# THE EFFECT OF MERGERS AND ACQUSITIONS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

**BY**

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# DECLARATION

I hereby declare that this research project is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

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# DEDICATION

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# ABSTRACT

Mergers and acquisitions are a common method of business combinations and have a critical role in the external growth of great companies in the world. The study aimed at evaluating the relationship between financial performance of commercial banks in Kenya and mergers and acquisitions. The study compared the financial performance of the 6 commercial banks for the 7 year period before the mergers and the 7 year period after the mergers. The study was conducted as a descriptive study and a census survey was done on the commercial banks that merged between 2003 and 2008. The study used secondary data from published bank's financial statements, annual reports of the banks and the supervision reports from the Central Bank of Kenya. Various ratios such as liquidity, profitability, efficiency and capital adequacy ratios were computed using the data. A discriminant analysis was done on the average pre-merger and post-merger ratios to assess the impact of the mergers on the financial performance of commercial banks in Kenya. It was concluded that commercial banks experienced mixed results post-merger/acquisition with some banks experiencing declined performance; others experiencing improved performance while other did not record any significant changes in the financial performance post-merger/acquisition. Overall, the study found that M&A's did not lead to the improved financial performance of commercial banks. It was recommended that commercial banks that seek to improve their profitability should pursue mergers and acquisitions.

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# LIST OF ABBREVIATIONS

| | | |
|---|---|---|
| **BOA** | **-** | Bank of Africa |
| **CBA** | **-** | Commercial Bank of Africa |
| **CBK** | - | Central Bank of Kenya |
| **CMA** | - | Capital Markets Authority |
| **EPS** | - | Earnings per Share |
| **GDP** | - | Gross Domestic Product |
| **KCB** | - | Kenya Commercial Bank Group |
| **M&A's** | - | Mergers and Acquisitions |
| **NSE** | - | Nairobi Securities Exchange |
| **ROA** | - | Return on Assets |
| **ROE** | - | Return on Equity |
| **SACCO** | - | Savings and Credit Co-operatives |
| **TA** | - | Total Assets |
| **TL** | - | Total Liabilities |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

Mergers and acquisitions (M&A's) are common method used by businesses in combination decisions and they have a critical role in the external growth of companies in the world and are gaining increasing importance and attention especially with the globalization of the world economy. The first wave of mergers in the United States, were experienced in the years 1890 to 1904; the end of World War I marked the beginning of the second wave of mergers which continued to the 1920s and the third wave began towards the end of World War II and has continued to date (Pandey, 2004).

M&A's have been used as tools to give companies a competitive edge in the market because they increase the market share of companies, raising profitability of the firms, increasing the shareholder values and lowering the cost of operations through economies of scale (Njangiru & Ondieki, 2015). M&A's are argued to result in more efficient organizations because the new firms benefits from economies of scale and synergies drawn from the combination as a result of reduced operating costs and capital investments thus improving cash flows (Kithitu et al., 2012). The financial services sector, worldwide has greatly profited from mergers and acquisitions and has led to the development of commercial banks and other financial entities greatly due to the change in the operating environment.

Some of the factors and reasons that have motivated mergers in the banking sector in Kenya include the need to match statutory requirements, increased competition and to meet the capital adequacy requirements under Basel II. Other reasons include the need to increase profitability through the enlarging of market share (Njangiru & Ondieki, 2015). Kenya has seen a rise in the firms involved in the process of mergers due to liberalization, globalization and opening up of the economy from the late 1990s. The poor economy and the legal statutory requirements have necessitated the need for mergers in the Kenyan business community. The Central Bank of Kenya has been increasing the minimum core capital of Commercial Banks in Kenya which has greatly influenced M&A's in the commercial banking sector with a bid to comply with the statutory requirement (Wesonga, 2006).

### 1.1.1 Mergers and Acquisitions

Mergers occur when one or more companies combine to form a new company or an existing company. Mergers involve friendly and voluntary restructuring of the assets, liabilities, resources, business and shareholders interest the organizations involved in the combination of either absorption or consolidation (Gaughan, 2007). Section 2 of the Companies Act of Kenya defines a merger as the process through which a company or companies purchase the shares, assets, trading activities of another enterprise which significantly changes the controlling structure of the business. Hunt (2004) proposes that mergers occur when two companies of comparative sizes combine into a new firm.

Voluntary mergers are mainly prompted by market dynamics which include the expansion of the geographical markets, increase in size of companies and the diversification of portfolio and exposure to new geographical markets; where both the bidder and target expect to benefit from the mergers (Njangiru & Ondieki, 2015).

Vertical mergers refer to a merger between two or more organizations that operate at different stages of a production process in a supply chain of specific products; it occurs when firms that have buyer-seller relationships combine. The companies that combine are usually at different stages of production (Coyle, 2000). Horizontal mergers refer to a merger between companies within the same industry that have similar product lines and markets. It normally involves mergers between competitors. It is common in industries that have few players and its motivation is normally to increase competitiveness within the market through increasing the market share (Gaughan, 2007).

Conglomerate mergers refers to mergers that occur when unrelated enterprises combine and result in the combining of organizations that compete in different product markets and occurs where there is no strategic relatedness. It involves organizations that either have nothing in common or those that seek either market or product extensions.

An acquisition refers to the purchase of one company by another. According to Ross et al. (2007), an acquisition is the combination where one firm completely absorbs another by acquiring all its assets and liabilities while it retains its name. Acquisitions take place where one organization takes over the controlling shareholding interest of another company.

Mergers are used by companies to expand their operations often aimed at increasing their long term profitability. Most managers of firms undertaking M&A's often anticipate an improvement in production efficiency. Jensen and Ruback (1983) suggest several reasons for M&A's including the reduction of production and distribution costs which can be achieved by adopting more efficient production use of technology, vertical integration and through economies of scale. They also identified financial motivation for M &A's; increase in market share and elimination of inefficient target management.

Njangiru and Ondieki (2015) suggest that a majority of banks in Kenya merged with the aim of improving their financial performance through enlarging the market share which ultimately leads to an increase in profitability. They further suggested that a minority of the banks merged to raise shareholders' value and lower their cost of operations. According to Afande (2015), firms in Kenya merge so as to enable them acquire certain unique assets, benefit from economies of scale, to minimize their risk exposures through diversification of the risks and for managerial motives.

It therefore ensues that mergers and acquisitions occur when companies transfer their businesses and assets to form a new entity usually at a price with the aim of increasing profitability through increased market share, enhancing efficiency, ensuring efficient utilization of resources and minimizing risk.

### 1.1.2 Financial Performance

Financial performance measures subjectively the ability of a firm to make revenue using its assets from its principal business and it is used to measure a firm's overall health over a given period of time (Healy & Ruback, 1992). Various financial performance measures used by organizations include but are not limited to operating revenue, earnings before interest and tax, net income and net assets value.

Financial performance measurement is necessary to ascertain the viability of an enterprise. Many firms use ratio analysis to measure their financial performance (Pandey, 2004). It varies according to the specific interests of the parties involved. The several measures of financial performance used by organizations should not be considered in isolation but in aggregate because they are dependent on certain aspects of organizations such as business growth, the size of the business and profitability. These measures are thus critical in monitoring the overall financial performance and progress of an organization (Lafayette, 2001). The growth rate of organizations can be determined by managerial resources and financial resources of an organization. According to Barber and Lyon (1996), cash flow based performance measures are more relevant and appropriate measures for analyzing events such as post mergers and acquisitions.

Financial ratios are a common measure of financial performance. Many firms measure their financial performance using profitability ratios, solvency ratios and capital adequacy. The most common profitability ratios include Return on Assets (ROA) and Return on Equity (ROE). ROA is a broad measure of the performance of an organization from an accounting angle.

ROE measures the accounting profitability from the shareholders perspective (Pandey, 2004). The short term solvency ratios referred to as liquidity ratios include quick ratios, current ratios and they measure the solvency of a firm for periods less than 1 year. Long term solvency ratios measure the riskiness of a company over a long period of time. Long term solvency measures the ratio of assets financed by creditors by comparing the total liabilities and total assets. The total shareholders' equity to total loans gives an indication of the proportion of loans covered by the owners of the funds (Pandey, 2004).

Capital Adequacy Ratio (CAR) measures the ability of a bank to absorb reasonable loss that may arise in the course of normal business operation. CAR measures Tier I capital and Tier II capital. Tier I capital measures the ability of commercial banks to absorb reasonable loss without the need to wind up the commercial banks. Tier II capital measures the ability of a commercial bank to absorb loss when the bank is required to close down therefore providing a lower level of protection to the account holders. CAR measures the proportion of the shareholders equity to the total assets (Mwega, 2009).

