EFFECT OF STATUTORY CAPITAL STRUCTURE ON FINANCIAL DISTRESS AMONG COMMERCIAL BANKS IN KENYA.

BY

STEPHEN NGUNDO NJIRU

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DECLARATION

This research proposal is my original work and has not been submitted for the award of a degree in any other university.

Signed: ……..…….. Date: ……

Stephen Ngundo Njiru

Reg. No.: D63/6673/2017

This research proposal has been submitted for examination with my approval as university lecturer.

Signed: …… Date: ……

Dr. Duncan Elly Ochieng (PhD, CIFA)

Lecturer.

Department of Finance and Accounting, School of Business University of Nairobi.

DEDICATION

This research project is dedicated to my parents Mr. Nahashon Njiru and Mrs Zipporah Njiru, my brother Nelson Njiru and my sister Judy Njiru for their tremendous support in the achievement of this course. May God bless them abundantly.

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ABSTRACT

The study examined the effects of Capital structure on financial distress among commercial Banks in Kenya. Most studies on capital structure conducted across the globe found inconsistencies on the effects of capital structure on the financial distress of firms. In Kenya studies done on capital structure and financial distress concentrated on the effect of capital structure on financial performance for microfinance institutions, industrial firms and allied sectors although the banking sector is different from any other sector of the market in terms of high leverage and regulation. This study adopted three theories namely the Agency theory, Wrecker,s theory of financial distress and Buffer theory of capital adequacy. The study was conducted on 44 commercial banks in Kenya which were in operation in Kenya for the five years of study from 2013 to 2017. The various ratios of these commercial banks were computed from the various data collected from the data extracted from their financial statement for the period. The data was then analyzed using linear regression models using SPSS19 to establish if there is any significant relationship of capital structure and the financial performance of these commercial banks. The finding of the analysis concluded that there is a significant relationship between the capital structure and the financial distress of commercial banks in Kenya. Therefore it was concluded that capital structure affects financial distress of commercial banks in Kenya. The findings of this research study will help the Management of Kenyan Commercial Banks, investors, shareholders, scholars, Government of Kenya by providing insight on effect of capital structure on financial distress.

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LIST OF ABBREVIATIONS

CBK Central Bank of Kenya

GDP Gross Domestic Product

MFIs Micro Finance Institutions

NFIFO Net Firm Income from Operations

OBS Off Balance Sheet

OPM Operating Profit Margin

ROA Return on Assets

NPL Non Performing Loans

ROE Return on Equity

CHAPTER ONE
INTRODUCTION

1.1Background of the Study

Financial distress is a notable menace to all organizations internationally notwithstanding their nature and size. The expression financial distress is used in a bleak implication to depict the financial condition of an organization facing liquidity risk and with the challenges that follow in satisfying financial stability and to its full extend (Outecheva, 2007). Brownbridge (1998), reiterated that commercial banks are financially distressed if they are illiquid or insolvent. The word insolvency means the inability of an organization to acquire adequate resources to meet its obligations. It is a circumstance in which an organization's cash flows are not adequate to fulfil the prevailing obligations thus its compelled to undertake corrective action to avoid failure in the near future.

According to a study done by Jonathan P. O'Brien, Parthiban David, Toru Yoshikawa and Andrew Delios, 'How capital structure impacts diversification of performance: A transaction cost point of view, Strategic Management Journal, 35, 7, (1013-1031), (2013),' capital structure has progressively obtained significance in the financial institutions sector. Ideal models got from hierarchical financial aspects have additionally obtained vogue in describing firm activities. Transaction cost theory and Agency theory are two such ideal models that rely on the thought of market imperfections. Despite the likeliness between the two offer distinctive explanations on the role of equity and debt in an organization. The administration capacities of the nature of assets and the financing of the firm give two main sources of contrasts. Observing capital structure from transaction cost theory offers forecasts that are opposing to those exhibited by Agency theory.

Throughout the previous decades, the world has experienced various instances of financial distress and subsequent failure among internationally reputable corporations. In the view of Outecheva (2007), financial distress of corporate is mainly ascribed to poor financial administration, adverse economic factors, extreme competition and the capital structure. Studies undertaken by Andrade and Kaplan (1998), Gupta, Srivastava, and Sharma (2014) and Chen (2004) have provided evidence that use of debt financing increases corporate financial distress. However, the findings of these studies are at variance with the findings of studies carried out by ShehlaAkhtar, Javed, Maryam, and Sadia (2012), Ogbulu and Emeni (2012) and Ogundipe, Idowu, and Ogundipe (2012) that found use of leverage to mitigate corporate financial distress. On the other hand, studies taken by Ebaid (2009) and Modigliani and Miller (1958) concluded that the way firms are financed does not affect the distress process.

This study was motivated by the necessity to understand the effect of capital structure on financial distress of commercial banks in Kenya. This will aid banks to make corrective evaluations in due time to circumvent financial distress which can be predicted and appropriate measures taken in advance to avoid bank failure as well as to ensure the banking industry remains stable to enhance economic growth.

1.1.1 Capital Structure

Capital Structure deduces the way a firm funds its advantages over the mix of obligation, value and half securities Saad, (2010). The idea is for the most part depicted as the mix of obligation and value that make the aggregate capital of a firm. The extent of obligation to value is a key decision of corporate administrators Saad, (2010). Capital structure choice

was the fundamental one since the budgetary execution of a venture is specifically influenced by such choice Saad, (2010).

According to Myers &Majluf (1984),the industry of operation is a determinant of company's capital structure settlement, given that the nature and structure of assets influences financing necesities, and also a company's ability to furnish creditors with assets as guarantee. In this manner, organizations whose operations are based on physical assets acquire debt patently. Contradictory, organizations whose operations are based on non-physical assets related with subsequent growth prospects and experience with difficulty in acquiring credit.

The likeness between commercial banks and non-financial institutions' capital structure might be more prominent besides what is already examined, as substantiated by Gropp and Heider, (2009). The investigation indicated that most determinants of capital structure in various firms likewise apply to commercial banks with exception of those commercial banks which have attained the least capital requirement. It was also observed that commercial banks support their financial positions development significantly with non-deposit liabilities hence the structure of commercial banks liabilities has moved from customer deposits. Consequently it is hard to express the perfect capital structure of a commercial bank since banks appear to have stable capital structures at levels particular to each individual commercial bank. In such manner in a dynamic structure, banks' objective to use leverage is time invariant and Bank particular Gropp et al., (2009).

The capital structure of organizations should be subsequently established to ensure that organizations remain in operations and they are prepared to back their undertakings. Consequently, the manner in which a commercial bank consolidates its value and obligations will portray its execution (Ross et al., 2009). As demonstrated by CBK prudential guidelines (2013), Commercial banks activities in Kenya are controlled by CBK which describes the grounds in which these banks ought to work. It additionally guides on the capital requirements that any commercial bank should work with by setting up least capital prerequisites. CBK Prudential Guidelines (2013) section 3 states that Capital prerequisites for a specific establishment may vary depending on its risk profile. The section further sets a proposition for deciding least capital needs which will be ascertained through isolating core and total capital by the aggregate of the estimation of its risk-weighted assets for credit risk, market risk and operational risk, to arrive at the base tier 1 and regulatory capital adequacy proportions individually CBK prudential guidelines, (2013). Therefore, the manner in which a bank combines its debt and equity, will characterize its financial stability, Ross et al., (2009).

1.1.2 Financial Distress

Financial distress was defined as the circumstance in which an organization is not able to settle its financial obligations as they become due or does so with difficulties (Andrade & Kaplan, 1998). According to Whitaker (1999), financially distressed firms are generally associated with volatile profitability, insufficient cash flows and decrease in assets-liability ratio. According to Rajan and Zingales (1995), the financing factor assumes a critical role in deciding not just the interim financial performance of the organization but also its long run survival.

As per Outecheva (2007), financial distress can be subdivided in four components which include performance deterioration, bankruptcy, default and failure. While failure and deterioration affects the profitability of the organization, default and bankruptcy are rooted in its liquidity. Financial distress is characterized by sharp decrease in an organizations value and performance. He additionally notes that, an organization can be financially distressed while not defaulting on its obligations. However, bankruptcy and default cannot occur without prior experience of financial distress.

There are different causes of financial distress. Brownbridge (1998), attributes financial distress to lending to high risk borrowers, insider lending, macroeconomic instability, prudential regulation and liquidity support contrary to Babalola (2009), who ascribes bank financial distress to a chain of causation from non-panic related, detectable, exogenous adverse changes in banks economic conditions, to intrinsic deterioration of bank condition leading to bank failure. The most common reason for an organizations financial distress and possible failure is managerial incompetence as indicated by Aasen (2011), however the ultimate cause of commercial bank failure is often running out of cash and other liquids assets.

1.1.3 Effects of Capital Structure on Financial Distress

While subsequent studies have consistently concluded that poor governance, severe competition and adverse economic factors are significant contributors of financial distress, the effect of capital structure has been debatable. Studies undertaken by Andrade and Kaplan (1998), Gupta, Srivastava, and Sharma (2014) and Chen (2004) have provided evidence that use of debt financing increases corporate financial distress.

However, the findings of these studies are at variance with the findings of studies carried out by ShehlaAkhtar, Javed, Maryam, and Sadia (2012), Ogbulu and Emeni (2012) and

Ogundipe, Idowu, and Ogundipe (2012) that found use of leverage to mitigate corporate financial distress. According to Myers (1984), there is a significant negative correlation between financial distress and capital structure through equity and debt ratios, which include total debt, short-term debt and equity ratios.

On the other hand, studies taken by Ebaid (2009) and Modigliani and Miller (1958) concluded that the way firms are financed does not affect the failure process. These conflicting empirical results were been based on specific financial distress indicators such as profitability, liquidity, firm value and investment growth. A major limitation of these studies is that by using single indicators of financial distress, the findings only provide short run information which may change with time.

Financial distress in firms is a gradual process. As Outecheva (2007) points out, it's a dynamic process where a company moves in and out of financial distress, as it undergoes separate stages, for which each has particular characteristics therefore, bestow differently to a corporate failure. This implies that financial distress has a variance of time and once an organization enters it, it doesn't remain in a similar state until it is liquidated or it recovers. The changes in the financial conditions influence the transition from state to state of financial distress. In the event that the financial conditions become aggravated, the organization will most probably become insolvent.

