk of failure, timely intervention by CBK is important if they are to be effective.

Kusewa (2007) looked at how regulation of the retirement benefit section has impacted on the pension schemes financial performance in Kenya. The findings of this research project indicate that the period under regulation was marked with better financial performance of occupational retirement benefit schemes population than the period without regulation. The improvement in the average annual percentage increase in contributions can be used as to indicate that occupational pension schemes have become more attractive members i.e. members have continuously found it useful to save in a pension scheme following the introduction of regulations. The improved average annual percentage increase in fund values implies there has been more growth in the net assets of pension schemes in the period under regulation.

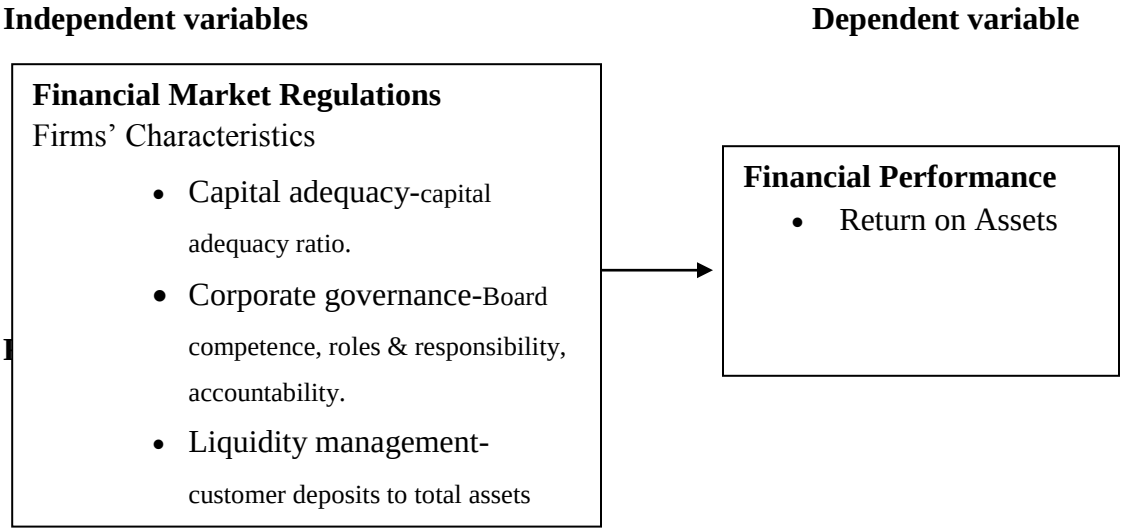
Njeule (2009) looked at the impact of CBK prudential regulations on the financial performance of banks in Kenya. In year 2001 to 2006 the study found that the differences in the financial performance of banks was due to as a result of change in Capital Adequacy, Liquidity Management, risk classification of Assets, Foreign Exchange Risk Exposure and Corporate Governance. The study also showed a strong significance between the study variables and that Capital Adequacy, Liquidity Management, Foreign Exchange Risk Exposure, Risk Classification of Assets and Provisioning, and Corporate Governance were significantly influencing ROA of banks in Kenya.

Kilonzi (2012) looked at the impact of SASRA Regulation on the fiscal performance of SACCOs. The research concluded that increased profitability of SACCOs in the period after capital regulation was as a result of higher capital requirements, and increase in

efficiency of management. However, the adverse effects on the profits on SACCOs' was due to the economic activity reduction & also, to the reduction in reserves. The efficiency in the SACCO sector was reflected in increased and better SACCOs' fees and commissions. The study finally concluded that capital regulation plays a vital role to the performance and financial stability of SACCOs complemented by the state of economy which drives performance of the Unions. The study concluded that the economic system usually experiences shocks and the same time lack of proper mechanisms to deal with the disturbances, this ultimately affects the SACCOs financial stability.

2.5 Conceptual Framework

Conceptual framework is a mechanism that illustrates, analyzes and creates awareness usually diagrammatically to facilitate communication of a given (Kombo & Tromp, 2006). Mugenda (2008) define a conceptual framework as an exact illustration of an idea coupled with a visual or graphic representation of major variables of the study. A conceptual framework is made up of variables. Kothari (2009) define it as a concept that can assume different quantitative value. The key determinants in this study were characterized as independent variables and dependent variable. In this research effectiveness of financial market regulations were attributed to capital adequacy requirements, corporate governance and Liquidity management. These are concepts that were considered to influence the financial performance of banks listed in NSE. The diagrammatic illustration in figure 1



2.6 Summary of the Literature Review

As much extensive research has been done on financial regulation, it still remains in its early levels. Consistent theories that are efficient are yet to be developed since researches and studies are still in their early exploratory stages. Although regulation of financial markets regulators has made milestone from tertiary role to a more strategic role, it is still interpreted in a number of ways in the literature. The existing scholarly articles focus on specific aspects and thus only consider certain individual contributions. Thus, this study introduces an all-round framework that looks into concepts, concerns and objectives. It further considers principles, analysis field as well as the key support factors of fiscal performance. The present study hoped to fill the gap on the effects of selected financial market regulators on financial performance of companies listed in the NSE in Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The chapter highlights methods & procedures used in carrying out the study. It is covered in different sections namely, survey research design, next section presents the population, another section presents data collection, and following section presents data analysis, Conceptual and analytical model as well as data presentation methods.

3.2 Research Design

The research took on a descriptive research design. This defines a subject often through the gathering data & arrangement of frequencies on research variables and their interaction and classification of problems, people or events as indicated by Cooper and schindler (2003). This was also a descriptive study where the researcher gathered data from the published documents to investigate the effects of selected financial market regulations on monetary performance of commercial banks listed in the NSE in Kenya.