### 1.1.3 Mergers and Acquisitions and Financial Performance

M&A's are a means used by organizations to improve an organization's competitiveness through gaining competitive advantage over other firms by virtue of increased market share. Pandey (2004) suggests that mergers and acquisitions may lead to a more than average profit levels due to cost reduction and efficient utilization of resources. The theory of efficiency forecasts that mergers lead to the creation of value and suggests that M&A's are undertaken only when they are deemed to be beneficial to both parties involved in the combination.

Mergers are based on the assumption that they lead to improvements in efficiency and profitability which are gained through increased market share, economies of scale, diversification and different sources of synergies (Shepherd, 1979). M&A's are beneficial to the organizations that are involved in the M&A's in various ways including shareholder gains, improving profitability, ensuring efficient utilization of resources due to economies of scale and increased return on equity (Wangari, 2015).

Many studies have concentrated on the effect of mergers and acquisitions of the financial performance of commercial banks with specific bias to commercial banks. These studies have however yielded inconclusive and mixed results whereby some of them reveal that certain institutions benefit from M&A's; others concluded that the financial performance of commercial banks did not improve as a result of the mergers and acquisitions.

Heron and Lie (2002) noted that the financial performance of firms improved after a combination; specifically, the firms studied experienced improved asset turnover and reduction in capital expenditure. Fatima and Shehzad (2014) on the other hand revealed that there was no significant relationship in the ratios of commercial banks pre-merger and post-merger; and thus reached a conclusion that mergers did not lead to the improvement of the financial performance of Banks. Quite a number of organizations are involved in M&A's so as to enhance their value and they are an effective way of improving the performance of corporations through increase in revenues and profitability. M&A's enhance growth through increase in the market share and creation of synergies for organizations.

### 1.1.4 Commercial Banks in Kenya

The performance and running of commercial banks in Kenya are overseen by various guidelines stipulated in the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines set by the Central Bank of Kenya. The banking sector in Kenya was liberalized in 1995 with the lifting of the exchange controls.

There are currently 43 licensed commercial banks and 1 mortgage finance company in Kenya with the government having a major shareholding in 3 of the commercial banks. The other 39 commercial banks and the mortgage finance company are owned by private investors. 14 of the 39 commercial banks are foreign owned while the other 25 are owned by local investors. A total of 11 commercial banks are listed at the NSE (CBK, 2016).

The first wave of mergers of commercial banks in Kenya was experienced in 1989 when the first merger was approved for the merger of the 9 insolvent financial institutions to form the Consolidated Bank of Kenya. It has since seen 33 banks merge and 6 have been acquired in the Kenyan banking sector. Some of the most recent mergers include City Finance Bank Limited and Jamii Bora Bank which merged in 2010 to form Jamii Bora Bank Limited. Kenya Commercial Bank and Savings and Loan merged in 2010 to form KCB Bank Limited. In 2008, CFC Bank merged with Stanbic Bank Limited to form CFC Stanbic Bank Limited in 2008 (CBK, 2016).

The most recent acquisitions include the acquisition of Equatorial Commercial Bank by Mwalimu SACCO in 2014; the acquisition of K-rep Bank by Centum Investments in 2014. Guaranty Trust Bank PLC acquired Fina Bank in 2010 to form Guaranty Trust Bank (Kenya) Limited (CBK, 2016). The increase of the minimum core capital requirements by the Central Bank of Kenya has been a major motivation of M&A's in the in Kenya. Commercial banks have also merged in a bid to improve profitability through the raising of their market share (Njangiru & Ondieki, 2015).

## 1.2 Research Problem

The concept of the impact of mergers and acquisitions on the financial performance of companies is an area of great concern to many scholars and various stakeholders because financial performance is a critical measure of the general performance of any organization. It is assumed that the value of the merged firms in consolidation is higher than individual firms operating as standalone.

M&A's give the firms in the merger competitive advantage due to the synergies generated and thus ultimately improve the value of the merged firms (Fluck & Lynch, 1998). Mergers and acquisitions are critical to the financial performance of various firms and in particular commercial banks because commercial banks are an integral element of the financial sector and the economy. M&A's through enhancing the shareholder gains, enhancing profitability, ensuring efficient utilization of resources due to the economies of scale and increasing the return on equity for organizations impact the financial performance (Wangari, 2015). Companies therefore use M&A's as a tool to expand their operations with the aim of increasing their long term profitability.

The globalization of markets and rapid technological changes has seen many firms face intense competition and are therefore resorting to M&A's to improve their competitiveness in the market by increasing market share relative to their competitors. Companies use M&A's to reduce business risk through broadening of the portfolio; to make it easier for them to enter into new markets through strategic placements and to capitalize on economies of scale (Kivindu, 2013).

In Kenya, several licensed institutions have had to merge due to changes in their operating environment. Commercial Banks have had to merge to match statutory requirements; to keep up with the increased competition and to meet the capital adequacy requirements under Basel II. In 2008, the regulator proposed an increment in the minimum core capital from Kshs.250 million to Kshs.1 billion which has seen the merging of several Banks in Kenya (Beck et al., 2010).

Several studies have been done in the area of M&A's and they have yielded mixed and inconclusive results on the effects of M&A's on the profitability, efficiency and operations of an organization. There are studies that concluded that the commercial banks involved in the mergers and acquisitions performed better post-merger compared to the individual performance of the banks pre-merger. There are however those studies that concluded that the financial performance of the institutions did not subsequent to the merger.

Adebayo and Olalekan (2012) in their study of 24 Nigerian Banks concluded that the capitalization and overall performance of Banks improved after the M&A's process. These results were inconsistent with the findings of Chesang (2002) who in the study on the implications of merger restructuring on the financial performance of banks in Kenya concluded that merger restructuring did not lead to better financial performance of a majority of the firms that had undergone the M&A's process.

Muniu (2011) in the study on bank efficiency, mergers and acquisitions and shareholder wealth effects in Kenya reveals that M&A's has yielded mixed results where some firms recorded weak performance post-merger while others recorded very positive performance. Afande (2015) in his study on the factors motivating mergers and acquisitions of the firms listed in the NSE found that motivated firms to engage in M&A's in Kenya included the need to acquire specific assets, need to reduce the cost of capital, need to reduce risk through diversification, need to gain from the economies of scale and economies of scope.

Further, many of the studies have focused on the impact of mergers on banks in the short term; Ngare (2013) in his study on the impact of mergers on the financial performance of commercial banks in Kenya made a comparison of the financial performance of the banks for the 4 year period before the merger and 4 year period after the merger. Marembo (2011) studied the impact of mergers and acquisitions on the performance of commercial banks in Kenya by comparing the financial performance of commercial banks for the 5 year period before the mergers and 5 year period after the merger. This study focused on a longer period by evaluating the relationship between M&A's and the financial performance of commercial banks in Kenya by making a comparison of the performance of the commercial banks for the 7 year period before the merger and the 7 year period after the merger. This study addressed the question; do mergers and acquisitions have an effect on the financial performance of commercial banks in Kenya?

## 1.3 General Research Objective

The study sought to establish the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya.

## 1.4 Specific Objectives

The study sought to determine the following;

i). The relationship between liquidity and financial performance of commercial banks pre and post-merger

ii). The relationship between profitability and financial performance of commercial banks pre and post-merger

iii). The relationship between efficiency and financial performance of commercial banks pre and post-merger

iv). The relationship between capital adequacy and financial performance of commercial banks pre and post-merger

## 1.5 Value of the Study

The significance of the study cannot be overemphasized. It will be of interest and valuable to various people including scholars, customers of the Bank, employees, shareholders, managers and the government. The study will be a source of empirical evidence and literature review to scholars and students.

It will be a reference point for future studies on mergers and acquisitions with specific focus to the commercial banking sector. The study shall be of importance to government and other policy makers in monitoring and regulating mergers and acquisitions. It will assist the policy makers to put in place policies that regulate, govern and guide M&A's in the industry ensuring that there is sufficient information for such decisions to be undertaken. The study shall assist in equipping shareholders with knowledge that will assist them when faced with decisions on M&A's.

The study will help the management update themselves on the current industry practices because of the very dynamic nature of the business environment in which the organizations are a part of. It will assist both the management and the shareholders with information that will assist in predicting and ensuring good timing for the M&A's.

The study will empower employees to establish the stability of the firms for which they work for and hence assure them of job security. The study will be beneficial to the customers because through the analysis of the impact of M&A’s; they shall be able to assess whether their interests have been taken care of.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

It provides an overview of M&A's including theoretical literature review, the determinants of financial performance, the empirical literature review, the conceptual framework of the study and a summary of the literature review.

## 2.2 Theoretical Literature Review

The concept of mergers and acquisition and its relationship with financial performance is explained by a number of theories. In this study, three theories have been discussed which include; financial synergy theory, theory of corporate control and theory of managerial hubris.