1.1.4 Commercial Banks in Kenya

Commercial banks in Kenya are extremely important engines of economic growth since they are important sources of finance in most economies for majority of the firms. The banking system provides means of payments as they are the main economy's depository for savings and since most developing economies have been able to liberalized their entire

banking systems, their managers now have much freedom in how to run these banks in order to facilitate growth (Arun& Turner, 2004).

There are 44 banking institutions in Kenya CBK, (2017) out of which, 43 are commercial banks and one is mortgage finance company. Commercial banks operations in Kenya are controlled by CBK which defines and sets the various capital requirements that any commercial bank should operate by setting up minimum capital requirements. CBK uses capital structure to access the exposure to risk of the commercial bank but it doesn't assess the effect of these requirements on their profitability and distress. Total core capital is core capital plus the supplementary capital whereas Banking Act section 2(1) defines the core capital (tier 1) as fixed shareholders' equity which is the issued and fully paid up ordinary shares and perenial noncumulative shares of preference and all the reserves disclosed without goodwill and other non-physical assets. The supplementary capital (tier 2) is composed of 25% of the asset and revaluation reserves received before central bank approval, issued and paid-in hybrid (debt equity) capital instruments subordinated debt or other capital as approved by central bank. It additionally states that supplementary capital must not surpass core capital.

The CBK also regulates commercial banks in line with the Banking Act CAP 488. The Banking Act part 1 defines the core capital which is the minimum capital that each bank must have before it starts its operations in Kenya. The CBK has developed prudential guidelines which are used to regulate the banking industry. These guidelines are in line with the Banking ACT and they define the specific requirements that a bank must meet. In this line, it has issued Prudential Guidelines (2013) which require that every bank in Kenya must have KES 1 billion as the minimum core capital.

1.2 Research Problem

Most of the commercial banks reflect liquidity ratios which are above minimum statutory requirement despite their capital structure (Becks et al., 2010). However, according to the number of banks that failed due to financial distress over the last decades all over the world, it is safe to say that financial distress affects profit or operating cash flows negatively. In his study on the impact of financial distress on firm's performance using both the financial leverage and regression analysis as a proxy for financial distress Tan (2012), concluded that financially distressed firm's performance deteriorates during financial distress.

Financial distress arising from capital structure of commercial banks can be huge and devastating to the economy as a whole since banks are the backbone of many economies all over the world. Financial distress is significantly experienced in Kenya and although most banks are reporting profits, some of them are facing financial distress. The commercial banks influence the financial sector and any collapse in the sector would have a tremendous implication on the country's economic growth since it has an infirmity effect that could lead to the whole bank system failure and overall financial crisis hence economic affliction, Ongore and Kusa, (2013).

Ahmad, Hasan and Roslan (2012), examined the effect of capital structure on firm performance through analysis of Malaysian organizations. They examined 58 firms for a period between the years 2005 and 2010 where they observed that long term debt and short term debt have a significant relationship with ROE, ROA and capital structure. Opler and Titman (1994), contended that financial distress improves corporate performance and promote changes in the corporate. Likewise in this view Wruck (1990) additionally pointed

out that firm value can be enhanced through financial distress by compelling administrators to make difficult value enhancing decisions. Conflicting affirmation suggests that financial distress causes noable losses. Senbet and Seward (1995), contended that, there is no essential linkage between bankruptcy and the banks operating performance. He argued that bankruptcy does not cause economic distress or poor performance. An exceedingly profitable organization with high leverage may remain viable as a going concern, regardless of bankruptcy, while an unprofitable organization be liquidated regardless of whether it has no debt its capital structure. This is contrary to Tan (2012), who observed that distressed firms perform poorly.

Mamo (2011), and Bwisa(2010), researched on the use and suitability of Altman (1968) model in predicting financial distress among commercial banks and other firms listed at the Nairobi Stocks Exchange in Kenya. They found out that the model is accurate and is applicable locally. Chea (2012), undertook a study on the impact of cash flow information in financial distress predicting among business banks in Kenya. The study sought to discover the effect of financial distress on financial performance of commercial banks. According to Waweru and Kalani (2009), the main cause of financial distress on a significant number of financial institutions was non-performing loans.

Most of the studies that have been carried out locally have not examined the effect impact of capital structure on commercial banks since most of them have concentrated on non-financial institutions. This study therefore sought to answer the following research question: What is the effect of capital structure on the financial distress among commercial banks in Kenya?

1.3Research objectives

The study sought to:

1 Ascertain the correlation between equity and financial distress among commercial banks in Kenya.

2 Ascertain the correlation between debts and financial distress among commercial banks in Kenya.

3 Determine the effect of capital structure on financial distress among commercial banks in Kenya.

1.4Significance of the Study

Findings from this study will help various stakeholders including the following:

Potential investors who make investment decisions on certain companies benefit from understanding the dynamics of financial distress and particularly the statistical variables to look out for. This study enables them to identifyi early warning signals in a company that is facing financial difficulties and thus make an informed investment decision. Similarly, shareholders who wish to monitor current performance and predict future performance of the companies in which they have invested will use the findings from this study to make disposal or investment decisions.

Financial institutions that lend money to the public will need to evaluate their financial stability in order to determine their debt repayment capability and thus the probability of continuity into the future as well as the analysis of financial ratios assists in determining financing needs as well as the ability to predict financial distress.

The academicians and researchers have benefited from further insights into the predictive ability of the logit model which may form the basis for further research. The findings from this study have generated further research questions that may be investigated further. They

have further evaluate applicability of Logit analysis to non-financial and investment firms, small businesses among others.

The study has aided the government through CBK and CMA as regulators in their quest to streamline regulation in the banking sector as the economy is pegged on how the banking sector performs. Inappropriate capital structure can cause bank system failure hence negatively affecting growth in the economy.

The study has added information to Scholars by contributing knowledge to the literature on effect of capital structure on financial distress among commercial banks through the investigation of the correct composition of capital structure that maximizes the shareholders return and impacts positively on a bank's financial performance.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter two reviewed literature on financial distress factors in relation to capital structure as depicted in the conceptual framework. It starts by reviewing theories advanced in the study of financial performance, liquidity, leverage, operational efficiency, asset quality and capital adequacy. Subsequent of the literature review, a conceptual framework was developed which formed the basis and linkages in establishing existing relationships amongst the key variables in this study. The empirical review together with embedded critique existing in the literature is also reviewed in this chapter with a summary and research gaps on financial distress.

2.2 Theoretical Literature Review

Relevant theories in the area of financial distress factors and financial performance are reviewed in this section. A theory is a systematic explanation to a phenomenon which a researcher should be conversant with in line with those theories applicable to his area of study (Durham & Stokes, 2015; (Shapira, 2011). For firmly grounding the study theoretically, one or two theories were reviewed for each variable and at least one model for each variable under study. The theories reviewed relate to financial distress and performance. Key theories which include wrecker's financial distress theories, Agency theory and Buffer theory of capital adequacy are reviewed in respect to dependent and independent variables.

2.2.1 Agency Theory

This theory explains the agency problem in which one party assigns functions to another party. The one assigning functions is called the principal while the other party that executes the functions is called the agent. An agency correlation emerges when the activities of an individual influences

his welfare and that of someone else in an express or verifiable legally binding relationship (Jensen &Meckling, 1976). An agent is the person who performs the activities while the principal is the person welfare is influenced. In the event that the two parties are utility maxi misers, at that point there is a valid justification to trust that the agent will not generally act to the greatest advantage of the principal, Jensen &Meckling, (1976).

Agency theory is helpful in describing the financial distress confronting financial institutions. The theory describes how biased actions of managers and the administration (agents) adversely affects the welfare of shareholders (principals) by participating in adverse level of leverage composition, inefficiencies in the organizations operations due to incompetence, poor administration of the control of assets and poor liquidity administration controls. As per Kloha et al.(2005),the activities of administration includes how they embezzle the funds of the financial institutions and furthermore how they settle on non ideal choices to the extent use of financial and non-financial resources are concerned. These activities at long last prompt poor financial performance of firms, Muthuva (2016).

2.2.2 Wrecker's Theory of Financial Distress

Wrecker's theory was at first formulated by Campbell, Hilscher and Szilagy (2005). He explains that stocks of distressed organizations perform in a way which is immensely inferior as compared to stocks of financially stable organizations. The wreckers' theory of financial distress tries to clarify the advantages that may venture out of financially distress to shareholders Kalckreuth, (2005). This theory adds to a proficient market understanding of an imperative securities market and ordinarily it joins work on private advantages to the literature on the empirics of asset pricing and that the financial related structure and the likelihood of default which might be essential for deciding the extent of private advantages of control, Kalckreuth, (2005). As indicated by Kalckreuth (2005), he contended that with an expanding likelihood of default, there is a greater

incentive to pull back assets from the firm as private and non-dividend benefits. Shareholders will only undertake the full opportunity costs in investments and jurisdictions where there is no default hence the withdrawal of resources is termed as 'wrecking'.

The wrecker's theory of financial distress tries to legitimize different advantages as a result of a financially distressed firm to shareholders. It isn't important to attribute the negative abundance returns of distressed organizations to inefficient of illogical markets; such negative overabundance returns can be shown to the equilibrium outcome under coherency in a financially distressed firm, at that point the members can be able to return in kind. Wrecker's theory of financial distress paints an illusion of a firm being hit by a progression of negative stuns, making losses and moving toward a condition of financial distress. The shareholders expect output from the firm in form of dividend payment, credits, advances, and bank-runs, hence influencing the asset quality due to low deposits and high nonperforming loans and advances as a result of huge withdrawals. In according with Wrecker's theory therefore, asset quality is a huge factor of financial distress. With higher use of leverage, share price volatility increases in favour of private information; hence the fate of the organization depends on issues obscure to the general public, Nyamboga et al., (2014). Since shareholders will begin demanding for returns for their ventures, there will be constant withdrawals in terms of credits, advances and bank runs; therefore the firm will be financially distressed since it will be required to make colossal payments to the shareholders.

2.2.3 Buffer Theory of Capital Adequacy

Financially distressed establishments may propose to hold a `buffer' of abundance capital to lessen the likelihood of falling under the legal capital requirements, particularly if their capital adequacy ratio is exceptionally unpredictable. Capital requirements are one of the primary supervisory instruments in Kenya for financial institutions. As per this theory, capital is dependable and reliable and hence can be utilized for long term planning. The capacity of banks to mobilize

sufficient deposits deters the capital base from being depleted. The buffer theory of Rob and Calem (1996), forecasts that a bank moving toward the regulatory least capital proportion may have a motivating force to enhance capital and decrease risk so as to circumvent regulatory costs activated through breach of capital requirements.