It also employed both quantitative and qualitative method through analysis of the financial statements using different models and ratios to provide primarily quantitative data to the study. Quantitative data enabled for a deeper research problem analysis.

3.3 Population

The target population in a study is the total number of individuals in a group or the number of groups that the researchers are intending to work with (Cooper and Schindler 2001).

According to the Nairobi Securities Exchange, as at December 2015, there are 11 listed commercial banks. Due to the small number of the banks listed at the NSE, the study was census and thus used all the 11 banks that are listed.

3.4 Data Collection and Analysis

This section covers data collection and analysis, as follows:

3.4.1 Data Collection

The study took up resulting data which consist of cross sections and trend. The data for all in the study was obtained from accounting statements and published yearly reports of the listed commercial banks in NSE covering years from 2010 to 2015. Data was gathered from the NSE publications for the period of reference. Data analyzed included the statement of comprehensive income, financial position and notes to the accounts in the financial statements.

The researcher also relied on other sources for the data, such as; audited and published financial statements of the target banks, the CBK, CMA, the Kenya National and Bureau of Statistics.

3.4.2 Data Analysis

Data analysis involves collecting, arranging & interpreting the data that is, understanding the data in terms of the peoples' definition of the situation highlighting trends, categories, themes & regularities (Mugenda and Mugenda, 2003). Data analysis process involved several stages. Quantitative method of data analysis was used where data was coded and thereafter analyzed using advanced Excel package program and presented to summarize the research findings and give a clear picture at a glance. Results were presented in tables. Correlation and discriminant analysis were used to identify the effect of one variable over the other i.e. independent and dependent.

3.4.3 Data Analysis Model

Data was analysed by using descriptive statistics such as mean score, standard deviation and inferential statistics, correlation and multiple regression model. This study aimed at a comparative study of impact of selected financial regulations on the financial performance of banks. The study sought to cover six years period from 2010 to 2015.

The multiple regression model parameters will be as follows;

$Y=\alpha+\beta_1X_1+\beta_2X_2+ \beta_3X_3 +\varepsilon.$

Where;

Y= ROA (Financial Performance)

X_1= Average Capital adequacy measure for the banking industry

X_2= Average Corporate governance measure for the banking industry

X_3= Average liquidity management measure for the banking industry

ε= error term

β=coefficient

α= constant

3.4.4. Test of significance

Means of the variables for the effect of financial regulations on financial performance was compared using the t-test. This was to ascertain the performance in the selected period.

3.4.5 Operationalization of Variables

Each independent variable was measured as summarized below

Table 1 Measurement of variables

	Variables	Measures	Notation
Dependent Variable	**Return on assets**	Net income/ total assets	**ROA**
Independent Variables	**Corporate governance**	Total operating income/total revenue	**CG**
	Capital Requirement	Capital Adequacy=Equity /Total Asset	**CR**
	Liquidity Management	Total Customer deposits to Total assets	**LM**

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section explains the actual revelations derived from the secondary data and matches them to the purpose of the study. Data analysis was done in steps namely data preparation, then, data analysis & thereafter reporting. Data was analyzed by the help of advanced Excel. The study employed Pearson's correlation, descriptive Statistics, multiple regression analysis & ANOVA test.

The study variables were explained by descriptive statistics from the profiled sample. The ANOVA test helped to examine the existence of significant differences the effects of Liquidity Management, capital requirement and Corporate Governance on the financial performance of listed banks. Hypothesis study, presence of significant relationship between variables and effects of selected regulatory requirement on performance of banks was analyzed using regression model. Attempts are made to explain why the findings and also determine to what extent they are consistent or support past empirical findings and theoretical arguments. The discussion of the findings is guided by objectives of the study.

4.2 Response Rate

The target population of the research was eleven banks which were listed in the Nairobi Securities Exchange as at 31st December 2015. The study managed to get data for all the eleven listed commercial banks. The data was gathered from the audited reports of the listed commercial banks.

4.3 Data Presentation

The data for six years was collected covering the period 2010 to 2015. Raw data was then presented then correlation and regression analysis done.

Figure 2 Total assets

TOTAL ASSETS	**Kshs Million**					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	172,415	167,029	184,825	206,739	225,841	240,877
CFC Stanbic Holdings	140,080	150,171	143,212	180,512	180,999	208,452
I & M Holdings Ltd	86,882	108,064	119,276	141,364	154,061	164,823
Diamond Trust Bank Kenya Ltd	83,600	107,765	135,461	166,520	211,539	271,608
HF Group Limited	29,278	31,870	40,956	47,389	60,961	71,659
Kenya Commercial Bank Group Ltd	251,356	330,716	368,018	390,851	490,338	558,094
National Bank of Kenya Ltd	60,026	68,664	67,154	92,555	123,091	125,440
NIC Bank of Kenya	59,013	78,984	108,348	121,062	145,780	165,788
Standard Chartered Bank	142,880	164,181	195,352	220,391	222,495	233,965
Equity Group Holdings	143,018	196,294	243,170	277,729	344,572	428,062
The Co operative Bank of Kenya	154,339	168,311	200,886	231,215	285,396	342,499
TOTAL	**1,322,887**	**1,572,049**	**1,806,658**	**2,076,327**	**2,445,073**	**2,811,267**