### 2.2.1 Financial Synergy Theory

This theory was developed by Fluck and Lynch (1998) and it explains that the motivation of M&A's is due to the fact that firms, singly on their own are not able to engage in profitable projects due to the challenges that arise from agency problems. The financial synergy theory is consistent with the empirical studies that concluded that mergers and acquisitions led to the increased combined value of the forms that were involved in the combination. The theory implies that firms will only engage in mergers and acquisitions when the combination is expected to generate synergies that will be beneficial to both the bidder and the target. It assumes that the merger will create value and yield positive returns to the firms involved in the combination due to benefits arising from economies of scale and economies of scope.

According to Myers and Maljuf (1986) organizations that do not have sufficient liquid assets may not engage in all the valuable investment opportunities due to information asymmetry in the financial markets. Firms will thus increase their value by merging with firms that are more liquid if there is minimal information asymmetry. This theory therefore concludes that M&A’s enhance the combined value of the firms engaged in the combination and it is more applicable in scenarios where one firm has more financial muscle over the target (Bradley et al., 1988). The theory further concludes that takeovers are a means of alleviating information asymmetry and achieving financial synergies.

### 2.2.2 Theory of Corporate Control

This theory stems from agency theory which leads to negative shareholders returns and it was first proposed by Professor Henry G. Manne of Washington University Law School in 1965 who analyzed the role of corporate control as having the ability to mitigate the problem of agency caused by the separation of ownership and control (Jensen, 1992).

It is based on the premise that value is created by mergers because there always exists an underperforming firm whose managers have not been able to turnaround the performance; hence there is always a management team that is ready and willing to acquire such firms. Jensen (1988) and Shliefer and Vishny (1991) argue that more often than not firms do not perform well due to the fact that some of the managers lack the requisite knowledge, expertise and skill to provide to the shareholders maximum return for their investments.

Other managers fail to meet the standards of performance because more often than not, they focus on their personal growth and expansion while comprising on the returns to the organizations and shareholders; therefore mergers and acquisitions are a channel through which efficiency can be improved by replacing the inefficient managers. They argue that the target firms may not record the intended level of performance because of the selfish interests of the management and the fact that the management sometimes lacks the necessary knowledge and skills requisite for maximizing firm and shareholders' value. This theory predicts that firms that perform poorly are more likely to be taken over and their performance is predicted to improve after the takeover.

This theory suggests that M&A's are an effective measure of management efficiency and performance because by the management are portrayed as good stewards of the organizations as the performance of the company can be directly attributed to the perceptions of the individual performance of the managers (Shliefer & Vishny, 1991).

### 2.2.3 Theory of Managerial Hubris

It was developed by Roll (1986) and it suggests that shareholders of bidding firms incur losses in the form of declined share prices while the share prices of target firms increase when merger announcements are made. This theory assumes a strong form efficient market where markets are aware of all the information. Roll (1986), suggests that more often than not managers have good intentions to increase their firm's values, however, their overconfidence often leads the managers to overestimate their ability to create synergies.

This theory suggests that overconfident managers normally overestimate the returns of their investments in various projects and thus such managers only engage in takeovers when they overestimate the returns. The overconfidence of the managers leads to a scenario where the highest bidder tends to pay more than the actual value; and as such the price is not a true indicator of the actual value of the firm. This in effect tends to increase the chances of failure (Malmendies & Tate, 2008). This theory concludes that managers who are very optimistic tend to engage in less profitable diversifying mergers to protect their jobs and positions.

## 2.3 Determinants of Financial Performance of Commercial Banks

Financial performance measures the ability of a firm to make revenue using its assets from their principal business and it is generally used to measure the overall health of a firm over a period of time (Healy & Ruback, 1992). The determinants of the financial performance of commercial banks are either internal or external variables to the commercial banks.

The bank specific characteristics that affect financial performance are known as the internal factors and they are very dependent on the management decisions. The variables that are external to the organization and that are beyond the management control are known as external factors Athanasoglou et al., 2009). This study looked at capital structure; management efficiency, macroeconomic variables, liquidity risk and credit risk as the variables that determine the financial performance of commercial banks.

Capital structure refers to the mix of debt and equity used to finance a company. It is an important determinant of financial performance because of the costs associated with the source of financing. An optimal mix of debt and equity is one that maximizes the profitability of a firm and shareholder value (Pandey, 2004). According to Aburime (2008), the profitability of bank; a measure of financial performance is determined by the capital size, credit portfolio and the ownership concentration of the Bank. According to Ntoti and Ronoh (2015), the capital structure of listed commercial banks is significant and debt and equity levels above the optimal levels negatively affect the financial performance of banks.

Management efficiency is a key internal factor that qualitatively measures and determines the financial performance of a firm. The ability of the management to efficiently utilize the resources of the firm, their ability to maximize revenue and their ability to reduce the cost of operation of the firm are some of the ways of assessing the management quality. Management efficiency is a qualitative measure and determinant of financial performance and it can be assessed by looking at the quality of the staff, the effectives and efficiency of the internal controls, the discipline within the organization and the effectiveness of the management systems (Athanasoglou et al., 2009). The quality of the management has an influence on the level of operating expenses which affects the bottom line of a company hence management efficiency significantly affects the financial performance of commercial banks (Kusa & Ongore, 2013).

Commercial banks are part of a system and as macroeconomic variables such as Gross Domestic Product (GDP), inflation levels, interest rates and political stability either positively or negatively affects the performance of commercial banks. High levels of inflation negatively impact of the financial performance of commercial banks (Kusa & Ongore, 2013). According to Pandey (2004), liquidity is the ability of a firm to meet its short term liabilities when they fall due. It measures the firm's ability to meet unexpected cash needs. Drehmann and Nikolaou (2009) define liquidity risk as the inability of a bank to settle its obligations immediately over a specific period of time. Liquidity risk and its management is an important determinant of financial performance of commercial banks.

Jenkinson (2008) reveals that risk affects both the performance and reputation of a bank as depositors may lose confidence if their funds are not availed to them in a timely manner. The efficient management of the liquidity of commercial banks improves the profitability levels of commercial banks. Dang (2011) suggests that an adequate level of liquidity improves the profitability levels of commercial banks. Liquidity problems may adversely affect the profitability levels, the capital of banks and may eventually lead to the collapse of banks if left unchecked (Maaka, 2013)

According to Basel Accord (2006) credit risk is the risk inherent in the inability of a borrower repaying his loan. It may arise from non-payment of either the principal or interest or both. Coyle (2000) refers to credit risk as the loss that arises when a credit customer either refuses or in unable to pay his obligations in full or on time.

The profitability of a bank is dependent on its ability to forecast any risk associated with borrowings monitor those risks and avoid them if possible or cover any losses that arise; hence credit risk determines the financial performance of commercial banks (Aburime, 2008). Increased levels of credit risk leads to increased numbers and volumes of non-performing loans which warrant commercial banks to increase of the loan loss provisions. The increased loan loss provisions affect the bottom line of the commercial banks negatively (Kaaya & Pastory, 2013).

## 2.4 Empirical Literature Review

Adebayo and Olalekan (2012) studied the implication of M&A's on the profitability and other performance measures on commercial banks in Nigeria by looking at 10 commercial banks that emerged from the consolidation in 2006 through a survey study. They used a simple percentage for the analysis and tested hypotheses using correlation coefficient and t-test. The study found that there was a significant relationship between the capital base of the commercial banks and their profitability before the merger and after the merger. Further, they found out that M&A's led to the increased capitalization of commercial banks which was confirmed by the changes in the ownership structure, changes in the lending rates of the banks and the increase in the cost of the services offered by the banks. However, the study found out that there was significant difference in the Earnings per Share (EPS) before the merger and after the merger. They concluded that the M&A's programme led to the growth of the real sector for sustainable development to a great extent.

Masud (2015) studied the impact the impact of mergers and acquisitions on the financial performance of banks in Pakistan. His study focused on the performance of three commercial banks that had merged between 2000 and 2012. The analysis was done using ratios which were based on the secondary data obtained from the annual reports of the banks. He used paired t-test to compare the date before and after the mergers. The study revealed that some banks showed improved performance while others did not as evidenced by the profitability ratios. The study also revealed that financial performance of banks deteriorated in the initial years after the mergers and/or acquisitions but thereafter there was a slight increase in the financial performance of the banks.

Ndonga (2010) in his study on the effects of M&A's on the financial performance of insurance companies in Kenya looked at a sample of six insurance companies that had merged between 1995 and 2005 from a population of 42 registered insurance companies in the country at the time of the study. The study used ratio analysis to measure financial performance and a comparison was done for the 5 year period before and after the merger. The study revealed that the insurance companies performed better financially after the merger.