Dismally capitalized commercial banks may likewise be enticed to accept more risk with the expectation that higher expected yields will assist them to escalate their capital. This is one of the manner in which risk relating to lower capital sufficiency influence banking operations in case of bankruptcy of a financial institution Calem& Rob, (1996). Calem and Rob (1996's) model observed that there will be two parts of the new regulatory condition that may have unintended impacts one being higher capital requirements prompting expanded risk portfolio. The other aspect is that capitalized premier does not deter taking of risk by banks that are well capitalized and have a tendency to stimulate risk taking among all financial institutions that are undercapitalized. Then again, risk based capital models may have good impacts provided the requirements are sufficiently stringent, Calem& Rob, (1996). This theory shows that the firm will be in a steady condition in the midst of low liquidity since there will be some capital reserves that will guarantee the firm meets its obligations when they fall due utilizing the abundance capital perceived as a buffer regardless of the performance hence lessening the effect of financial distress in an organization.

Without buffer capital, firms are probably going to fall into financial distress later on. Berger and Bouwman (2013), contended that capital enables small banks to increase their likelihood of survival and market share consistently. Also, capital promotes the performance of medium and substantially large banks especially during bank crises. This hence makes capital sufficiency a noteworthy factor of financial distress.

2.3Determinants of Financial Distress

The probability of financial distress occurrence is high when the banks have high fixed costs, high combinations of illiquid assets, or incomes that are sensitive to economic depression. (Demyanyk and Hasen 2010).(Demiguc and Detraigaialche 1998), (Wheelockand Wilson 2009), observed that commercial banks with higher ratios of the loans to assets, lower capitalization, poor loan quality portfolios with lower earnings have an increased risk of facing distress.

2.3.1 Capital Structure

As per Myers & Majluf (1984), the industry or sector is a determining factor of firm's capital structure choices, since the composition and nature of assets affects the financing needs and also the organization's ability to furnish creditors with financial reasources as guarantee. Hence, organizations whose operations are based on physical assets acquire debt easily. Despite that, organizations whose operations are based on non-physical assets that are associated with forecast growth opportunities face pitfall in acquiring credit.

2.3.2 Capital Adequacy

As per Myers & Majluf (1984), capital adequacy determines how well banks can cope with shocks to their financial position. The most important measure of the capital adequacy is the ratio of capital to total loan provided by the bank. This is measured by total Equity divided by total loan and advances of the banks.

2.3.3 Firm Efficiency

Firm's efficiency or turnover ratios measure how beneficially the firm is utilizing its assets, Brealey and Meyers (2000). The firm effectiveness is estimated based on its asset turnover, average

payment period and average collection period. These parameters demonstrate the organizations viability as well as the efficiency of turning over its assets within a particular year, which determines the organization's financial distress. According to Sahut and Mill (2011), non-distressed banks have higher efficiency score.

2.4 Empirical Literature

In the global Context Segoviano and Goodhart (2009), characterizes a set of bank stability indicators which assess distress reliance among the banks in a banking system, giving an arrangement of tools to examine stability from complementary approach by permitting the estimation of normal distress of the banks in a framework, distress between particular banks, and distress in the framework related with a particular bank. Carpeto, et al. (2010), analysed classification of distress measures in the banking industry. They examined the ten distinctive accounting estimates utilizing media coverage as a benchmark for an example of 1,175banks which took part in divestiture or merger and acquisitions deals over 22 years. As the examination results indicated, a bank ought to be characterized as distressed if the ratio of its nonperforming loans to total loans is in general in the two highest deciles of the industry by utilizing a three-year moving average.

In their exploration on Prediction of financial distress for Kuwait's commercial banks, Al-Saleh and Al-Kandari (2012), utilizing Logistic relapse discovered that out of the eleven rations that have been incorporated into the study, just three proportions are measurably critical in predicting financial distress of the commercial banks. These include investments in securities to total asset ratio, the loans to total asset ratio and the loans to deposit ratio. These ratios don't support Beavers theory as just a single ratio is alike those recognized by Beaver. In his investigation of financial distress Oslo stock trade, Aasen (2011) discovered that the Altman Z-Score models end up being precise in accurately grouping the financially distressed firms and important even in the midst of

crises. The Type II error of classifying firms as bankrupt when they don't go bankrupt expanded considerably amid the crises, with as much as 40-50 percent of the businesses inaccurately classified as bankrupt. This shows the Z-Scores capacity to predict bankruptcy fundamentally worsened in the financial crisis, in spite of the fact that its capacity to recognize financial distress still might be flawless.

In Kenyan setting, studies which have been completed have analysed the correlation between capital structure and financial performance. Lokong (2011), undertook an investigation on the correlation between capital structure and profitability of microfinance institutions (MFIS) in Kenya. He considered a sample of 43 MFI's in Kenya for a period from 2006 to 2009 and he discovered that there was a positive correlation between productivity of MFIs and hence in this way inferred most MFIS in Kenya were utilizing more equity than debts. Orua (2009) examined the correlation between capital structure and performance of microfinance institution in Kenya for a period five years from 2004 to 2008, she contemplated 36 organizations which had been trading for a period of six years. The examination presumed that such relationship couldn't be clearly observed and they were surmised from capital structures of MFIs which were seen to perform well. She likewise inferred that capital structure impacts the performance of corporate entities. Muia (2011) studied the correlation between the capital structure and financial performance of small and medium enterprises (SMES) in Nairobi with an example of 100 SMES. His conclusion was that the corelation between profitability and long term debt was negative for all the entire period of the examination.

Subsequently, most beneficial SMES rely upon the short term debt as their primary financing alternatives. Nyaata (2009) considered the relationship between capital structure, profit, growth and price earnings ratio (PE) in firms listed in NSE for a period of six years from 2002 to 2007.

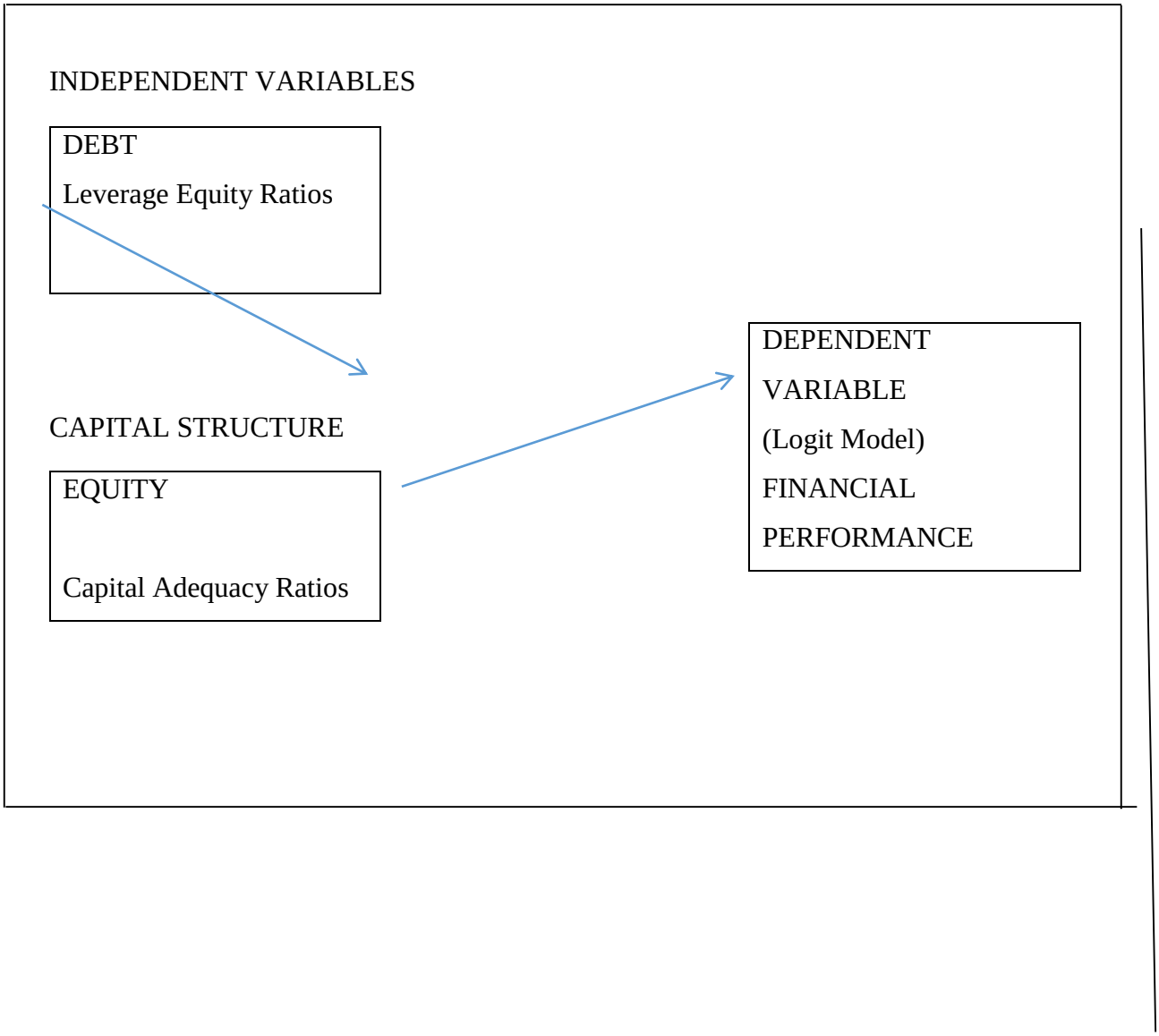
He examined every one of the organizations which were trading in the NSE for the period and he presumed that there is no correlation between price earnings ratio and capital structure and. Kamau (2009) likewise studied the impacts of capital structure on the financial performance of organizations listed in the NSE for a period of five years from 2003 to 2007 where he discovered that Kenyan firms recorded in NSE are to a great extent dependent on short term debts to finance their activities due to constraints in getting to long term credit. He recommended for further investigation to be done on it.