Figure 3 Net income

NET INCOME	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	13,553	12,071	13,020	11,134	12,293	12,074
CFC Stanbic Holdings	2,005	2,798	4,588	7,224	7,700	7,359
I & M Holdings Ltd	3,004	4,457	5,702	7,262	7,480	8,747
Diamond Trust Bank Kenya Ltd	3,462	4,307	6,027	7,235	8,521	9,565
HF Group Limited	561	975	907	1,480	1,400	1,753
Kenya Commercial Bank Group Ltd	9,797	15,129	17,208	20,123	23,787	26,537
National Bank of Kenya Ltd	2,697	2,443	1,156	1,812	1,303	(1,637)
NIC Bank of Kenya	2,608	3,604	4,517	5,009	6,230	6,397
Standard Chartered Bank	7,681	8,255	11,556	13,354	14,345	9,159
Equity Group Holdings	9,045	12,834	17,420	19,004	22,364	23,958
The Co operative Bank of Kenya	5,559	6,362	9,983	10,872	10,916	15,383
TOTAL	**59,972**	**73,235**	**92,084**	**104,509**	**116,339**	**119,295**

Figure 4 Total Operating Income

TOTAL OPERATING INCOME	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	29,569	26,339	27,424	27,922	28,883	27,695
CFC Stanbic Holdings	8,319	10,189	14,092	16,203	16,167	16,036
I & M Holdings Ltd	4,877	6,645	8,983	12,322	11,796	13,083
Diamond Trust Bank Kenya Ltd	7,757	9,571	13,320	14,499	16,815	20,625
HF Group Limited	1,162	1,715	1,752	2,272	2,482	3,108
Kenya Commercial Bank Group Ltd	27,057	30,584	44,059	47,862	40,883	48,713
National Bank of Kenya Ltd	1,461	1,342	6,140	7,244	8,433	8,928
NIC Bank of Kenya	5,213	6,602	8,316	9,330	11,177	12,045
Standard Chartered Bank	13,902	15,913	20,671	23,417	24,814	25,587
Equity Group Holdings	22,153	28,670	36,827	39,459	46,059	53,622
The Co operative Bank of Kenya	15,671	18,306	23,780	27,889	32,085	34,028
TOTAL	**137,141**	**155,876**	**205,364**	**228,419**	**239,594**	**263,470**

Figure 5 Total operating revenue

TOTAL OPERATING REVENUE	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	31,026	27,635	30,320	30,359	31,625	34,337
CFC Stanbic Holdings	10,719	13,359	14,092	16,203	20,196	22,631
I & M Holdings Ltd	6,960	9,199	14,296	16,438	17,602	21,693
Diamond Trust Bank Kenya Ltd	10,237	12,782	19,651	20,528	24,584	33,221
HF Group Limited	2,475	3,464	5,068	5,440	7,216	9,269
Kenya Commercial Bank Group Ltd	33,098	41,575	57,043	57,059	69,476	79,763
National Bank of Kenya Ltd	6,806	7,925	12,120	11,291	10,697	12,248
NIC Bank of Kenya	6,810	9,212	14,363	14,859	16,691	20,421
Standard Chartered Bank	15,621	18,282	26,649	29,213	30,099	30,206
Equity Group Holdings	24,215	31,786	43,711	47,260	53,841	65,304
The Co operative Bank of Kenya	18,041	23,304	35,523	33,947	40,296	50,032
TOTAL	**166,008**	**198,523**	**272,836**	**282,597**	**322,323**	**379,125**

Figure 6 Total Equity

TOTAL EQUITY	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	31,465	29,223	29,586	32,372	38,355	39,716
CFC Stanbic Holdings	24,768	19,326	27,240	32,425	36,895	38,364
I & M Holdings Ltd	13,850	15,166	19,410	23,856	22,424	26,816
Diamond Trust Bank Kenya Ltd	10,259	13,248	18,626	23,744	32,263	38,205
HF Group Limited	4,257	4,717	5,137	5,859	6,558	10,622
Kenya Commercial Bank Group Ltd	39,129	44,365	54,295	63,354	75,631	81,253
National Bank of Kenya Ltd	9,929	10,456	10,467	11,888	12,224	11,053
NIC Bank of Kenya	8,353	10,522	15,481	17,568	26,346	23,350
Standard Chartered Bank	20,331	20,694	30,752	36,206	40,658	41,251
Equity Group Holdings	27,204	34,285	42,916	51,555	63,776	72,136
The Co operative Bank of Kenya	20,596	20,951	29,367	36,583	42,877	48,793
TOTAL	**210,141**	**222,953**	**283,277**	**335,410**	**398,007**	**431,559**

Figure 7 Total Customer deposit

TOTAL CUSTOMER DEPOSIT	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	123,826	124,207	137,915	151,125	164,504	165,083
CFC Stanbic Holdings	71,425	74,007	100,463	130,285	95,838	106,246
I & M Holdings Ltd	68,208	85,212	87,774	97,145	99,211	116,686
Diamond Trust Bank Kenya Ltd	66,196	85,986	106,975	128,788	160,955	194,051
HF Group Limited	15,943	18,671	22,937	26,507	36,105	41,665
Kenya Commercial Bank Group Ltd	196,974	259,308	288,307	305,659	377,271	424,390
National Bank of Kenya Ltd	780	155	55,191	77,992	104,733	110,622
NIC Bank of Kenya	48,492	66,293	83,379	91,565	100,434	112,364
Standard Chartered Bank	100,504	122,323	140,524	154,720	154,066	172,036
Equity Group Holdings	104,431	144,165	167,913	195,153	245,582	303,206
The Co operative Bank of Kenya	123,878	142,632	162,083	175,425	217,698	563,709
TOTAL	**920,657**	**1,122,959**	**1,353,461**	**1,534,364**	**1,756,397**	**2,310,058**