Mboroto (2013) studied the effect of mergers and acquisitions on the financial performance of petroleum firms in Kenya with focus on the petroleum industry in Kenya by looking at the firms that merged during the period 2000 to 2012. He analyzed the NSE annual statements and financial reports and made comparisons between the mean of the ratios for the 3 year period before the merger and 3 year period after the merger. He found that mergers and acquisitions did not significantly affect the financial performance of petroleum firms in Kenya; specifically on the liquidity and solvency ratio while on the other hand; M&A's had a significant impact on profitability as reflected by the ROA.

Inoti et al. (2014) studied the acquiring firms listed at the Nairobi Securities Exchange (NSE) in a bid to find out the effect of acquisitions on the acquiring firms in Kenya. They found that the relationship between the ratios used to measure the profitability and asset utilization of the firms were insignificant before and after the mergers and thus they concluded that the financial performance of acquiring firms was not affected by corporate acquisitions.

Marembo (2011) studied the impact the impact of mergers and acquisitions on the performance of commercial banks of Kenya by studying the 32 banks that had merged in between 1994 and 2010 in Kenya. The study used secondary data to obtain EPS, ROE, ROA and CAR of the merged banks. He found out that the ROA and ROE both improved as the assets of the company improved. He found out that M&A's on its own cannot achieve strong, efficient and competitive banking systems because financial performance is dependent on several other factors.

Ngare (2013) conducted a census study of the banks that had undergone mergers between 2000 and 2012 to analyze the impact of mergers on the financial performance of commercial banks in Kenya. In his study, secondary data was used to analyse the performance of the banks before and after the merger. The study used a causal research design to compare the banks' performance 4 years pre-merger and 4 years post-merger. He reached a conclusion that M&A's led to improved performance of the commercial banks reflected by the general increase in profitability levels, the long term solvency and the capital adequacy levels of the commercial banks after the merger..

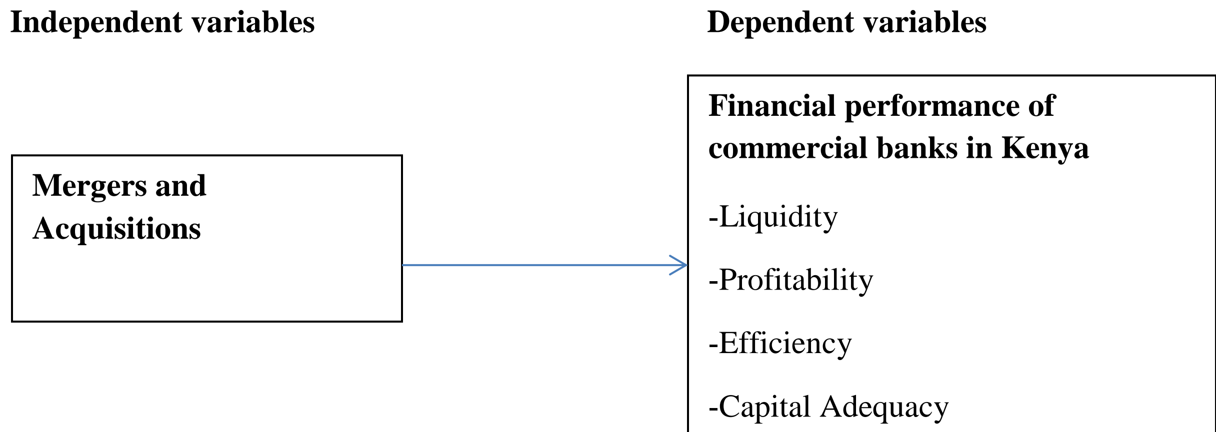
Kithinji and Waweru (2007) studied the effect of merger restructuring on the financial performance of commercial banks in Kenya by studying the 20 commercial banks that had merged in the periods 1993 to 2000. Their conclusion was that the statutory ratios, solvency and capital adequacy recorded improved performance after the merger. On the other hand, they found out that profitability ratios indicated that the financial performance of the banks deteriorated after the merger.

## 2.5 Conceptual Framework

It provides the details of the independent variables and the dependent variables. The independent variable is represented by mergers and acquisitions while the dependent variable is the financial performance of commercial banks which is measured by liquidity, profitability, efficiency ratios and capital adequacy ratios.

The conceptual framework for this study is depicted in figure 2.1

**Figure 2.1**




Source: Researcher (2016)

## 2.6 Summary of Literature Review

Theoretical and empirical literature has been discussed in this chapter. Various theories on mergers and acquisitions were explained as well as a presentation of empirical studies by previous researchers discussed. The empirical studies discussed yielded mixed and inconclusive results. Some of the studies revealed that the firms studied recorded better financial performance in the period subsequent to the mergers.

On the other hand, some studies found that there was no significant improvement if any in the financial institutions subsequent to the mergers. Adebayo and Olalekan (2012) in their study on the impact of mergers and acquisitions on the profitability of commercial banks reached a conclusion that the performance of banks improved subsequent to mergers and acquisitions.

Ndonga (2010) who studied the relationship between the M&A's and the financial performance of insurance companies in Kenya concluded that there was a significant improvement in their performance subsequent to the mergers. Kithinji and Waweru (2007), however in their study on the effect of merger restructuring and financial performance of the 20 commercial banks in Kenya revealed that there was a decline in the financial performance of commercial banks in Kenya subsequent to the mergers as measured by the profitability ratios. Inoti et al (2014) who studied the effects of financial performance of acquiring firms listed at the NSE found that the financial performance of the acquiring firms did not affect the financial performance of the acquiring firms in Kenya.

A majority of the studies discussed looked at the impact of the M&A's over a short term period; with many of them looking at period of up to 5 years after the merger. Marembo (2011) who studied the impact of M&A's on the performance of commercial banks in Kenya made comparisons of the financial performance of the commercial banks for the 5 year period before the merger and 5 year period after the merger. Ngare (2013) compared the financial performance of banks in Kenya by looking at 4 years pre-merger and 4 years post-merger in his study to understand what impact the mergers and acquisitions had on the financial health of the commercial banks. This study thus filled the gap by looking at longer term comparisons of 7 year period before merger and 7 year period after merger to evaluate the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya.

# CHAPTER THREE: RESEARCH DESIGN AND METHODOLGY

## 3.1 Introduction

This section describes the methodology used in the study to address the research propositions proposed in the previous section. It discusses the research design; population description; details on the data collection methods, the analysis techniques used and their interpretation.

## 3.2 Research Design

Research design provides an outline of how a study will be carried out. Research design provides the guideline to be used on the collection of data, the analysis of the data and interpretation of the results (Basic Research Concepts, 2014).

This study was conducted as a descriptive study. Descriptive studies show the associations between variables and they describe the characteristics of the population under study (Basic Research Concepts, 2014). This study describes the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya.

## 3.3 Population

Laurel (2003) refers to a population as all the items that have specific characteristics and that are of interest to the researcher from which a generalization can be formed from the data collected. This study shall look at all the registered commercial banks in Kenya. Kenya currently has 43 registered commercial banks (CBK, 2016).

The study was conducted as a census survey and it looked at the 5 commercial banks in Kenya that either merged or were acquired over the period 2003 to 2008. In a census study, data is collected from all the elements in the population.

## 3.4 Data Collection

Laurel (2003) defines data as the raw facts gathered in the process of a research or study. Data collection refers to the process and methods used to gather data and measure information on variables in an established, systematic way so as to answer stated research questions. Data can be collected from either primary or secondary sources.

The study relied on secondary data. The data was extracted from the audited annual financial statements of the various banks being studied; from banking supervision reports by CBK and CMA reports over the period of the study. The study used financial data from the statements of financial position; the comprehensive income statements and the cash flow statements for the various banks studied for 7 year period before the merger and 7 year period after the merger.

## 3.5 Data Analysis

This study used accounting ratios as the basis for determining financial performance of the banks in Kenya. The relevant accounting ratios for both the target and bidders were computed during the pre-merger period to give indicative financial performance of the firms before the merger; thereafter, during the period after the merger, the accounting ratios for the merged banks were computed.

The average ratios for the period before the merger and after the merger were then compared to establish the variation in the financial performance of the banks being studied following the merger and/or acquisition using the Altiman discrimant model.