2.5 Conceptual Framework

A concept is a theoretical or general thought gathered or got from particular occurrences (Kombo& Tromp, 2009), in contrast to a theory, a concept does not need to be examined to be comprehended (Durham and Stokes, 2015). A conceptual framework is a gadget that sorts out empirical examination in a significant Structure shapira, (2011). Childs (2010) contended that a conceptual framework is an order of principles and expansive thoughts from pertinent fields of enquiry that is used to structure a resultant presentation.

A conceptual framework has potential helpfulness as an instrument to help a researcher to make importance of ensuing discoveries. It frames some portion of the plan for negotiation to be examined, tested and reformed because of the examination and it discloses the conceivable to research as they clear up and incorporate philosophical, pragmatic and methodological aspects of a thesis while helping the research based discipline to be viewed as an exploration based order, (Sykes and Piper, 2015). A conceptual framework for the present examination demonstrates the effect of capital structure on the financial distress among commercial banks in Kenya, Figure 2.5 Conceptualizes capital structure and its influences financial distress for commercial banks in Kenya.

Liquidity and solvency measures significantly affect cost efficiency improvement, firms with bigger expenditure on purchased inputs in respect to capital are less inclined to enhance effectiveness when liquidity and solvency are considered (Levi, Russell, &Langemeier, 2013). Financial leverage influenced organizations' performs fundamentally and contrarily for both before and after crisis period. The expansion of debt financing amid financial crisis period infers that debt financing firms more vulnerable to refinancing risks and debt acquiring at higher costs which in intern diminishes their performance Saleh, (2015).


INDEPENDENT VARIABLES
DEBT
Leverage Equity Ratios
CAPITAL STRUCTURE
EQUITY
Capital Adequacy Ratios
DEPENDENT
VARIABLE
(Logit Model)
FINANCIAL
PERFORMANCE

2.6 Summary of Literature review and research gaps

Author of study	Focus of Study	Methodology	Findings	Knowledge Gaps	Focus of current study
Baimwera and Muriuki (2014)	Financial distress and corporate failure and developed models of determining whether a manufacturing firm is facing bankruptcy or not.	Case study	Positive relationship	Used Altman Z-score model which was mainly developed for public manufacturing firms with assets of over $ 1 million (Acharya et al., 2016). According to Mamo (2011) Altman Z-Score model cannot be a perfect measure of financial distress of commercial banks and the model cannot perfectly identify key financial distress factors that can influence the financial performance of commercial banks in Kenya.	This study seeks a model that is appropriate for the banking industry in Kenya.
Ntoiti (2013)	Determinants of financial distress in local authorities in Kenya	Survey	Positive relationship	Sought the determinants of financial distress in local authorities in Kenya yet in the new constitution, the local authorities were abolished.	This study seeks to fill the knowledge gap of identifying key factors of financial distress from capital structure and their effect on the financial performance of all commercial banks in Kenya

Kosikoh (2014)	Determinants of financial distress on insurance companies.	Case study	Positive relationship	The study failed to show the contribution of financial distress factors on financial performance of commercial banks in Kenya.	This study seeks to show the contribution of factors of financial distress on the financial performance of all commercial banks in Kenya.
Shaukat and Hina (2015)	Impact of financial distress on the financial performance of the corporate sector in Pakistani.	Survey	Positive relationship	Research in the field of financial distress had been done but not for Kenyan banking industry.	This study undertakes research in the field of financial distress in the Kenyan banking industry.
Memba and Abuga (2013)	The main causes of financial distress and its effects in firms funded by commercial and industrial development,	Survey of	Positive relationship	Study focused on organizations funded through commercial and industrial evelopment in Kenya and not in the banking industry.	This study focuses on commercial banks in the Kenyan banking industry.
Acharya, Pierret, and Steffen (2016)	Impact of losses of banks in a stress test of bank capital.	Survey	High negative correlation	The study based in US banks assessed capital adequacy of banks using and incorporating leverage ratio, a measure of capital adequacy hence focused on foreign financial institutions that limit the application.	This study is based on Kenyan commercial banks and examines three variables.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter three discussed about the methodology of the research employed in the study. It highlighted a full portrayal of the research variables, design and sampling procedure that gives a perspective of the selection of the population. The chapter also discussed on data collection, data reliability, data analysis and research instruments.

3.2 Research Design

An experimental research design was used utilized in carrying out this study since it utilizes scientific method to build up a cause-effect relationship among a group of factors in a research study, Zikmund, Babin, Carr & Griffin, (2010). The correlation linking capital structure, financial distress and financial performance of all commercial banks was determined by having the dependent variable as the financial distress while the independent variables representing capital structure were growth in the total assets, the ratio of core capital to the total risk weighted assets, the ratio of total capital to total risk weighted assets and total debt ratio.

3.3 Population

The population comprised all the 44 commercial banks that were licensed, in operation and regulated by the regulator in the sector which is the Central Bank of Kenya. The research period chosen was 2013 to 2017. This was because this was the period whereby the most of changes were being implemented by most commercial banks including compliance with CBK regulation and the implementation of technology in operations some of which were intended to improve the financial performance of the banks. They also required huge capital to be able to implement some of these projects. This source was selected as data

was publicly available and reliable as it was drawn from the audited financial statements. Secondly, the banking industry in Kenya has been characterized by financially distressed commercial banks, failed commercial banks as well as financially stable commercial banks. This enabled the researcher to use descriptive observation of the data collected to achieve the objective of this research.

3.4 Sample and Sampling Procedure

The sample included the 44 banks with positive values in their total assets, current assets and fixed assets, all banks with positive capital, depreciation and the interest paid and banks which meet all the statutory requirements such as capital adequacy in the period of the research.

3.5 Data Collection

Secondary source data in form of financial statements that have been audited was collected from CBK supervision reports and was be used in carrying out the study. The data was composed of all 44 banks which were in operation for the period between 2013 and 2017. The data was summarized for each of the five years and various ratios computed. The secondary data comprised of the following items: Assets, Debt, Capital and Income.

3.6 Test of Significance

Multi collinearity and autocorrelation test was undertaken to determine if the exogenous factors are fundamentally related with each other utilizing Pearson (1896), product-moment coefficient of correlation as well as Durbin-Watson the d statistic, as proposed by Durbin and Watson (1950).

3.7 Data Validity and Reliability

Information used in this study was acquired from the commercial banks financial statements drawn from the period 2013 to 2017. Reliability of the data was derived from the fact that all the licensed commercial banks in Kenya are monitored regulated by the Central Bank of Kenya and hence apply uniform a number of accounting standards with

uniform presentation format. Hence all variables were subjected to similar accounting treatment. Further, the information was obtained from Central bank of Kenya annual supervision report thus ensuring that records were available. The data was valid as the population exhibited the attributes required in research.

3.8 Data Analysis

Logistic regression analysis as a statistical models predicts financial distress since it involves the deduction of probabilities of variables in a sample using the logistic regression model commonly referred to as the Logit model. Logistic regression consolidates independent variables to estimate the likelihood that a particular event will transpire. Ohlson (1980), pioneered the application of Logistic Regression Analysis in prediction of financial distress. He described the Logit model as a non-linear transformation of the linear regression and a technique that weights independent variables and assigns a score. One of the popular models was developed by Ohlson (1980).

Ohlson's O-Score model weights nine independent variables and assigned a score. Nevertheless, dissimilar to discriminant examination, this method estimates the likelihood of default for each accompanying sample, it trounces the restrictive assumptions of multiple discriminant analysis that provides an output which is a single dichotomous and which does not offer an indication of the probability of default. Based on the probability of financial distress, Ohlson was able to predict failure, for companies one year prior to failure to an accuracy level of 96.1%.

In this study, we identified four main factors that were statistically significant in the prediction of failure which included: size of the company, financial structure, financial

performance and liquidity. We selected nine independent variables that were helpful in predicting financial distress.

The O-Score formula:

O-Score = -1.32 – 0.407LOGX1 + 6.03 X2 – 1.43X3 + 0.08X4 – 1.72X5 – 2.37X6 – 1.83X7 + 0.285X8 – 0.521X9

The O-score was converted into a probability model using the below formula:

Probability of Financial distress = P-score = e o-score / 1+ e o-score. The nine variables were defined below:-

X1 Represented core capital to total deposit ratio

X2 Represented the non-performing loans ratio

X3 Represented the ratio of core capital to total risk weighted assets

X4 Represented the ratio of total capital to total risk weighted assets

X5 Was be 1 if total liabilities is greater than the total assets, otherwise it was 0

X6 Represented the return on assets ratio

X7 Represented the ratio of net income to total liabilities

X8 Was equal to 1 if there was a net loss for the last two years, otherwise it was 0

X9 Represented the debt ratio

Cut-off point p was 0.5 which was consistent with Ohlson. Financial stable commercial banks lied below the cut-off point and financially distressed commercial banks lied above the cut-off value. Consistent with Ohlson, estimates were computed for the main logistic model using the predictors defined above. The O-score was converted into a probability model using a logistical transformation (P- score =e o-score/ 1+ e o- score) whereby the cut-off point used was 0.5.Hence; P > 0.5 indicated that a firm is in distress or at risk of

distress and P < 0.5 indicated a financially stable firm. To aid in the analysis of data, SPSS Regression model was adopted.

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction

This section discusses the analysis of the examination that was done for a five years period from the year 2013 through 2017. The midpoints of the all the variables in the study for the five years period were recorded and analysed using SPSS v19.

4.2 Models Analysis

After analysing the data, the below model summary was established

Table 4.2.1 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.413[a]	.171	.060	.09056

a. Predictors: (Constant), total capital to total deposit ratio, non-performing loans ratio, the core capital to total risk weighted assets, the total capital to total risk weighted assets, return on assets ratio, net income to total liabilities ratio and debt ratio.

The above table summarizes the regression version where it gives the estimation of R, R2, adjusted R2 as well as the standard error. The values indicate the wellness of the regression version fits the data examined. The R segment represents the multiple coefficients of correlations which ascertain the prediction quality of the dependent variable. In this situation the estimation of R is 0.413 which demonstrates a weak prediction level. Nevertheless, R2, the coefficient of determination is 0.171 implying that just 17.1% of the variables explain the variability of financial distress while the other 82.9% isn't clarified

by the version. This demonstrates that the financial distress of commercial banks is not influenced greatly by these variables.