Figure 8 Total loans

TOTAL LOANS	Kshs. Million					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Barclays Bank of Kenya	87,147	99,072	104,204	118,362	128,991	149,834
CFC Stanbic Holdings	58,984	64,256	78,483	103,847	88,347	104,981
I & M Holdings Ltd	50,257	66,365	71,012	91,882	101,610	114,927
Diamond Trust Bank Kenya Ltd	51,260	71,297	87,707	110,945	137,654	177,544
HF Group Limited	19,503	25,222	30,293	35,215	45,243	53,021
Kenya Commercial Bank Group Ltd	148,113	198,724	211,664	227,721	283,732	345,968
National Bank of Kenya Ltd	20,844	28,068	28,346	39,566	65,641	67,803
NIC Bank of Kenya	40,754	56,624	71,540	83,493	100,575	114,657
Standard Chartered Bank	60,336	96,097	112,694	129,672	122,749	115,125
Equity Group Holdings	78,299	113,824	135,692	171,363	214,170	269,839
The Co operative Bank of Kenya	86,618	109,408	119,087	137,087	179,486	208,074
TOTAL	**702,115**	**928,957**	**1,050,722**	**1,249,153**	**1,468,198**	**1,721,773**

4.4 Descriptive Statistics of Independent Variables

Table 2: Independent Variables one Sample Statistics

Variables	One Sample Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation	Std error Mean
Capital requirement	66	0.14	0.16	0.1559	0.00765	.00312
Liquidity Management	66	0.69	0.82	0.7397	0.04434	.01810
Corporate governance	66	0.69	0.83	0.7684	0.04790	.01956

Capital Requirement

The study found the mean value of the Capital Requirement (CR) to be 0.1559 i.e 15.59%, with minimum values of 0.14 and maximum 0.16. The standard deviations of capital requirement was 0.00765 which shows little dispersion of Capital Adequacy ratio (Equity/Total Asset) from its mean for the listed commercial banks in Kenya. Looking at the minimum, mean and maximum values, generally, the statistics indicate a slight variation in the capital requirement determinants of profitability of banks in Kenya. The mean Capital Ratio (CR) of Commercial Banks in Kenya as per this research is 16%. This average is above the statutory minimum of 12.0 percent set by CBK (Olweny & Shipho, 2011).

Comparing the statutory minimum and the average mean of the study, one could conclude that banks hold more capital than required, implying they prefer less risky investments to high profits. This gives banks adequate buffer to absorb unforeseen shocks.

Liquidity Management

The mean value of Liquidity Management (LM) was 0.7397 with maximum and minimum values of 0.82 and 0.69 respectively. The Liquidity Management had also standard deviations of 0.04434 which shows little dispersion of customer deposits to total assets ratio from its mean for the listed commercial banks in Kenya. The Table 2 also shows that the average Liquidity Management was 73%. This shows that commercial

banks in Kenya utilize 73% of customers' deposits on lending. This was lower that Ongore and Kusa (2013) whose study found that the total deposits (average) to total loans was 77.50%. The high brim between deposit and lending rate makes us conclude from the study that customers' deposit are cheaper sources of funds that banks utilize to generate income.

Corporate Governance

Corporate Governance (CG) had a mean value of 76.8% with minimum of 0.69 and maximum value of 0.83. The Corporate Governance (CG) had standard deviations of 0.04790 which shows little dispersion of operating income to total income ratio from its mean for the listed commercial banks in Kenya. The Corporate Governance (CG) which is expressed by average operating income /total income ratio was 76.8%. This was higher than that of Ongore and Kusa (2013) who found that management efficiency/ Corporate Governance), proxies by operating income to total income was 72.23 averagely. These results are similar to Ogilo (2012) who evaluated the effect that CRM has on financial performance of banks in Kenya. Ongore and Kusa (2013) came up with similar findings after evaluating determinants of financial performance of banks in Kenya.

4.4.1 Inferential Analysis

Inferential statistics analysis was conducted through the use of correlation and regression models to determine how independent and dependent variables relate.

Inferential Analysis of Independent variables

The analysis of variance (ANOVA) on the connection between selected regulations and financial performance of banks listed in the NSE was done to test statistically if the means were significantly different between these groups.

Table 3: ANOVA – Capital Requirement and ROA

ANOVA					
Return on Asset for Commercial banks					
	Sum of Squares	df	Mean Square	F crt	P. Value
Between. Groups	0.035432	1	0.03543	4.964	2.08E-11
Within Groups	0.000343	10	3.43E-05		
Total	0.035775	11			

According to table 3 capital requirement with ROA has F critical of 4.964 and the P-value is 2.08E-11 which is a very small value, less than 0.05 implying that the mean difference of capital requirement with bank performance (ROA) is statistically significant at significance level of 0.05.

Table 4: ANOVA – Liquidity Management and ROA

ANOVA					
Return on Asset for Commercial banks					
	Sum of Squares	df	Mean Square	F crt	P. Value
Between Groups	1.438822	1	4.430229	4.964	3.64E-12
Within Groups	0.009881	10	0.009881		
Total	4.448014	11			

According to table 4 Liquidity management with ROA has the F statistic of 4.964 and the P-value is 3.64E-12 which is less than 0.05 implying that the mean difference of liquidity management was statistically significant with bank performance (ROA) at a level of significance of 0.05.

Table 5: ANOVA – Corporate Governance and ROA

ANOVA					
Return on Asset for Commercial banks					
	Sum of Squares	df	Mean Square	F crt	P. Value
Between Groups	1.560471	1	1.56047	4.964	5.23E-12
Within Groups	0.011524	10	0.00152		
Total	1.571995	11			

According to table 5 Corporate Governance with ROA has the F statistic of 4.964 and the P-value is 5.23E-12 which is less than 0.05 implying that the mean difference of liquidity management was statistically significant with bank performance (ROA) at a level of significance of 0.05.

4.4.2 Dependent Variable (ROA of Listed Banks in Kenya.)

Descriptive Statistics

Table 6: Six-Year' Performance of Listed Commercial Banks in Kenya.