### 3.5.1 Conceptual Model

The model used in the study is;

$Y= f (X_1, X_2, X_3, X_4)$

Where Y= financial performance of the commercial banks

$X_1=$ liquidity ratio (quick assets/total deposits)

$X_2=$profitability ratios (profit before tax/total assets)

$X_3=$efficiency ratios (shareholders' funds/total assets)

$X_4=$capital adequacy ratios (core capital/total deposit liabilities)

### 3.5.2 Analytical Model

A discriminant analysis of the variables before and after the merger was done to make a comparison between the average ratios before the merger and after the merger. The discriminant analysis takes the following general form;

$Z= d_1X_1 + d_2X_2+\ldots+d_nX_n+e$

Where;

Z= discrimant score

$d_i$ (i=1, 2…,n)= discriminant weights

$X_i$(i=1,2…..,n)= independent variables, financial ratios

e-error term

The original Altiman Z-score model for manufacturing firms took the form;

$$Z= 1.2X_{1+}1.4X_2+3.3X_3+0.6X_4+1.0X_5$$

This model was improved in 1995 for non-manufacturing firms to score and evaluate the economic health of the banking sector. The model identified four key financial ratios which include liquidity, profitability, efficiency ratios and capital adequacy ratios which took the form;

$$Z=6.56X_1+3.26X_2+6.72X_3+1.05X_4$$

A Z-score of below 2.6 indicates weak financial performance and a Z-score of above 2.6 implies the firm has a healthy financial performance (Altman et al., 1995).

### 3.5.3 Test of Significance

Significance level is the possibility that a random sample does not represent the entire population and it is used to measure the margin of error. A lower significant level implies higher levels of confident that the results will be replicated on the entire population. Higher significance levels implies higher margin of error and hence lower confidence levels. The study used a two tailed pair t-test at 5% significance level to test the differences of the means of the ratios before the merger and after the merger.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This section discusses the research findings, provides the data analysis and interprets the research findings. The study sought to evaluate the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya. The measures used to evaluate the financial performance included liquidity, profitability, efficiency and capital adequacy ratios. The results are presented in tables to highlight the key ratios before and after the merger; the relationship analysis and a discussion on the findings of the study.

## 4.2 Descriptive Statistics

The data; the accounting ratios are presented in tables to reflect the ratios before and after the merger. The average ratios for each of the commercial banks studied are provided before and after the merger and/or acquisition.

### 4.2.1 Liquidity Ratio

It measures a bank's liquidity at any point in time. It measures the ability of a bank to pay off its depositors using the current (quick) current assets. High liquidity ratios are desirable because it implies that a bank can quickly meet unforeseen withdrawals at any point in time (Oloo, 2007). In this study, liquidity ratio was measured by;

Liquidity Ratio= Quick Assets/Total Deposits

The results are provided in Table 4.1;

**Table 4.1: Liquidity Ratio**

| Bank | **Average Pre-merger** | **Average Post-Merger** | **Variance** |
|---|---|---|---|
| **CBA** | 59% | 50% | 0.4% |
| **Prime Bank** | 56% | 62% | 0.2% |
| **CFC Stanbic** | 44% | 52% | 0.3% |
| **BOA** | 47% | 44% | 0.0% |
| **Ecobank** | 81% | 66% | 1.1% |

Source: Researcher (2016)

The liquidity ratio indicates that most of the commercial banks recorded a worse off financial performance as measured by liquidity after the merger and/or acquisition. Prime Bank and CFC Stanbic Bank are the only banks that recorded an improved financial position as measured by liquidity.

### 4.2.2 Profitability Ratio

It measures the ability of a firm to utilize its resources to generate revenue for the firm. A higher ratio is desirable and indicates better financial performance. In this study the profitability ratio was measured by;

Profitability Ratio= Profit before Tax/ Total Assets

The results are provided in table 4.2;

**Table 4.2: Profitability Ratio**

| Bank | **Average Pre-merger** | **Average Post-Merger** | **Variance** |
|---|---|---|---|
| **CBA** | 2.52% | 3.63% | 0.01% |
| **Prime Bank** | 2.97% | 3.20% | 0.00% |
| **CFC Stanbic** | 2.03% | 2.99% | 0.00% |
| **BOA** | 1.42% | 1.24% | 0.00% |
| **Ecobank** | -2.36% | -2.31% | 0.00% |

Source: Researcher (2016)

The profitability ratio indicates that most of the commercial banks recorded better financial performance as measured by profitability. Bank of Africa is the only commercial bank whose financial performance declined in the period after the acquisition as evidenced by the profitability ratio.

### 4.2.3 Efficiency Ratio

This ratio measures how shareholders' funds are used to boost assets growth (Oloo, 2007). It measures the proportion of equity used to finance the assets of a company. A high ratio is desirable because it indicates that a bank is efficiently utilizing the shareholders' funds to enhance business growth. In this study, the ratio is calculated as;

Efficiency Ratio= Shareholders Funds/Total Assets

The results are provided in the table 4.3;

### Table 4.3: Efficiency Ratio

| Bank | **Average Pre-merger** | **Average Post-Merger** | **Variance** |
|---|---|---|---|
| **CBA** | 12.1% | 10.5% | 0.01% |
| **Prime Bank** | 20.7% | 12.3% | 0.17% |
| **CFC Stanbic** | 13.6% | 20.1% | 0.10% |
| **BOA** | 12.2% | 13.5% | 0.00% |
| **Ecobank** | 16.4% | 12.8% | 0.03% |

Source: Researcher (2016)

The efficiency ratio indicates that most banks recorded declined financial performance as measured by the ratio with only two banks; CFC Stanbic and Bank of Africa recording improved financial performance post-merger/acquisition.

### 4.2.4 Capital Adequacy Ratios

This ratio ascertains the level of capitalization of a bank in relation to its liabilities (Oloo, 2007). It measures the shareholders risk in relation to the deposits.

It measures the ability of the core capital to absorb any losses that may arise. The higher the ratio; the more desirable it is. In this study it is measured by; Capital Adequacy Ratio= Core Capital/Total Deposits

The results are presented in the table 4.4;

## Table 4.4: Capital Adequacy Ratio

| Bank | **Average Pre-merger** | **Average Post-Merger** | **Variance** |
|---|---|---|---|
| **CBA** | 13.01% | 10.05% | 0.02% |
| **Prime Bank** | 23.60% | 12.03% | 0.33% |
| **CFC Stanbic** | 15.77% | 10.84% | 0.06% |
| **BOA** | 16.77% | 13.51% | 0.03% |
| **Ecobank** | 18.76% | 16.45% | 0.01% |

Source: Researcher (2016)

The capital adequacy ratio indicates that the commercial banks recorded declined financial performance subsequent to the merger and/or acquisition with all the banks recording declined capital adequacy levels.

## 4.3 Correlation Analysis

A correlation analysis of liquidity, profitability, efficiency and capital adequacy was done to ascertain the relationship between the variables. The correlation coefficients are provided in table 4.5;

## Table 4.5: Correlation Coefficients

| | *Liquidity* | *Profitability* | *Efficiency* | *Capital Adequacy* |
|---|---|---|---|---|
| Liquidity | 1 | | | |
| Profitability | -1 | 1 | | |
| Efficiency | 1 | -1 | 1 | |
| Capital Adequacy | 1 | -1 | 1 | 1 |

Source: Researcher (2016)

The correlation analysis provided an explanation of the relationship between the various variables. It revealed two types of relationships between the various variables which include; inverse relationships and perfect positive correlation. The study revealed an inverse relationship between liquidity and profitability; profitability and efficiency and profitability and capital adequacy. The study further revealed a perfect positive correlation between liquidity and efficiency; liquidity and capital adequacy and efficiency and capital adequacy.

## 4.4 Discriminant Analysis

A discriminant analysis using the Z-score model was conducted to evaluate the effect of mergers and acquisitions on the financial performance of commercial banks in Kenya. The Z-score for each bank was computed using the average pre-merger ratios and the average post-merger the ratios and two tailed t-test done. A comparison was then made between the Z-score for each commercial bank before the merger and after the merger to draw a conclusion on the financial performance of commercial banks in Kenya subsequent to the merger.

The average Z-score values for each commercial bank before and after the merger and/or acquisition are provided in Table 4.6;

### Table 4.6: Z-Score Results

| | **CBA** | **Prime Bank** | **CFC Stanbic** | **BOA** | **Ecobank** | **Overall** |
|---|---|---|---|---|---|---|
| **Pre-Merger** | 4.97085 | 5.37674 | 4.07473 | 4.19362 | 6.56869 | 5.05165 |
| **Post-Merger** | 4.25257 | 5.18688 | 5.03572 | 4.02308 | 5.34533 | 4.76872 |

Source: Researcher (2016)

The Z-score results indicate that the commercial banks recorded healthy performance before the merger and after the merger; however it reveals that most commercial banks recorded declined financial performance with only one CFC Stanbic recording improved financial performance. Overall, the Z-score results indicate there was an insignificant decline in the financial performance of the commercial banks post-merger/acquisition.