4.3 Descriptive Statistics

This section analyses the descriptive statistics of the data for the five years duration in the summarised table below;

Table 4.3.1 Descriptive Statistics

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
RETURN ON ASSETS	44	.33	.08	.41	.2326	.09341	.009
NON PERFORMING LOAN RATIO	44	.52	.02	.54	.2203	.10853	.012
TOTAL DEBT RATIO	44	.20	.71	.91	.8466	.04671	.002
CORE CAPITAL TO RISK WEIGHTED ASSET RATIO	44	.46	.12	.58	.2443	.11683	.014
TOTAL CAPITAL TO RISK WEIGHTED ASSET RATIO	44	.46	.13	.59	.2600	.11614	.013
Valid N (listwise)	44						

Source Researcher's

It is seen that the aggregate data number examined (n) is for 44 commercial banks for every one of the factors incorporated in the examination. The scope of the factors which is the contrast between the highest value and the smallest for every variable is distinguished in the range section and the table further demonstrates the greatest and least values. The information mean likewise appears in the mean section. The ROA mean is 0.23 with a std deviation of 0.09 which is minimal implying the data is clustered within the mean. The equivalent applies alongside alternate variables with the highest volatility of 0.116 which is related to total core capital to risk weighted asset ratio and total capital to risk weighted

ratio of assets. This is likewise relatively minimal indicating the data is closely clustered towards the mean.

4.4 Regression Results

4.4.1 Statistical significance of the model

The table of ANOVA below signifies the estimated model

Table 4.4.1.1 ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.051	4	.013	1.544	.215[a]
	Residual	.246	40	.008		
	Total	.297	44			

The examination of the variance in the table above shows how the independent factors are not noteworthy essential to predict the dependent factors. F ratio is used to tests whether the regression version adopted is fit for the financial data. The F ratio is shown as F(4, 30) = 1.544, P>0.05 implying there is no huge effect of the return on assets ratio, core capital to risk weighted asset ratio, total debt ratio and total capital to risk weighted asset ratio to the financial distress of the commercial banks in Kenya since the significant level is 0.215 which is greater than 0.05.

4.4.2 Estimated Model Coefficients

The regression model coefficients:

O-Score = -1.32 – 0.407LOGX1 + 6.03 X2 – 1.43X3 + 0.08X4 – 1.72X5 – 2.37X6 – 1.83X7 + 0.285X8 – 0.521X9

X1 Represented core capital to total deposit ratio

X2 Represented the non-performing loans ratio

X3 Represented the ratio of core capital to total risk weighted assets

X4 Represented the ratio of total capital to total risk weighted assets

X5 Was be 1 if total liabilities is greater than the total assets, otherwise it was 0

X6 Represented the return on assets ratio

X7 Represented the ratio of net income to total liabilities

X8 Was equal to 1 if there was a net loss for the last two years, otherwise it was 0

X9 Represented the debt ratio

This model shows an inverse relationship linking financial distress and return on assets ratio signifying that as the proportion expands, financial distress will decrease by 0.237. There is additionally a negative correlation between total debt ratio and financial distress as is shown by the coefficient representing - 0.521. This implies whereas the debt ratio expands, the ROA proportion will in general diminishing. In relation to the core capital to the total risk weighted assets ratio and a positive relationship between total capital to total risk weighted asset ratio as demonstrated by their respective coefficients which are -0.143 and 0.08. This implies that in the event the two proportions are increased, the financial distress will in general diminish by 0.136.

The coefficients are summarized in the coefficient table 4 below;

Table 4.4.2. Variables Coefficient Table

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.202	.476		.423	.675	-.771	1.175
	RETRUN ON ASSETS	-.238	.171	-.276	-1.385	.176	-.588	.113
	TOTAL DEBT RATIO	.189	.513	.095	.369	.715	-.858	1.236
	CORE CAPITAL TO RISK WEIGHTED ASSET RATIO	-.147	.787	-.184	-.187	.853	-1.754	1.459
	TOTAL CAPITAL TO RISK WEIGHTED ASSET RATIO	-.158	.798	-.196	-.198	.845	-1.788	1.472

It is seen that similarly to the dependent variable, the independent factors are not noteworthy, a similar situation is seen as shown by "sig" segment in the table. It is additionally noted that the coefficients which are standardized and unstandardized are both not statistically noteworthy as demonstrated by the t and the sig segment. The coefficients which are unstandardized consider alternate variables while the unstandardized don't however there is insignificant contrast in these coefficients.

4.5 Interpretation of Findings

From the above analysis, it is observed that capital structure does effects on financial distress of Kenyan commercial banks. The model equation adopted shows that growth in total assets affects the financial distress negatively. If there is an increase in the return on assets, the financial distress of the bank is expected to decrease. The study also shows similar effects of core capital and total capital ratios on the banks financial distress. If there is a one unit increase in the ratio of core capital to total risk weighted assets, the distress will tend to reduce with 0.147 units, similarly, if there is a one unit increase in the ratio of total capital to risk weighted assets, the financial distress will also tend to reduce with 0.158 units. This indicates a negative impact capital structure has on financial distress on commercial banks. On the hand, we find a different effect of debt ratio on the financial distress of commercial banks. From the model, it is deduced that with an increase in debt ratio the result will be an increase in financial distress of the commercial banks. This indicates a positive relationship whereby when the debt ratio goes up, the financial distress also increases. The above two different outcomes of the model shows that those banks which increase their debt ratio, borrowing more to finance their operations, will tend to have an increased financial distress. However, a further analysis of the various variables and coefficient indicate that the impact of capital structure is not so significant on financial distress on commercial banks. The summary model multiple correlation factor (R) is only 0.41 which is less than 0.5 hence indicating a weak level of prediction of the independent variable. Similarly, the coefficient of determination of the model which is 17% indicates the capital structure variables used in the model can only explain 17% of the independent variable which is financial distress. The other over 80% is explained by other variables which are outside this model and therefore it cannot be conclusively said that capital structure does not majorly influence financial distress of the commercial banks.

Further analysis of the coefficients of the independent variables, indicate that the coefficients of the variables used are not statistically significant to determine the rate of change of the financial distress of the commercial banks. This shows that they are not significant in affecting financial distress of commercial bank and hence other parameters that affect financial distress of commercial banks do exist. Capital structure therefore plays a very minimal role in affecting the financial distress of commercial banks. Therefore it can be concluded that capital structure do affect the financial distress of the commercial banks. The performance of the commercial banks is also influenced by other parameters besides the capital structure of the organization.

This study observed that the lower the capital adequacy ratio of the commercial bank the higher the P value and vice versa. This means that the higher the financial distress indicated by the high P value the worse the financial performance indicated by the low ROA and the lower the P value the higher the financial performance. This shows that the capital structure influences financial distress among commercial banks which in turn affects their financial performance. This is a reinforcement of the study by Tan (2012) where he found out that financially distressed firms underperform.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Financial distress is a universal problem and affects many firms all over the world Kenya not being an exception. It is a standout amongst the most noteworthy threats influencing organizations comprehensively regardless of their size and nature globally. Kenya has witnessed business failure or restructuring of local commercial banks in recent decades due to financial distress which is very unfortunate as banks are the backbone of the country's economy given the many major roles they play. Failure of banks can be very detrimental to a country as it can dent the economy. This research thus sought to determine the effect capital structure has on financial distress among commercial banks in Kenya.

There are several methods or models of determining financial distress broadly divided into three broad categories which include theoretical models, statistical model and intelligent expert system models. Statistical models are the most widely used with multiple discriminate analyses being the most popular model was used to detect financial distress. This is because of its high accuracy.

5.2 Summary of Findings

A sample of fourty four banks was used from a population of forty four commercial banks. Ohlsons O-score model was used to measure financial distress while capital structure was measured using capital adequacy ratio. Data that was utilized was obtained from the audited financial statements of the commercial banks as well as from the annual report of central bank of Kenya. Financial distress for each bank under study was calculated for the period between 2013 to 2017. A five year average of the capital adequacy ratio and the financial distress of commercial banks found to be undergoing distress, were regressed using the Microsoft excel to come up with a regression model explaining or showing how capital structure influence financial distress among commercial banks in Kenya.

The study found out that financial distress is present in our commercial banks with the tier II and tier II banks being more financially distressed than the tire I banks. The effect of capital structure on financial distress was found to be positive.

5.3 Conclusions

The findings of this study indicate that financial distress is present in the Kenyan commercial banks. Eighty five percent of all the commercial banks suffered financial distress in at least one year during the five year period. Banks are negatively affected by financial distress as is seen in the low financial performance in the presence of heavy financial distress.

It was to be expected that all the tier I and tier II banks which have a well structured capital structure and well defined capital adequacy ratios would exhibit a strong healthy financial position. However, out of the twenty two banks in the two Tiers, only seven of them could be considered to be stable financially which is not even half of population. Being categorized in the top two Tiers does not automatically mean good financial health because only fifteen percent of the banks were considered financially stable.

For most of the banks, their capital adequacy ratios indicated their capital structure improved from the year 2013 to 2017. This means that their financial distress situation got better and better with time. This could be attributed to their rational of financing their capital as well as attaining the optimum capital adequacy ratios. Despite the financial distress, banks performance kept improving every year for most of the banks.

Since the financial distress keeps getting lower and lower, there is hope that in few years to come, there will be no financial distress in the commercial banks in Kenya. It is also an indication that the banks are taking measures to minimize the financial distress. This will lead to an overall growth in the economy at large.

5.4 Recommendations

From the finding of the study, most of the banks did suffer financial distress. This can lead to failure of the banking system if the distress prolongs. The banks should ensure they find out the source of the financial distress in their specific banks since each bank is unique in its operations and ensure that measures to combat or reduce financial distress are carried through. Some of the remedies they could pursue include disposing fixed assets, merging with other banks, issuing new securities, exchanging debt for equity, reducing capital spending among others.

Due to the high number of banks experiencing financial distress according to the study this can prompt a dent in stakeholder's trust in many commercial banks that can prompt other financial issues or as well heightening financial distress. In this way, the banks ought to guarantee that financial strength is an indispensable component among its framework policies. Due to unexpected situations such as recession, it may render the financial ratios redundant temporarily. Financial ratios are observed or used by stakeholders to convey vital or important information about a firm under normal operations. It is thus recommended that the practical applicability of financial distress models be redeveloped from time to time as the economy changes to avoid this problem of ratio redundancy.