Descriptive Statistics					
Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Return on Asset (ROA)	66	0.042	0.05	0.0472	.00319

Table 6 presents averagely the financial performance of banks as shown by return on assets for the year 2010 to 2015. The study found that the mean value of the average ROA was 0.0472 with minimum of 0.04 and maximum of 0.05. In term of standard deviations the ROA had 0.319% which shows low dispersion of ROA from its mean for the listed commercial banks in Kenya. However, this result was higher than the result of Ongore and Kusa (2013) study which was 1.95 for the year 2001 to 2010. These findings were coherent with the conclusions of Flamini et al. (2009). It is important to note that the study results revealed that ROA was twice the average return on assets in Sub-Saharan Africa, which was nearly 2%, Ongore and Kusa (2013). This, can therefore be concluded that the average ROA of financial institutions in Kenya is above average that of SSA.

4.5 Correlation Analysis between Variables and performance of listed commercial banks (ROA).

Table 7:Banks' Performance and Effects of CBK regulatory requirement

	ROA	CR	LM	CG
ROA	1.000	0.31	-0.38	0.38
CR		1.000	-0.65	0.08
LM			1.000	-0.81
CG				1.000

Return on asset (ROA), Capital Requirement (CR), Liquidity Management (LM) , and Corporate governance (CG).

This part shows the how identified Corporate Governance, Capital Requirements, and Liquidity Management relates with banks' performance as expressed by ROA.

Capital Requirement and ROA of Banks in Kenya

From table 7, study findings revealed that Capital requirement had correlation R values of 0.31. This correlation coefficient value is between 0.2 and 0.4 indicating a weak positive linear association of capital requirement with ROA.

Liquidity Management and ROA of Banks in Kenya

Results revealed liquidity management had R of -0.38 with ROA. This correlation coefficient value was between -0.2 and -0.4 indicating a negative linear association between Liquidity Management with ROA.

Corporate Governance and ROA of Banks in Kenya.

From table 4.16 results indicated that Corporate Governance had R of 0.38 with ROA. This correlation coefficient value was between 0.2 and 04 indicating a weak positive linear association between Corporate Governance and ROE.

4.6 Regression Analysis and Hypothesis Testing

According to Mugenda and Mugenda (2003) a correlation coefficient indicates the how variables relate but does not show any causal relationship that exists between variables thus the need for further statistical analysis such as regression analysis to enable determine specific nature of the relationships. In this part, multiple regression analysis is illustrated for the performance of banks each year. So as to answer effect of selected regulations on ROA of listed banks in Kenya.

4.6.1 Regression Analysis – with ROA

Table 8: Regression Coefficients with ROA

Model	Coefficients		t	Sig.
	Unstandardized Coefficients			
	B	Std. Error		
(Constant)	-0.331	0.013	-2.427	0.018
Capital Requirement	0.370	0.082	4.500	0.0002
Liquidity management	0.007	0.010	0.650	0.518
Corporate governance	0.020	0.011	1.805	0.007

Dependent Variable: Return on Assets for Commercial banks

The regression result presented in table 8 indicates corporate governance, liquidity management and capital requirement had positive coefficient. The coefficients are used to explain the below regression model which relates the independent to dependent variables,

Table 4.17 shows the derived regression equation was

$Y=\alpha+\beta_1X_1+\beta_2X_2+ \beta_3X_3 +\varepsilon$ …….3.4.3

became:

ROA= -0.331 + 0.370*Capital Requirement + 0.020* Corporate Governance + 0.007*Liquidity Management

Table 8 depicts the regression coefficients for the ROA. It shows that holding (Capital Requirement, Corporate Governance, and Liquidity Management) constant financial performance will be -0.331. Corporate Governance, Capital requirement, and liquidity management had positive coefficients of 0.020, 0.370 and 0.007.The findings illustrated

also reveal that assuming other determinants are at zero, a single increase in Corporate Governance will result to 0.020 increase in banks' financial performance, Capital Requirement will lead to 0.370 increase in banks' financial performance; while Liquidity Management will lead to 0.007 increase in banks' financial performance. At 5% significance level, & 95% confidence level Coefficient values for variables Capital Requirement and Corporate Governance with P= 0.0002, 0.007 level of significance respectively were significant because P value (Sig value) were less than 0.05 while Liquidity Management with a P Value greater than 0.05 at 0.518 was not significant.

Table 9: Model Summary with ROA

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
ROA	0.6436	0. 4143	0.3860	0.0127

Model summary in table 9 shows the results of fitness model, and value of R adjusted squared was 0.3860. This shows the variables (Capital Requirement, Liquidity Management and Corporate Governance) tested at 95% confidence interval, had a variation of 38.60% on the profitability of commercial banks. R represents correlation coefficient which shows how the variables in the study relate, thus table 9, an affirmative relationship between the variables in the study is seen as illustrated by R of 0.6436. The three independent variables in question thus only explains 38.6% of the effect of selected regulatory requirement on performance of listed banks in Kenya as shown by the calculated adjusted R2. It therefore means that 61.4% represent other factors not captured in this research which contribute to uptake on performance of banks. Suggestively, other studies should be done to cover the other 61.4% factors that affect financial performance of banks.

Table 10: Analysis of Variance - ANOVA with ROA

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
ROA	Regression	0.0072	3	0.0024	14.62	2.62E-07
	Residual	0.0101	62	0.00016		
	Total	0.0173	65			

a. Dependent Variable: Return on Asset for Commercial banks

b. Predictors: (Constant), Corporate Governance, Capital requirement and Liquidity Management, for Commercial banks

The above ANOVA statistics show processed data that is the population bounds, had a very small P-value of 2.62E-07 which was less than accepted level of significance for a normally distributed data of 0.05. This result show, the overall regression model is useful for prediction purposes since it is statistically significant. This further indicates that the independent variables used (capital requirement, Liquidity Management and Corporate Governance) are statistically significantly in predicting financial performance (ROA) of banks in Kenya.