## 4.7 Discussion of Research Findings

The Z-score results reveal that the banks recorded healthy performance before the merger and after the mergers as reflected by the Z-score values of above 2.6. The Z-score values further reveal mixed results where some banks recorded improved financial performance while others recorded reduced financial performance. CFC Stanbic is the only bank that recorded an improvement in the financial performance after the merger; all the other banks recorded declined financial performance. The overall Z-score value reveals that there was an insignificant decline in the financial performance of commercial banks in Kenya in the period subsequent to the merger.

The research findings therefore reveal that the commercial banks did not record improved financial performance after the merger and/or acquisition. These results could be based on the fact that the financial performance of commercial banks is not solely dependent on the mergers and acquisitions. This is because commercial banks operate in a dynamic environment that is heavily influenced by other factors such as legislation, regulatory requirements, competition from other commercial banks and micro finance institutions.

The research findings therefore confirm the mixed performance subsequent to mergers and acquisitions; where some commercial banks record improved financial performance; others do not record any significant change in the financial performance while others record a decline in their financial performance post-merger and/or acquisition.

These findings are in sync with the findings of Muniu (2011) who in his study on bank efficiency, mergers and acquisitions and shareholder wealth effect in Kenya revealed that M&A's in the banking sector lead to dismal performance by some banks while it lead to very positive performance of others. The research findings reflected are also consistent with the findings of Chesang (2002) who found out that the financial performance of banks were not affected by merger restructuring.

The findings of this study reflected the findings of Mboroto (2013) who concluded that the overall performance of petroleum firms in Kenya were insignificantly affected by mergers and acquisitions had an insignificant impact on the overall financial performance of the petroleum firms in Kenya. The findings of this study agree with the findings of Inoti et al. (2014) who in their study to find out how acquisitions affected the financial performance of firms listed in the NSE found out that the financial performance of the acquiring firms in Kenya was not affected by corporate acquisitions. The findings of this study are consistent with the managerial hubris theory which concludes that managers who are very optimistic tend to engage in less profitable diversifying mergers to protect their jobs and positions.

The findings of this study reveal a variance from the financial synergy theory that concludes that firms that are involved in mergers and acquisitions record combines increased value. The findings of this study vary with the findings of Adebayo and Olalekan (2012) who concluded that mergers and acquisitions led to a major improvement in the overall performance of commercial banks in Nigeria.

Further, the findings of this study vary with the findings of Ngare (2013) who concluded the financial performance of commercial improved subsequent to mergers and acquisitions as measured by profitability ratios, long term solvency and capital adequacy ratios.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

It provides a summary of the findings discussed in chapter four. It provides a discussion of the conclusions, limitations and recommendations of the study which set out to evaluate the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya.

## 5.2 Summary of Findings

This study sought to evaluate the relationship between mergers and acquisitions and the financial performance of commercial banks in Kenya by looking at longer periods of 7 years pre-merger and 7. From the findings, it is evident that the banks experienced an overall decline in financial performance as measured by liquidity ratio and capital adequacy of the banks. The commercial banks recorded a slight increase in the overall performance as measured by both profitability and efficiency.

The study revealed that some of the variables had an inverse relationship while the other variables had a strong positive correlation. Liquidity and profitability; profitability and efficiency and profitability and capital adequacy had inverse relationships. Liquidity and efficiency; liquidity and capital adequacy and efficiency and capital adequacy had a perfect positive correlation.

The discriminant analysis conducted on the various variables before the merger and/or acquisition and after the merger and/or acquisition revealed that overall subsequent to the mergers and acquisitions the financial performance of commercial banks deteriorated.

## 5.3 Conclusion

The findings of the study resulted into a conclusion that M&A's did not have a positive relationship with financial performance of banks in Kenya. The study found that the financial performance of commercial banks deteriorated in the period subsequent to the mergers with mixed results witnessed, where some firms recorded improved financial performance; others recorded declined performance while others did not record any significant changes in their financial performance.

The study concluded that there was a strong positive relationship between liquidity, profitability and the financial performance of commercial banks. On the contrary, the study concluded that there was an inverse relationship between the efficiency of a commercial bank and its financial performance.

## 5.4 Recommendations

The study established that M&A's led to improved profitability of the commercial banks. Commercial banks should therefore consider engaging in M&A's to boost their profitability within the market and industry at large. The study however, revealed that the general financial performance of commercial banks did not increase after mergers and/or acquisitions and thus firms should critically evaluate the merger and/or acquisition process before engaging in it.

The study established that Capital Adequacy cannot be achieved through M&A's; therefore commercial banks seeking to maintain high levels of capital adequacy need to consider other strategies apart from M&A's.

The study revealed mixed results where some firms recorded improved financial performance post-merger while others recorded a decline in the financial performance post-merger and thus recommends that firms should only engage in mergers and acquisitions when they expect a general improvement in their performance.

## 5.5 Limitations of the Study

The data was not readily available given the longer periods of the study. This made the data collection process strenuous and time consuming. The data was secondary data that had been collected for other purposes and could have been inaccurate for this study. The lack of availability of data for the longer periods restricted the study to only 5 commercial banks.

Some of the data was completely unavailable which restricted the study period 2003 to 2008 to ensure completeness of data which led to the study of only 5 commercial banks. Some of the commercial banks that had undergone mergers underwent further acquisition during the period under study; therefore only the latter acquisition was considered in the study.

The study used one ratio for each of the categories of the ratios; liquidity, profitability, efficiency and capital adequacy ratios which gave biased results based on the specific components of the ratios used. There are several ratios that measure each of the several variables and thus they should be considered in aggregation in order to yield more conclusive results.

## 5.6 Suggestions for Further Research

The study evaluated the relationship between M&A's and the financial performance of commercial banks in Kenya by conducting a census survey. Studies should be done on individual and/or specific commercial banks to establish their objective of engaging in the mergers and acquisitions process and a post-merger/acquisition done to determine whether the specific objectives that motivated the merger and/or acquisition were achieved.

The study looked at a few of the variables that determine the financial performance of commercial banks and only looked at specific ratios in each of the variables. There are several other measures/determinants of financial performance. Other studies should thus be conducted that focus on specific variables and exhaustively cover all the measures under the specific variables in order to yield conclusive results.

The study used secondary data as a means of data collection and thus the results were subjective in nature. It is therefore important to use a mix of both primary data and secondary data to obtain conclusive results.

Primary data would help the researcher understand and measure the performance of commercial banks by considering the qualitative aspect and not entirely depending on the quantitative data.

Studies should be conducted to understand why some firms do not experience improved financial performance post-merger and acquisitions. An in depth analysis needs to be done on the firms that have recorded declined financial performance to understand the challenges facing such firms and to establish whether the declined financial performance can be solely attributed to the merger and/or acquisition.

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# APPENDICES

## APPENDIX 1:

## LIST OF COMMERCIAL BANKS THAT HAVE MERGED AND BEEN ACQUIRED IN KENYA

| No | Financial Institutions | Merging Partner | Trading Name | Approval Date |
|---|---|---|---|---|
| 1 | 9 Financial Institutions | The 9 financial institutions | Consolidated Bank of Kenya Ltd | 1989 |
| 2 | Indosuez Merchant Finance | Banque Indosuez | Credit Agricole Indosuez | November 1994 |
| 3 | Transnational Finance Limited | Transnational Bank Limited | Transnational Bank Limited | November 1994 |
| 4 | Ken Baroda Finance Ltd | Bank of Baroda (Kenya) Ltd | Bank of Baroda (Kenya) Ltd | December 1994 |
| 5 | First American Finance Limited | First American Bank Limited | First American Bank (K) Limited | September 1995 |
| 6 | Bank of India | Bank of India Finance Limited | Bank of India (Africa) Limited | November 1995 |
| 7 | Stanbic Bank (Kenya) Limited | Stanbic Finance (Kenya) Limited | Stanbic Bank Kenya Limited | January 1996 |
| 8 | Mercantile Finance Limited | Ambank Limited | Ambank Limited | January 1996 |
| 9 | Delphis Finance Limited | Delphis Bank Limited | Delphis Bank Limited | January 1996 |
| 10 | CBA Financial Services | Commercial Bank of Africa Limited | Commercial Bank of Africa Limited | January 1996 |
| 11 | Trust Finance Limited | Trust Bank (Kenya) Limited | Trust Bank (Kenya) Limited | January 1997 |
| 12 | National Industrial Credit Bank Limited | African Mercantile Banking Corp | NIC Bank Limited | June 1997 |
| 13 | Giro Bank Limited | Commerce Bank Limited | Giro Commercial Bank Limited | November 1998 |
| 14 | Guardian Bank Limited | First National Finance Bank Limited | Guardian Bank Limited | November 1998 |
| 15 | Diamond Trust Bank (Kenya) Limited | Premier Savings and Finance Limited | Diamond Trust Bank (Kenya) Limited | February 1999 |