Financial distress is be brought about by numerous factors however however the main cause of financial distress is inferior financial administration. It is where the administration lacks suitable administration abilities and characteristics like employing skills and delegation of financial aptitude among others. This can prompt administration not perceiving inward signs that could prompt financial distress. This thus implies that the suitable measures won't be undertaken on time to guard against financial distress. The recommendation is to improve of strategic decision making implemented by qualified and experienced professionals which will lead to positive returns due to sound and rational decision making for the firms.

For the firms or banks that slipped in and out of distress, it would be important to have a suitable financial restructuring will lead to better financial performance. It is also equally important to understand the reasons that led to distress in the first place. By identifying these reasons they can be used as a solution to prevent financial distress from re occuring.

5.5 Limitations of the Study

Due to time constraints, the study was conducted on limited variables out of many financial variables of commercial banks in Kenya. This may have made it challenging in finding significant relationship from the data meaning the sample data may have not been representative of the whole variables both qualitative and quantitative that trigger financial distress.

These financial ratios are derived from the financial records of the various banks under study. There is an assumption that the financial statements or the annual reports exhibit a fair and true view of the financial situation of the banks. However this can be misleading because annual accounts are unreliable because firms or companies manipulate their accounts in order to portray a positive image of the firm by maintaining positive earnings. Thus the data may not provide a fair and true view of the financial situation of the banks making the ratio analysis method of determining distress unreliable.

Due to the high volume data that needed to be collected for this study, there may have been human errors during entry. This may have occurred due to time limit which could not allow for double checking the entries. This can result in errors that ruin statistical results and conclusions by for example affecting the coefficients incorrectly .Data entered incorrectly can change the interpretations and findings of the study. These errors would have been minimized by having methods for detection and prevention of data errors.

5.6 Suggestions for Further Research

A large portion of the models used to determine financial distress depend on financial records which can be easily manipulated. Utilizing manipulated financial ratios from can prompt inconsistency issue. A further study can be undertaken on different models useful in detecting financial distress in commercial banks which don't depend on financial data or other models that utilize non-financial data since financial information can without much of a stretch be manipulated bringing about distortions.

For the most part financial expansive firms perform better that small firms and thus expansive firms are required to have a lower likelihood of failure contrasted with the small firms. This is because of the many advantages enjoyed by large firms. Thus the need for industry and size specific models. In addition, new firms are more likely to fail compared to older firms. This could be due to the advantage of learning effect that old firms have. Thus extended research could be carried out to come up with models that are age specific.

As much as ratios have been criticized in their ability to determine financial distress, they are very important and cannot be totally disregarded. However, there are disagreements as to which ratios are best for predicting financial distress. There is no consensus as to whether accrual based or cash flow based ratios are batter or if profitability ratios better than liquidity ratios. More research needs to be carried out in order to determine the best ratios to use to detect financial distress.

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APPENDICES

APPENDIX I: List of Commercial Banks in Kenya

1	African Banking Corporation Ltd	23	First Community Bank Ltd
2	Bank of Africa Kenya Ltd	24	Giro Commercial Bank Ltd
3	Bank of Baroda Kenya Ltd	25	Guardian Bank Ltd
4	Bank of India	26	Gulf African Bank Limited
5	Barclays Bank of Kenya Ltd	27	Habib Bank A.G Zurich
6	CFC Stanbic Bank Ltd	28	Habib Bank Ltd
7	Charterhouse Bank Ltd	29	Housing Finance Co Kenya Ltd
8	Chase Bank Ltd	30	Imperial Bank Ltd
9	Citibank N.A Kenya	31	I &M Bank Ltd
10	Commercial Bank of Africa Ltd	32	Jamii Bora Bank Ltd
11	Consolidated Bank of Kenya Ltd	33	Kenya Commercial BankLtd
12	Co-operative Bank of Kenya Ltd	34	K-Rep Bank Ltd
13	Credit Bank Ltd	35	Middle East Bank of Kenya Ltd
14	Development Bank of Kenya Ltd	36	National Bank of Kenya Ltd
15	Diamond Trust Bank Ltd	37	NIC Bank ltd
16	Dubai Bank of Kenya Ltd	38	Oriental Commercial Bank Ltd
17	Ecobank Kenya Ltd	39	Paramount Universal Bank Ltd

18	Equatorial Commercial Bank Ltd	40	Prime Bank Ltd
19	Equity Bank Ltd	41	Standard Chartered Bank Kenya Ltd
20	Family Bank Ltd	42	Trans-National Bank Ltd
21	Fidelity Commercial Bank Ltd	43	Victoria Commercial Bank Ltd
22	Fina Bank Ltd	44	UBA Kenya Bank Ltd

TABLE 1.4-1.8: VARIABLES SUMMARY KES MILLIONS.

	2013 BANK NAME	KES Net Profit (loss) in Millions	Total Share holders fund (M)	Total Assets (M)	Total Liabilities (M)	Total Deposits (M)	Total Capital (M)	Core Capital (M)	Total Risk Weighted Assets (M)	Total Gross Loans and advances (M)	Total Non performing Loans (M)
1	African Banking Corporation Ltd	578.00	2,450.00	19,639.00	17,189.00	15,905.00	1,873.00	1,774.00	12,429.00	2,075.00	42.00
2	Bank of Africa (K) Ltd	1,028.00	6,539.00	52,683.00	46,144.00	36,740.00	5,587.00	4,803.00	43,923.00	1,735.00	44.00
3	Bank of Baroda Ltd	2,505.00	7,569.00	55,022.00	47,453.00	41,877.00	7,663.00	7,414.00	35,458.00	394.00	2.00
4	Bank of India	1,253.00	5,087.00	30,721.00	25,634.00	22,778.00	5,068.00	4,951.00	12,205.00	91.00	0.00
5	Barclays Bank of Kenya Ltd	11,921.00	32,371.00	207,210.00	174,839.00	151,122.00	33,172.00	31,798.00	191,652.00	4,640.00	57.00
6	CFC Stanbic Bank Ltd	7,005.00	22,353.00	170,726.00	148,373.00	95,708.00	25,125.00	21,778.00	119,641.00	11,621.00	147.00
7	Chase Bank Ltd	2,251.00	7,487.00	76,569.00	69,082.00	51,942.00	7,086.00	6,596.00	47,133.00	1,947.00	104.00
8	Chaterhouse Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Citibank N A	4,984.00	15,964.00	71,243.00	55,279.00	43,762.00	15,786.00	15,431.00	44,600.00	0.00	0.00
10	Commercial Bank of Africa Ltd	4,464.00	13,749.00	124,882.00	111,133.00	90,993.00	10,927.00	10,378.00	81,060.00	2,889.00	64.00
11	Consolidated Bank of Kenya Ltd	-142.00	1,242.00	16,779.00	15,537.00	11,711.00	1,217.00	843.00	11,254.00	3,686.00	340.00
12	Cooperative Bank of Kenya Ltd	10,705.00	35,652.00	228,874.00	193,222.00	174,776.00	43,195.00	32,123.00	205,152.00	5,911.00	479.00
13	Credit Bank Ltd	72.00	1,238.00	7,309.00	6,071.00	5,512.00	1,256.00	1,199.00	4,719.00	0.00	0.00
14	Development Bank of Kenya Ltd	274.00	1,822.00	15,581.00	13,759.00	8,419.00	1,640.00	1,553.00	6,944.00	2,711.00	188.00
15	Diamond Trust Bank Ltd	5,566.00	18,568.00	114,136.00	95,568.00	84,672.00	18,484.00	15,508.00	87,817.00	442.00	0.00
16	Dubai Bank Ltd	16.00	1,036.00	2,927.00	1,891.00	1,418.00	1,036.00	1,012.00	6,023.00	3.00	0.00
17	Ecobank Kenya Ltd	-1,231.00	3,390.00	36,907.00	33,517.00	25,351.00	7,018.00	5,079.00	22,968.00	1,393.00	311.00
18	Equatorial Commercial Bank Ltd	152.00	1,317.00	15,562.00	14,245.00	13,856.00	1,485.00	1,216.00	12,122.00	145.00	0.00

	2014 BANK NAME	Net Profit (loss) in Millions	Total Share holders fund	Total Assets	Total Liabilities	Total Deposits	Total Capital	Core Capital	Total Risk Weighted Assets	Total Gross Loans and advances	Total Non performing Loans

19	Equity Bank Ltd	18,233.00	35,652.00	238,194.00	202,542.00	158,527.00	44,151.00	34,759.00	187,346.00	5,277.00	205.00
20	Family Bank Ltd	1,758.00	5,968.00	43,501.00	37,533.00	34,615.00	5,896.00	5,631.00	31,127.00	393.00	0.00
21	Fidelity Commercial Bank Ltd	316.00	1,411.00	12,779.00	11,368.00	11,263.00	1,402.00	1,309.00	7,574.00	117.00	26.00
22	Fina Bank Ltd(Guarantee Trust)	413.00	6,091.00	25,638.00	19,547.00	18,447.00	4,353.00	4,142.00	12,892.00	0.00	0.00
23	First Community Bank Ltd	200.00	1,210.00	11,305.00	10,095.00	9,932.00	1,140.00	1,140.00	7,702.00	129.00	0.00
24	Giro Bank Ltd	383.00	2,087.00	13,623.00	11,536.00	11,457.00	2,087.00	2,005.00	7,212.00	393.00	2.00
25	Guardian Bank Ltd	384.00	1,494.00	12,835.00	11,341.00	11,181.00	1,494.00	1,494.00	8,312.00	257.00	0.00
26	Gulf African Bank (K) Ltd	434.00	2,686.00	16,054.00	13,368.00	12,970.00	2,686.00	2,668.00	14,804.00	1,197.00	36.00
27	Habib Bank AG Zurich	474.00	1,843.00	11,009.00	9,166.00	8,336.00	1,835.00	1,765.00	5,533.00	0.00	0.00
28	Habib Bank Ltd	500.00	1,667.00	8,078.00	6,411.00	5,599.00	1,660.00	1,603.00	4,477.00	0.00	0.00
29	Housing Finance Co of Kenya Ltd	1,213.00	5,682.00	46,755.00	41,073.00	26,589.00	6,246.00	3,994.00	28,946.00	35,279.00	3,209.00
30	I & M Bank Ltd	6,060.00	20,525.00	110,316.00	89,791.00	74,494.00	18,547.00	14,700.00	97,526.00	2,743.00	12.00
31	Imperial Bank Ltd	2,494.00	5,719.00	43,006.00	37,287.00	34,065.00	4,755.00	4,663.00	31,709.00	459.00	39.00
32	Jamii Bora Bank Ltd	90.00	2,251.00	7,010.00	4,759.00	3,421.00	1,447.00	1,396.00	5,600.00	626.00	15.00
33	K-Rep Bank Ltd	557.00	1,868.00	13,199.00	11,331.00	9,165.00	1,852.00	1,818.00	8,654.00	0.00	0.00
34	Kenya Commercial Bank Ltd	17,746.00	62,391.00	323,312.00	260,921.00	237,213.00	61,199.00	50,905.00	272,565.00	34,030.00	2,468.00
35	Middle East Bank (K) Ltd	81.00	1,175.00	5,766.00	4,591.00	3,649.00	1,165.00	1,138.00	3,212.00	14.00	0.00
36	National Bank of Kenya Ltd	1,779.00	11,848.00	92,493.00	80,645.00	77,993.00	10,948.00	10,312.00	45,333.00	5,150.00	568.00
37	NIC Bank Ltd	5,221.00	17,631.00	112,917.00	95,286.00	84,236.00	14,108.00	14,108.00	95,220.00	1,618.00	22.00
38	Oriental Commercial Bank Ltd	178.00	1,532.00	7,007.00	5,475.00	5,377.00	1,372.00	1,316.00	4,510.00	9.00	0.00
39	Paramount Universal Bank Ltd	99.00	1,230.00	8,029.00	6,799.00	6,601.00	1,220.00	1,175.00	2,914.00	56.00	0.00
40	Prime Bank Ltd	1,893.00	5,816.00	49,461.00	43,645.00	40,562.00	4,951.00	4,951.00	26,914.00	473.00	0.00