4.6.2 Hypothesis Testing

The calculated regression coefficients, P-Value for Capital Requirements and Corporate Governance was 0.0003and 0.007 respectively, these values are less than 0.05 that is 5% significance level, indicating presence of evidence contrary to the null hypotheses H_0, (regulations have no impact on financial performance of listed commercial banks) and therefore we don't accept it. A conclusion can be made from the study that Capital requirement and Corporate Governance affect the ROA of listed banks in in Kenya.

The P Value for LM was 0.65 this values is more than 0.05 indicating that we should accept the null hypothesis. A conclusion can be made from the study that Liquidity Management does not affect the ROA of listed banks in in Kenya.

4.7 Discussion of the Findings

The Pearson correlation coefficients between the variables revealed a progressive weak relationship between ROA and Capital Requirements and CG. Also the study showed there was a negative relationship between Liquidity Management and ROA.

The model summary revealed that the independent variables: Capital Requirements, Liquidity Management and Corporate Governance, have a relationship of 64.3% with the dependent variable, ROA which implies that they are moderately significant predictors of financial performance of the eleven listed banks in Kenya. The model is fit at 95% level of confidence since the P-value <0.05.

A regression analysis was also done in the study. The results indicate that 1% change in the Capital Requirement causes an increase of 0.37, 1% change in Corporate Governance leads to an increase of 0.020 change in profitability (ROA) of the eleven listed banks and a unit change in Liquidity Management leads to a positive of 0.007 change in the ROA.

The model summary also showed the independent variables studied, explained only 38.6% of the effect of selected regulatory requirement on financial performance of listed banks in Kenya as illustrated by the adjusted R2. This therefore concludes that there are other 61.6% factors not looked at in this research that have effect on financial performance of banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the above analysis, below discussions, conclusion and recommendations were made. The conclusion and suggestions were based on the purpose of the study. This is a concluding chapter on preceding chapters along with the results of all empirical studies. First, focus is on the summary of the findings and hypotheses confirmation as derived from this project by referring to the research proposition. Furthermore, policy and further study recommendations which should be of interest to both management and policy makers are covered. Suggestions for further studies are also discussed as a way of exploring more and answering questions not answered by the study.

5.2 Summary

The purpose of this study was to evaluate the effect of selected financial regulations on the financial performance of banks listed, in the Nairobi Securities Exchange. The researcher opted for a descriptive research design in this study which assisted to examine the relationship between Capital Requirement, Corporate Governance, Liquidity Management and the financial performance of listed banks in Kenya. The researcher used a population census. The population of the study was 11 commercial banks. The response rate was 100% of all the listed commercial banks in Kenya. The data was collected strictly by analyzing the annual reports of commercial banks from 2010 to 2015 and the data was analyzed using advanced Excel.

The descriptive statistics revealed that the average return on assets for the eleven banks for the five years is 4.72% suggesting that there was an average profit. The Pearson correlation analysis revealed a weak positive linear relationship between the ROA and the independent variables, Capital Requirement and Corporate Governance ($r<0.4$). Liquidity Management however had a negative linear correlation with return on assets at -0.37.

A t-test statistics was used to generate the coefficient of significances/P value. It was concluded that capital requirement and corporate governance are not significant in explaining

the financial performance of the eleven listed banks in Kenya. Liquidity management was however found to be statistically significant. The study recommends further studies to be carried out to find the other financial regulations determinants of financial performance in the context of listed commercial banks in Kenya.

5.3 Conclusion

The study findings thus conclude that the model is statistically significant in explaining the ROA of the eleven listed Commercial banks in Rwanda since it allows us to reject the null hypothesis.

Capital Requirements and Corporate Governance are significant predictors of financial performance. They explain financial performance of the eleven commercial banks since the p- value is 0.0003 and 0.007 (p-value<0.05). Liquidity management however is not a significant determinant of financial performance with a p-value of 0.518 (p-value>0.05). This means, it is not statistically significant and has no effect on the ROA of listed banks as per the research findings.

5.4 Policy Recommendation

Financial institutions are the major players as pertains to growth in many developing economies. Failures of financial institutions would thus impede the economic growth and would cause serious damage to the system. Thus in order to ensure financial stability functional regulations put in place should prompt better financial performance and not impede. Functional financial regulation will also encourage foreign investment in the banking sector.

As regards to capital ratio of Commercial Banks, the study recommends that commercial bank management should leverage volatile earnings which is also vital to the credit creation and liquidity function so as managers can generate income through investment in liquid assets and push up their performance.

The sector is characterized with long channels causing extra costs on the loan facility thus regulator and banks' unions should work together to come up with a convenient loan management protocol that shortens the channel.

Shareholders also need take up their supervisory role seriously and ensure bank managers follow and implement good corporate governance. This can only be done through establishing functional control means that ensure they participate in the monitoring process.

5.5 Limitations of the study

During this study, the researcher was with faced some challenges and limitations.

The study was limited by resource constraints, access, and time. The researcher had limited time and budget which the study was to be carried out and completed within the budget drawn and required time of the study. Some commercial banks in Kenya are also quite private and confidential thus they don't disclose the full information in their annual reports.

The study was limited to establishing the effects of selected of financial regulations on the ROA of listed banks in Kenya, for this reason commercial banks not listed in the NSE were not taken into account in this study. The study also only focused on the three selected financial regulations and left out other regulations which are also important.