| No | Financial Institutions | Merging Partner | Trading Name | Approval Date |
|---|---|---|---|---|
| 16 | National Bank of Kenya Limited | Kenya National Capital Corporation | National Bank of Kenya Limited | May 1999 |
| 17 | Standard Chartered Bank (Kenya) Limited | Standard Chartered Financial Service | Standard Chartered Bank (Kenya) Limited | May 1999 |
| 18 | Barclays Bank of Kenya Limited | Barclays Merchant Finance Limited | Barclays Bank of Kenya Limited | November 1999 |
| 19 | Habib A.G. Zurich | Habib Africa Bank Ltd | Habib Bank A.G. Zurich | November 1999 |
| 20 | Guilders International Bank Limited | Guardian Bank Limited | Guardian Bank Limited | December 1999 |
| 21 | Universal Bank Limited | Paramount Bank Limited | Paramount Universal Bank | January 2000 |
| 22 | Kenya Commercial Bank | Kenya Commercial Finance Co | Kenya Commercial Bank Limited | March 2001 |
| 23 | Citibank NA | ABN Amro Bank Limited | Citibank NA | October 2001 |
| 24 | Bullion Bank Ltd | Southern Credit Banking Corporation. Limited | Southern Credit Banking Corporation. Limited | December 2001 |
| 25 | Co-operative Merchant Bank Limited | Co-operative Bank Limited | Co-operative Bank of Kenya Limited | May 2002 |
| 26 | Biashara Bank Limited | Investment & Mortgage Bank Limited | Investment & Mortgage Bank Limited | December 2002 |
| 27 | First American Bank Limited | Commercial Bank of Africa Limited | Commercial Bank of Africa Limited | July 2005 |
| 28 | East African Building Society | Akiba Bank Limited | EABS Bank Limited | October 2005 |
| 29 | Prime Capital & Credit Limited | Prime Bank Limited | Prime Bank Limited | January 2008 |
| 30 | CFC Bank Limited | Stanbic Bank Limited | CFC Stanbic Bank Limited | June 2008 |
| 31 | Savings and Loan (Kenya) Limited | Kenya Commercial Bank Limited | Kenya Commercial Bank Limited | February 2010 |
| 32 | City Finance Bank Limited | Jamii Bora Kenya Limited | Jamii Bora Bank Limited | February 2010 |
| 33 | Equatorial Commercial Bank Limited | Southern Credit Banking Corporation | Equatorial Commercial Bank Limited | June 2010 |

| No | Financial Institutions | Merging Partner | Trading Name | Approval Date |
|---|---|---|---|---|
| | | Limited | | |

| No. | Financial Institution | Acquired by | Trading Name | Approval Date |
|---|---|---|---|---|
| 1 | Mashreq Bank Limited | Dubai Kenya Limited | Dubai Bank Limited | April 2000 |
| 2 | Credit Agricole Indosuez (Kenya) Limited | Bank of Africa Kenya Limited | Bank of Africa Bank Limited | April 2004 |
| 3 | EABS Bank Limited | Ecobank Kenya Limited | Ecobank Bank Limited | June 2008 |
| 4 | Fina Bank Limited | Guaranty Trust Bank Plc | Guaranty Trust Bank (Kenya) Limited | November 2013 |
| 5 | K-Rep Bank Limited | Centum Limited | K-Rep Bank Limited | October 2014 |
| 6 | Equatorial Commercial Bank Limited | Mwalimu Sacco Society Limited | Equatorial Commercial Bank Limited | November 2014 |

## APPENDIX 2:

## LIST OF COMMERCIAL BANKS THAT INVOLVED MERDED AND/OR ACQUIRED BETWEEN 2003 AND 2008

| No | Financial Institution | Merging Partner | Present Name | Approval Date |
|---|---|---|---|---|
| 1 | First American Bank Limited | Commercial Bank of Africa Limited | Commercial Bank of Africa Limited | July 2005 |
| 2 | East African Building Society | Akiba Bank Limited | EABS Bank Limited | October 2005 |
| 3 | Prime Capital & Credit Limited | Prime Bank Limited | Prime Bank Limited | January 2008 |
| 4 | CFC Bank Limited | Stanbic Bank Limited | CFC Stanbic Bank Limited | June 2008 |

| No | Financial Institution | Acquired by | Present Name | Approval Date |
|---|---|---|---|---|
| 1 | Credit Agricole Indosuez (Kenya) Limited | Bank of Africa Kenya Limited | Bank of Africa Bank Limited | April 2004 |
| 2 | EABS Bank Limited | Ecobank Kenya Limited | Ecobank Bank Limited | June 2008 |

# APPENDIX 3:

## PRE-MERGER AND POST-MERGER RATIOS

### Quick Assets/Total Deposits

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| First American | - | - | - | 35.8% | 63.6% | 68.0% | 51.2% | | | | | | | | |
| CBA | - | - | 71.3% | 77.7% | 75.9% | 75.4% | 72.5% | 49.2% | 60.7% | 70.3% | 57.1% | 62.1% | 46.9% | 51.5% | 36.6% |
| **Average** | **0.0%** | **0.0%** | **35.6%** | **56.7%** | **69.7%** | **71.7%** | **61.9%** | **49.2%** | **60.7%** | **70.3%** | **57.1%** | **62.1%** | **46.9%** | **51.5%** | **36.6%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prime Capital & Credit | 62.3% | 63.0% | 73.6% | 0.0% | 17.5% | 33.1% | 88.8% | | | | | | | | |
| Prime Bank | 60.8% | 59.6% | 47.3% | 46.6% | 118.7% | 39.5% | 73.0% | 67.2% | 68.2% | 97.3% | 73.3% | 53.9% | 49.2% | 44.0% | 47.8% |
| **Average** | **61.6%** | **61.3%** | **60.5%** | **23.3%** | **68.1%** | **36.3%** | **80.9%** | **67.2%** | **68.2%** | **97.3%** | **73.3%** | **53.9%** | **49.2%** | **44.0%** | **47.8%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFC Bank | 78.7% | 69.0% | 35.0% | 25.5% | 33.9% | 30.3% | 25.1% | | | | | | | | |
| Stanbic Bank | 46.3% | 52.5% | 47.1% | 35.8% | 37.9% | 50.5% | 43.7% | | | | | | | | |
| CFC Stanbic | | | | | | | | 43.0% | 61.5% | 37.7% | 43.8% | 65.3% | 46.8% | 49.2% | 59.6% |
| **Average** | **62.5%** | **60.8%** | **41.0%** | **30.6%** | **35.9%** | **40.4%** | **34.4%** | **43.0%** | **61.5%** | **37.7%** | **43.8%** | **65.3%** | **46.8%** | **49.2%** | **59.6%** |

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole | | | 41.5% | 33.1% | 63.1% | 60.7% | 35.7% | | | | | | | | |
| Bank of Africa | | | | | | | | 26.0% | 38.0% | 33.3% | 37.4% | 47.3% | 50.4% | 52.1% | 47.8% |

| **Average** | **0.0%** | **0.0%** | **41.5%** | **33.1%** | **63.1%** | **60.7%** | **35.7%** | **26.0%** | **38.0%** | **33.3%** | **37.4%** | **47.3%** | **50.4%** | **52.1%** | **47.8%** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| EABS Bank | 92% | 104% | 87% | 85% | 68% | 62% | 66% | | | | | | | | |
| Ecobank Limited | | | | | | | | 61% | 60% | 59% | 69% | 65% | 73% | 67% | 70% |
| **Average** | **92%** | **104%** | **87%** | **85%** | **68%** | **62%** | **66%** | **61%** | **60%** | **59%** | **69%** | **65%** | **73%** | **67%** | **70%** |