41	Standard Chartered Bank (K) Ltd	13,316.00	36,030.00	220,524.00	184,494.00	154,720.00	30,721.00	25,831.00	147,682.00	10,099.00	67.00
42	Trans-National Bank Ltd	225.00	1,869.00	9,658.00	7,789.00	7,181.00	1,869.00	1,807.00	5,956.00	98.00	3.00
43	UBA Bank (K) Ltd	-278.00	1,059.00	3,710.00	2,651.00	2,483.00	1,059.00	1,059.00	2,258.00	0.00	0.00
44	Victoria Commercial Bank	586.00	2,528.00	13,644.00	11,116.00	9,044.00	2,373.00	2,300.00	11,980.00	9.00	0.00
1	African Banking Corporation Ltd	319.00	2,623.00	21,439.00	18,816.00	16,050.00	2,945.00	1,928.00	17,096.00	13,513.00	885.00
2	Bank of Africa (K) Ltd	204.00	7,913.00	62,212.00	54,299.00	49,674.00	8,244.00	6,105.00	51,781.00	39,236.00	2,412.00
3	Bank of Baroda Ltd	2,695.00	9,867.00	61,945.00	52,078.00	48,683.00	9,683.00	9,324.00	40,044.00	29,002.00	1,065.00
4	Bank of India	1,284.00	6,075.00	34,370.00	28,295.00	24,668.00	6,037.00	5,902.00	15,316.00	12,438.00	71.00
5	Barclays Bank of Kenya Ltd	12,294.00	38,111.00	226,043.00	187,932.00	176,915.00	38,419.00	37,980.00	205,806.00	128,204.00	4,554.00
6	CFC Stanbic Bank Ltd	7,391.00	26,644.00	171,347.00	144,703.00	102,244.00	30,529.00	25,587.00	138,735.00	89,797.00	3,370.00
7	Chase Bank Ltd	3,302.00	11,066.00	107,112.00	96,046.00	79,149.00	10,376.00	9,613.00	67,948.00	55,837.00	3,196.00
8	Chaterhouse Bank Ltd	0.00	0.00	0.00	0.00	3,613.00	0.00	0.00	0.00	0.00	0.00
9	Citibank N A	4,145.00	18,359.00	79,398.00	61,039.00	56,518.00	18,057.00	17,592.00	66,136.00	24,541.00	881.00
10	Commercial Bank of Africa Ltd	4,522.00	17,857.00	175,809.00	157,952.00	121,963.00	21,705.00	13,779.00	121,180.00	92,667.00	3,770.00
11	Consolidated Bank of Kenya Ltd	-274.00	1,568.00	15,077.00	13,509.00	11,125.00	1,444.00	1,088.00	13,139.00	10,766.00	2,811.00
12	Cooperative Bank of Kenya Ltd	12,515.00	42,351.00	282,689.00	240,338.00	219,416.00	55,534.00	37,462.00	256,511.00	181,370.00	7,982.00
13	Credit Bank Ltd	-90.00	1,152.00	8,865.00	7,713.00	7,323.00	1,165.00	1,112.00	6,185.00	5,887.00	586.00
14	Development Bank of Kenya Ltd	318.00	2,764.00	16,954.00	14,190.00	10,800.00	2,010.00	1,745.00	6,780.00	9,332.00	1,322.00
15	Diamond Trust Bank Ltd	6,307.00	25,784.00	141,176.00	115,392.00	102,060.00	25,065.00	22,245.00	132,274.00	95,258.00	1,199.00
16	Dubai Bank Ltd	7.00	1,040.00	3,502.00	2,462.00	1,751.00	1,040.00	1,017.00	4,768.00	4,208.00	2,314.00
17	Ecobank Kenya Ltd	-499.00	7,828.00	45,934.00	38,106.00	32,363.00	6,530.00	5,079.00	32,967.00	24,116.00	2,461.00
18	Equatorial Commercial Bank Ltd	-461.00	1,155.00	16,589.00	15,434.00	14,331.00	1,442.00	938.00	13,457.00	11,555.00	3,028.00

19	Equity Bank Ltd	20,112.00	40,733.00	277,116.00	236,383.00	202,560.00	47,552.00	40,723.00	268,518.00	192,973.00	7,469.00
20	Family Bank Ltd	2,618.00	10,621.00	61,813.00	51,192.00	47,318.00	10,551.00	10,184.00	52,067.00	39,681.00	2,847.00
21	Fidelity Commercial Bank Ltd	298.00	1,715.00	16,515.00	14,800.00	14,216.00	1,678.00	1,551.00	10,230.00	10,467.00	811.00
22	Fina Bank Ltd(Guarantee Trust)	687.00	7,165.00	32,992.00	25,827.00	23,030.00	4,862.00	4,667.00	18,750.00	12,851.00	472.00
23	First Community Bank Ltd	102.00	1,518.00	15,278.00	13,760.00	13,339.00	1,423.00	1,423.00	12,413.00	9,990.00	1,518.00
24	Giro Bank Ltd	472.00	2,422.00	15,082.00	12,660.00	12,455.00	2,422.00	2,330.00	10,186.00	7,786.00	250.00
25	Guardian Bank Ltd	378.00	1,755.00	14,571.00	12,816.00	12,643.00	1,755.00	1,729.00	10,600.00	10,295.00	787.00
26	Gulf African Bank (K) Ltd	615.00	3,147.00	19,754.00	16,607.00	15,335.00	3,147.00	3,056.00	23,285.00	14,068.00	1,033.00
27	Habib Bank AG Zurich	643.00	2,243.00	12,147.00	9,904.00	8,929.00	2,243.00	2,179.00	6,036.00	3,443.00	84.00
28	Habib Bank Ltd	532.00	1,942.00	9,449.00	7,507.00	6,399.00	1,942.00	1,846.00	5,924.00	4,707.00	2,314.00
29	Housing Finance Co of Kenya Ltd	1,285.00	6,276.00	60,491.00	54,215.00	36,310.00	6,571.00	4,841.00	43,534.00	46,260.00	4,163.00
30	I & M Bank Ltd	7,749.00	21,814.00	137,299.00	115,485.00	87,185.00	22,863.00	19,122.00	121,260.00	91,163.00	1,913.00
31	Imperial Bank Ltd	2,689.00	7,469.00	56,599.00	49,130.00	48,168.00	6,634.00	6,564.00	43,219.00	31,827.00	2,020.00
32	Jamii Bora Bank Ltd	96.00	3,105.00	13,118.00	10,013.00	8,497.00	2,273.00	2,197.00	8,709.00	6,464.00	602.00
33	K-Rep Bank Ltd	729.00	2,432.00	15,799.00	13,367.00	12,066.00	2,379.00	2,337.00	11,572.00	11,214.00	776.00
34	Kenya Commercial Bank Ltd	22,362.00	72,165.00	376,969.00	304,804.00	276,750.00	71,210.00	57,805.00	338,877.00	257,399.00	13,368.00
35	Middle East Bank (K) Ltd	76.00	1,234.00	5,937.00	4,703.00	4,632.00	1,227.00	1,217.00	3,641.00	3,719.00	1,116.00
36	National Bank of Kenya Ltd	2,332.00	12,114.00	122,865.00	110,751.00	104,458.00	11,206.00	10,343.00	80,433.00	68,093.00	7,237.00
37	NIC Bank Ltd	6,081.00	22,618.00	137,087.00	114,469.00	91,997.00	27,340.00	18,826.00	131,045.00	97,984.00	5,969.00
38	Oriental Commercial Bank Ltd	84.00	1,596.00	7,858.00	6,262.00	6,231.00	1,450.00	1,387.00	5,659.00	5,078.00	552.00
39	Paramount Universal Bank Ltd	137.00	1,378.00	10,402.00	9,024.00	8,035.00	1,376.00	1,314.00	5,404.00	5,389.00	1,063.00
40	Prime Bank Ltd	2,298.00	7,735.00	54,918.00	47,183.00	45,022.00	6,722.00	6,722.00	40,100.00	35,060.00	666.00
41	Standard Chartered Bank (K) Ltd	14,300.00	40,450.00	222,636.00	182,186.00	161,904.00	36,288.00	28,944.00	183,105.00	128,768.00	10,752.00

42	Trans-National Bank Ltd	191.00	1,915.00	10,240.00	8,325.00	7,659.00	1,915.00	1,814.00	8,824.00	6,609.00	529.00
43	UBA Bank (K) Ltd	-331.00	1,139.00	4,756.00	3,617.00	3,136.00	1,139.00	1,127.00	1,943.00	785.00	52.00
44	Victoria Commercial Bank	635.00	2,876.00	17,244.00	14,368.00	12,289.00	2,756.00	2,615.00	14,376.00	10,979.00	0.00

TABLE 1.6: KES MILLIONS

.