The study was based on a 6 year study period from the year 2010 to 2016. A longer duration of the study would have captured periods of outliers, different economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.6 Suggestions for Further Research

This study is not comprehensive in describing the financial regulation determinants of financial performance. More studies should be done in determining the other financial regulations variables that determine the financial performance of listed banks in Kenya.

The study suggests that a further study should be carried out on the effect of financial regulations on the ROA of banking sector as a whole or even focus on the micro finance sector. This study would be of greater significance since the micro finance Sector is a crucial sector in the financial sector.

This study did not include everything and a further study is recommended to include CBK regulatory requirement and their influence on the financial performance of institution. The researcher recommends similar research in micro-finance in Kenya by collecting data from different sources in a bid to validate the results of this study.

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APPENDIX I: List of Commercial Banks Listed in the NSE as at 31st December 2015

1	Barclays Bank of Kenya
2	CFC Stanbic Holdings
3	I & M Holdings Ltd
4	Diamond Trust Bank Kenya Ltd
5	HF Group Limited
6	Kenya Commercial Bank Group Ltd
7	National Bank of Kenya Ltd
8	NIC Bank of Kenya
9	Standard Chartered Bank
10	Equity Group Holdings
11	The Co operative Bank of Kenya

Source: Central Bank of Kenya 2015

APPENDIX II: Variables

a) Return on Assets

Profitability measurement	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Net income						
Total Asset						
Return on Assets (ROA)=Net Income/Total Asset						

b) Corporate Governance

Corporate Governance measurement	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Total Operating Revenue to Total income						
Total Profit						
FS= Total Operating Revenue / Total income						

c) Capital requirement

Capital requirement measurement	**2010**	**2011**	**2011**	**2012**	**2014**	**2015**
Total equity						
Total liabilities						
Total asset						
CAR = total Equity/Total Asset						

d) Liquidity Management

Liquidity Management measurement	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Total Loans						
Total Customer Deposit						
Total asset						
BL = Total Customer Deposit/total assets						