## Profit Before Tax/ Total Assets

| | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| First American | 0.0% | 0.0% | 2.1% | 3.5% | 3.2% | 2.3% | 2.4% | 0.0% | | | | | | | |
| CBA | 4.6% | 3.3% | 3.1% | 3.2% | 2.3% | 3.1% | 2.2% | 1.2% | 3.6% | 3.5% | 3.4% | 3.1% | 4.2% | 3.6% | 4.0% |
| **Average** | **2.3%** | **1.7%** | **2.6%** | **3.4%** | **2.8%** | **2.7%** | **2.3%** | **0.6%** | **3.6%** | **3.5%** | **3.4%** | **3.1%** | **4.2%** | **3.6%** | **4.0%** |

| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prime Capital & Credit | 2.7% | 3.3% | 6.4% | 4.7% | 4.6% | 4.5% | 2.5% | | | | | | | | |
| Prime Bank | 1.7% | 1.9% | 1.6% | 1.8% | 1.7% | 1.8% | 2.3% | 2.3% | 2.4% | 2.4% | 3.1% | 2.7% | 3.8% | 4.2% | 3.9% |
| **Average** | **2.2%** | **2.6%** | **4.0%** | **3.2%** | **3.2%** | **3.2%** | **2.4%** | **2.3%** | **2.4%** | **2.4%** | **3.1%** | **2.7%** | **3.8%** | **4.2%** | **3.9%** |

| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFC Bank | 2.5% | 2.7% | 3.2% | 3.0% | 2.6% | 5.4% | 3.3% | | | | | | | | |
| Stanbic Bank | -4.5% | 0.4% | -1.5% | 1.3% | 3.0% | 3.6% | 3.5% | | | | | | | | |
| CFC Stanbic | | | | | | | | 1.6% | 1.4% | 2.0% | 2.2% | 3.5% | 4.0% | 4.3% | 3.6% |
| **Average** | **-1.0%** | **1.6%** | **0.9%** | **2.1%** | **2.8%** | **4.5%** | **3.4%** | **1.6%** | **1.4%** | **2.0%** | **2.2%** | **3.5%** | **4.0%** | **4.3%** | **3.6%** |

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole | 0.93% | 2.42% | 3.35% | 1.19% | 1.09% | 0.96% | 0.02% | | | | | | | | |
| Bank of Africa | | | | | | | | 2.81% | 0.13% | 0.94% | 2.06% | 0.76% | 1.54% | 1.81% | 1.43% |
| **Average** | **0.93%** | **2.42%** | **3.35%** | **1.19%** | **1.09%** | **0.96%** | **0.02%** | **2.81%** | **0.13%** | **0.94%** | **2.06%** | **0.76%** | **1.54%** | **1.81%** | **1.43%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EABS Bank | 0.7% | 0.5% | -18.1% | -1.5% | 0.1% | 0.5% | 1.2% | | | | | | | | |
| Ecobank Limited | | | | | | | | 0.6% | -8.3% | 0.7% | 0.4% | -4.8% | -3.3% | -1.1% | 0.2% |
| **Average** | **0.7%** | **0.5%** | **-18.1%** | **-1.5%** | **0.1%** | **0.5%** | **1.2%** | **0.6%** | **-8.3%** | **0.7%** | **0.4%** | **-4.8%** | **-3.3%** | **-1.1%** | **0.2%** |

## Shareholders' Funds/Total Assets

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| First American | 0.0% | 0.0% | 18.1% | 17.7% | 20.2% | 18.7% | 14.8% | | | | | | | | |
| CBA | 11.4% | 13.2% | 13.0% | 11.0% | 10.3% | 10.7% | 9.7% | 7.7% | 9.9% | 11.4% | 9.9% | 11.0% | 11.8% | 11.9% | 11.6% |
| **Average** | **5.7%** | **6.6%** | **15.5%** | **14.4%** | **15.2%** | **14.7%** | **12.3%** | **7.7%** | **9.9%** | **11.4%** | **9.9%** | **11.0%** | **11.8%** | **11.9%** | **11.6%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prime Capital & Credit | 19.9% | 20.8% | 23.4% | 26.0% | 27.1% | 38.1% | 44.9% | | | | | | | | |
| Prime Bank | 15.0% | 14.4% | 11.6% | 11.7% | 10.1% | 12.6% | 13.9% | 15.3% | 12.9% | 12.0% | 10.6% | 9.6% | 11.8% | 14.1% | 13.4% |
| **Average** | **17.5%** | **17.6%** | **17.5%** | **18.9%** | **18.6%** | **25.4%** | **29.4%** | **15.3%** | **12.9%** | **12.0%** | **10.6%** | **9.6%** | **11.8%** | **14.1%** | **13.4%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFC Bank | 21.4% | 20.1% | 16.2% | 10.1% | 13.3% | 22.1% | 11.9% | | | | | | | | |
| Stanbic Bank | 9.5% | 7.8% | 9.4% | 15.1% | 13.5% | 10.6% | 9.7% | | | | | | | | |
| CFC Stanbic | | | | | | | | 23.1% | 20.9% | 24.1% | 13.8% | 20.4% | 18.0% | 20.4% | 14.2% |
| **Average** | **15.5%** | **13.9%** | **12.8%** | **12.6%** | **13.4%** | **16.4%** | **10.8%** | **23.1%** | **20.9%** | **24.1%** | **13.8%** | **20.4%** | **18.0%** | **20.4%** | **14.2%** |

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole | 7.6% | 9.2% | 13.1% | 11.3% | 12.5% | 16.0% | 15.4% | | | | | | | | |
| Bank of Africa | | | | | | | | 13.1% | 12.6% | 15.1% | 16.5% | 13.5% | 12.7% | 11.0% | 12.1% |
| **Average** | **7.6%** | **9.2%** | **13.1%** | **11.3%** | **12.5%** | **16.0%** | **15.4%** | **13.1%** | **12.6%** | **15.1%** | **16.5%** | **13.5%** | **12.7%** | **11.0%** | **12.1%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EABS Bank | 18.5% | 15.6% | 16.5% | 14.3% | 14.5% | 17.6% | 17.9% | | | | | | | | |
| Ecobank Limited | | | | | | | | 16.6% | 15.4% | 18.6% | 6.3% | 6.3% | 9.2% | 17.0% | 14.4% |
| **Average** | **18.5%** | **15.6%** | **16.5%** | **14.3%** | **14.5%** | **17.6%** | **17.9%** | **16.6%** | **15.4%** | **18.6%** | **6.3%** | **6.3%** | **9.2%** | **17.0%** | **14.4%** |

## Core Capital/Total Deposits

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| First American | | | | 22.1% | 25.7% | 0.0% | 17.7% | 0.0% | | | | | | | |
| CBA | | | | 9.9% | 9.9% | 9.2% | 9.6% | 8.0% | 9.3% | 10.4% | 10.3% | 10.3% | 10.8% | 11.4% | 12.1% |
| **Average** | **0.0%** | **0.0%** | **0.0%** | **16.0%** | **17.8%** | **4.6%** | **13.6%** | **8.0%** | **9.3%** | **10.4%** | **10.3%** | **10.3%** | **10.8%** | **11.4%** | **12.1%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prime Capital & Credit | 25.7% | 26.7% | 31.6% | 36.0% | 12.6% | 38.8% | 40.5% | | | | | | | | |
| Prime Bank | 17.8% | 18.0% | 13.8% | 14.1% | 34.4% | 9.7% | 10.5% | 10.2% | 9.6% | 15.6% | 11.2% | 10.4% | 12.2% | 15.0% | 16.4% |
| **Average** | **21.8%** | **22.4%** | **22.7%** | **25.1%** | **23.5%** | **24.2%** | **25.5%** | **10.2%** | **9.6%** | **15.6%** | **11.2%** | **10.4%** | **12.2%** | **15.0%** | **16.4%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFC Bank | 21.4% | 20.1% | 16.2% | 10.1% | 13.3% | 22.1% | 11.9% | | | | | | | | |
| Stanbic Bank | 9.5% | 7.8% | 9.4% | 15.1% | 13.5% | 10.6% | 9.7% | | | | | | | | |
| CFC Stanbic | | | | | | | | 23.1% | 20.9% | 24.1% | 13.8% | 20.4% | 18.0% | 20.4% | 14.2% |
| **Average** | **15.5%** | **13.9%** | **12.8%** | **12.6%** | **13.4%** | **16.4%** | **10.8%** | **23.1%** | **20.9%** | **24.1%** | **13.8%** | **20.4%** | **18.0%** | **20.4%** | **14.2%** |

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole | - | - | 14.9% | 13.6% | 15.2% | 20.8% | 19.3% | | | | | | | | |
| Bank of Africa | | | | | | | | 16.4% | 14.8% | 14.0% | 14.5% | 11.6% | 13.8% | 9.6% | 14.2% |
| **Average** | **0.0%** | **0.0%** | **14.9%** | **13.6%** | **15.2%** | **20.8%** | **19.3%** | **16.4%** | **14.8%** | **14.0%** | **14.5%** | **11.6%** | **13.8%** | **9.6%** | **14.2%** |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EABS Bank | 22.9% | 19.0% | 21.8% | 18.9% | 15.0% | 18.2% | 15.5% | | | | | | | | |
| Ecobank Limited | | | | | | | | 12.3% | 14.1% | 16.7% | 16.0% | 20.4% | 20.0% | 15.7% | 26.3% |
| **Average** | **22.9%** | **19.0%** | **21.8%** | **18.9%** | **15.0%** | **18.2%** | **15.5%** | **12.3%** | **14.1%** | **16.7%** | **16.0%** | **20.4%** | **20.0%** | **15.7%** | **26.3%** |