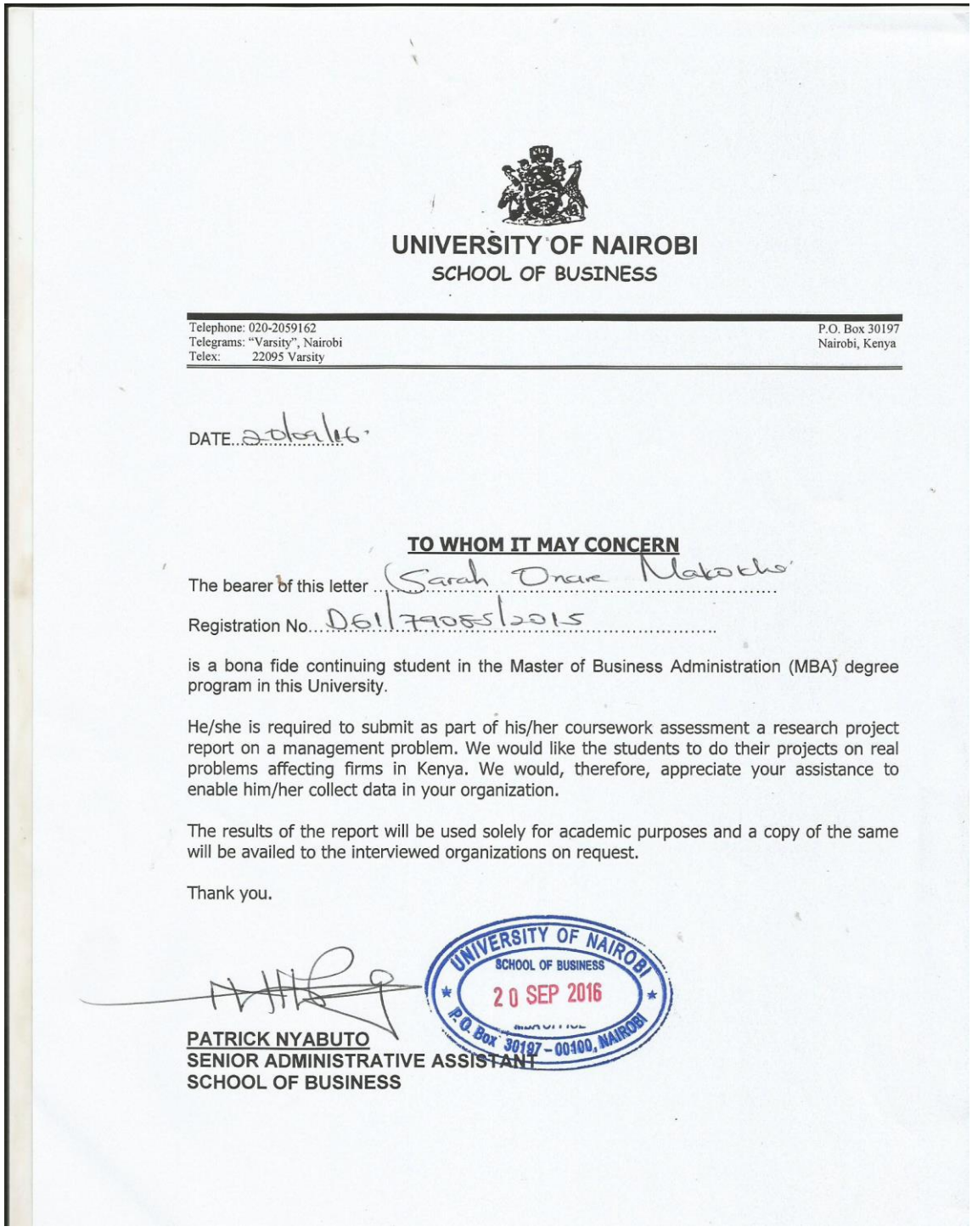
APPENDIX 111: Secondary data

	YEAR	ROA	CR	LM	CG
Barclays Bank of Kenya	2010	0.08	0.18	1.42	0.95
CFC Stanbic Holdings	2010	0.01	0.18	1.21	0.78
I & M Holdings Ltd	2010	0.03	0.16	1.36	0.70
Diamond Trust Bank Kenya Ltd	2010	0.04	0.12	1.29	0.76
HF Group Limited	2010	0.02	0.15	0.82	0.47
Kenya Commercial Bank Group Ltd	2010	0.04	0.16	1.33	0.82
National Bank of Kenya Ltd	2010	0.04	0.17	0.04	0.21
NIC Bank of Kenya	2010	0.04	0.14	1.19	0.77
Standard Chartered Bank	2010	0.05	0.14	1.67	0.89
Equity Group Holdings	2010	0.06	0.19	1.33	0.91
The Co operative Bank of Kenya	2010	0.04	0.13	1.43	0.87
Barclays Bank of Kenya	2011	0.07	0.17	1.25	0.95
CFC Stanbic Holdings	2011	0.02	0.13	1.15	0.76
I & M Holdings Ltd	2011	0.04	0.14	1.28	0.72
Diamond Trust Bank Kenya Ltd	2011	0.04	0.12	1.21	0.75
HF Group Limited	2011	0.03	0.15	0.74	0.50
Kenya Commercial Bank Group Ltd	2011	0.05	0.13	1.30	0.74
National Bank of Kenya Ltd	2011	0.04	0.15	0.01	0.17
NIC Bank of Kenya	2011	0.05	0.13	1.17	0.72
Standard Chartered Bank	2011	0.05	0.13	1.27	0.87
Equity Group Holdings	2011	0.07	0.17	1.27	0.90

The Co operative Bank of Kenya	2011	0.04	0.12	1.30	0.79
Barclays Bank of Kenya	2012	0.07	0.16	1.32	0.90
CFC Stanbic Holdings	2012	0.03	0.19	1.28	1.00
I & M Holdings Ltd	2012	0.05	0.16	1.24	0.63
Diamond Trust Bank Kenya Ltd	2012	0.04	0.14	1.22	0.68
HF Group Limited	2012	0.02	0.13	0.76	0.35
Kenya Commercial Bank Group Ltd	2012	0.05	0.15	1.36	0.77
National Bank of Kenya Ltd	2012	0.02	0.16	1.95	0.51
NIC Bank of Kenya	2012	0.04	0.14	1.17	0.58
Standard Chartered Bank	2012	0.06	0.16	1.25	0.78
Equity Group Holdings	2012	0.07	0.18	1.24	0.84
The Co operative Bank of Kenya	2012	0.05	0.15	1.36	0.67
Barclays Bank of Kenya	2013	0.05	0.16	1.28	0.92
CFC Stanbic Holdings	2013	0.04	0.18	1.25	1.00
I & M Holdings Ltd	2013	0.05	0.17	1.06	0.75
Diamond Trust Bank Kenya Ltd	2013	0.04	0.14	1.16	0.71
HF Group Limited	2013	0.03	0.12	0.75	0.42
Kenya Commercial Bank Group Ltd	2013	0.05	0.16	1.34	0.84
National Bank of Kenya Ltd	2013	0.02	0.13	1.97	0.64
NIC Bank of Kenya	2013	0.04	0.15	1.10	0.63
Standard Chartered Bank	2013	0.06	0.16	1.19	0.80
Equity Group Holdings	2013	0.07	0.19	1.14	0.83
The Co operative Bank of Kenya	2013	0.05	0.16	1.28	0.82

Barclays Bank of Kenya	2014	0.05	0.17	1.28	0.91
CFC Stanbic Holdings	2014	0.04	0.20	1.08	0.80
I & M Holdings Ltd	2014	0.05	0.15	0.98	0.67
Diamond Trust Bank Kenya Ltd	2014	0.04	0.15	1.17	0.68
HF Group Limited	2014	0.02	0.11	0.80	0.34
Kenya Commercial Bank Group Ltd	2014	0.05	0.15	1.33	0.59
National Bank of Kenya Ltd	2014	0.01	0.10	1.60	0.79
NIC Bank of Kenya	2014	0.04	0.18	1.00	0.67
Standard Chartered Bank	2014	0.06	0.18	1.26	0.82
Equity Group Holdings	2014	0.06	0.19	1.15	0.86
The Co operative Bank of Kenya	2014	0.04	0.15	1.21	0.80
Barclays Bank of Kenya	2015	0.05	0.16	1.10	0.81
CFC Stanbic Holdings	2015	0.04	0.18	1.01	0.71
I & M Holdings Ltd	2015	0.05	0.16	1.02	0.60
Diamond Trust Bank Kenya Ltd	2015	0.04	0.14	1.09	0.62
HF Group Limited	2015	0.02	0.15	0.79	0.34
Kenya Commercial Bank Group Ltd	2015	0.05	0.15	1.23	0.61
National Bank of Kenya Ltd	2015	(0.01)	0.09	1.63	0.73
NIC Bank of Kenya	2015	0.04	0.14	0.98	0.59
Standard Chartered Bank	2015	0.04	0.18	1.49	0.85
Equity Group Holdings	2015	0.06	0.17	1.12	0.82
The Co operative Bank of Kenya	2015	0.04	0.14	2.71	0.68

APPENDIX 1V: To Whom It May Concern



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TO WHOM IT MAY CONCERN

The bearer of this letter (Sarah Onae Makotho

Registration No. D61/79055/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

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20 SEP 2016
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PATRICK NYABUTO
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