2015

	BANK NAME	Net Profit (loss)	Total Share holders fund	Total Assets	Total Liabilities	Total Deposits	Total Capital	Core Capital	Total Risk Weighted Assets	Total Gross Loans and advances	Total Non performing Loans
1	African Banking Corporation Ltd	355.00	2,837.00	22,058.00	19,221.00	15,774.00	3,012.00	2,181.00	18,304.00	15,538.00	2,677.00
2	Bank of Africa (K) Ltd	-1,434.00	8,496.00	69,280.00	60,784.00	53,167.00	8,651.00	6,970.00	52,778.00	41,075.00	9,744.00
3	Bank of Baroda Ltd	2,486.00	11,273.00	68,178.00	56,905.00	52,929.00	11,547.00	11,181.00	42,539.00	32,263.00	2,364.00
4	Bank of India	1,470.00	7,183.00	42,163.00	34,980.00	26,660.00	7,144.00	6,948.00	16,889.00	17,973.00	364.00
5	Barclays Bank of Kenya Ltd	12,074.00	39,716.00	241,153.00	201,437.00	188,820.00	41,222.00	35,419.00	224,121.00	148,846.00	5,336.00
6	CFC Stanbic Bank Ltd	7,077.00	28,251.00	198,578.00	170,327.00	109,132.00	30,351.00	25,881.00	162,284.00	103,535.00	4,858.00
7	Chase Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Chaterhouse Bank Ltd	0.00	0.00	0.00	0.00	3,784.00	0.00	0.00	0.00	0.00	0.00
9	Citibank N A	5,577.00	19,407.00	88,147.00	68,740.00	65,121.00	19,101.00	18,448.00	67,435.00	27,683.00	1,768.00
10	Commercial Bank of Africa Ltd	6,227.00	22,708.00	198,484.00	175,776.00	148,321.00	25,201.00	17,099.00	140,604.00	107,683.00	4,723.00
11	Consolidated Bank of Kenya Ltd	49.00	1,615.00	14,136.00	12,521.00	10,319.00	1,312.00	1,086.00	13,974.00	10,155.00	1,958.00
12	Cooperative Bank of Kenya Ltd	14,073.00	49,311.00	339,550.00	290,239.00	266,614.00	63,372.00	43,283.00	298,137.00	212,711.00	8,189.00
13	Credit Bank Ltd	-179.00	1,392.00	10,287.00	8,895.00	7,520.00	1,403.00	1,345.00	8,964.00	7,388.00	515.00

14	Development Bank of Kenya Ltd	178.00	2,844.00	16,943.00	14,099.00	11,700.00	2,018.00	1,745.00	7,394.00	9,094.00	1,870.00
15	Diamond Trust Bank Ltd	7,055.00	29,996.00	190,948.00	160,952.00	126,577.00	30,299.00	25,421.00	171,281.00	128,266.00	3,656.00
16	Dubai Bank Ltd		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17	Ecobank Kenya Ltd	93.00	7,561.00	52,427.00	44,866.00	34,257.00	9,904.00	9,083.00	39,685.00	30,902.00	2,444.00
18	Equatorial Commercial Bank Ltd	-655.00	2,069.00	14,470.00	12,401.00	10,376.00	2,033.00	1,628.00	11,649.00	10,400.00	3,388.00
19	Equity Bank Ltd	22,388.00	47,440.00	341,329.00	293,889.00	237,025.00	52,887.00	47,659.00	325,484.00	229,394.00	6,832.00
20	Family Bank Ltd	2,883.00	11,927.00	81,190.00	69,263.00	62,731.00	13,884.00	11,329.00	73,606.00	57,975.00	3,515.00
21	Fidelity Commercial Bank Ltd	-277.00	1,745.00	15,025.00	13,280.00	10,815.00	1,700.00	1,389.00	10,276.00	10,037.00	1,604.00
22	Fina Bank Ltd(Guarantee Trust)	547.00	7,906.00	29,374.00	21,468.00	19,418.00	5,172.00	5,023.00	18,647.00	12,826.00	570.00
23	First Community Bank Ltd	11.00	1,613.00	14,613.00	13,000.00	12,396.00	2,024.00	1,519.00	13,249.00	11,532.00	2,777.00
24	Giro Bank Ltd	479.00	2,835.00	15,810.00	12,975.00	12,806.00	2,835.00	2,715.00	11,781.00	9,389.00	185.00
25	Guardian Bank Ltd	329.00	1,984.00	14,609.00	12,625.00	12,494.00	1,984.00	1,984.00	11,256.00	9,926.00	1,029.00
26	Gulf African Bank (K) Ltd	1,093.00	3,877.00	24,714.00	20,837.00	18,408.00	3,877.00	3,877.00	24,593.00	15,864.00	1,398.00
27	Habib Bank AG Zurich	510.00	2,147.00	14,440.00	12,293.00	10,082.00	2,573.00	2,495.00	9,577.00	5,329.00	116.00
28	Habib Bank Ltd	485.00	2,573.00	10,230.00	7,657.00	6,861.00	2,147.00	1,856.00	5,776.00	4,271.00	434.00
29	Housing Finance Co of Kenya Ltd	1,737.00	9,090.00	68,809.00	59,719.00	41,881.00	9,548.00	8,095.00	52,672.00	54,624.00	4,097.00
30	I & M Bank Ltd	8,367.00	26,187.00	147,846.00	121,659.00	104,466.00	26,544.00	23,559.00	138,179.00	104,302.00	5,072.00
31	Imperial Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
32	Jamii Bora Bank Ltd	36.00	3,163.00	16,782.00	13,619.00	10,946.00	2,300.00	2,186.00	14,151.00	10,767.00	778.00
33	K-Rep Bank Ltd (Sidian)	520.00	3,837.00	19,107.00	15,270.00	13,380.00	3,785.00	3,756.00	15,340.00	13,317.00	1,608.00
34	Kenya Commercial Bank Ltd	23,445.00	80,886.00	467,741.00	386,855.00	347,564.00	61,072.00	56,103.00	397,490.00	324,284.00	19,289.00

35	Middle East Bank (K) Ltd	43.00	1,263.00	5,678.00	4,415.00	4,099.00	1,257.00	1,247.00	3,793.00	4,009.00	1,093.00
36	National Bank of Kenya Ltd	-1,684.00	10,914.00	125,295.00	114,381.00	110,864.00	10,531.00	9,784.00	75,266.00	72,842.00	11,762.00
37	NIC Bank Ltd	6,260.00	26,454.00	156,762.00	130,308.00	104,988.00	30,357.00	21,529.00	148,256.00	111,286.00	13,195.00
38	Oriental Commercial Bank Ltd	42.00	2,240.00	8,496.00	6,256.00	6,218.00	2,108.00	2,031.00	6,172.00	5,582.00	831.00
39	Paramount Universal Bank Ltd	169.00	1,536.00	10,526.00	8,990.00	8,147.00	1,532.00	1,450.00	6,349.00	6,485.00	815.00
40	Prime Bank Ltd	2,593.00	8,725.00	65,001.00	56,276.00	50,798.00	8,351.00	8,351.00	48,318.00	41,617.00	989.00
41	Standard Chartered Bank (K) Ltd	8,974.00	40,914.00	234,131.00	193,217.00	174,462.00	40,147.00	33,259.00	189,747.00	122,905.00	14,698.00
42	Trans-National Bank Ltd	252.00	2,033.00	10,533.00	8,500.00	7,589.00	2,033.00	1,928.00	9,473.00	7,339.00	733.00
43	UBA Bank (K) Ltd	-304.00	1,119.00	7,781.00	6,662.00	3,446.00	1,119.00	1,107.00	4,704.00	2,790.00	58.00
44	Victoria Commercial Bank	677.00	3,512.00	20,020.00	16,508.00	14,024.00	3,475.00	3,342.00	18,004.00	13,124.00	0.00

TABLE 1.7: KES MILLIONS.

	2016 BANK NAME	**Net Profit (loss)**	**Total Share holders fund**	**Total Assets**	**Total Liabilities**	**Total Deposits**	**Total Capital**	**Core Capital**	**Total Risk Weighted Assets**	**Total Gross Loans and advances**	**Total Non performing Loans**
1	African Banking Corporation Ltd	222.00	2,997.00	22,422.00	19,425.00	16,079.00	2,969.00	2,368.00	18,530.00	15,022.00	2,840.00
2	Bank of Africa (K) Ltd	-16.00	8,418.00	55,996.00	47,578.00	34,464.00	7,637.00	5,585.00	47,248.00	37,480.00	10,794.00
3	Bank of Baroda Ltd	3,876.00	14,225.00	82,907.00	68,682.00	64,874.00	13,992.00	13,506.00	45,823.00	38,089.00	3,392.00
4	Bank of India	2,185.00	9,536.00	47,815.00	38,279.00	26,727.00	8,971.00	8,574.00	19,615.00	19,354.00	272.00

5	Barclays Bank of Kenya Ltd	10,440.00	42,095.00	42,095.00	0.00	178,448.00	42,746.00	37,617.00	239,299.00	176,349.00	11,472.00
6	CFC Stanbic Bank Ltd	6,910.00	30,238.00	204,895.00	174,657.00	121,990.00	32,876.00	28,891.00	179,751.00	118,483.00	7,013.00
7	Chase Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Chaterhouse Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Citibank N A	6,033.00	19,629.00	103,324.00	83,695.00	62,486.00	19,196.00	18,480.00	72,808.00	28,242.00	805.00
10	Commercial Bank of Africa Ltd	7,593.00	27,470.00	210,878.00	183,408.00	159,285.00	25,800.00	19,048.00	139,840.00	105,082.00	7,450.00
11	Consolidated Bank of Kenya Ltd	-277.00	1,403.00	13,918.00	12,515.00	9,492.00	1,001.00	746.00	12,669.00	10,317.00	2,038.00
12	Cooperative Bank of Kenya Ltd	18,024.00	60,046.00	349,998.00	289,952.00	259,472.00	72,770.00	51,925.00	319,615.00	241,395.00	11,273.00
13	Credit Bank Ltd	158.00	2,460.00	12,202.00	9,742.00	9,136.00	2,468.00	2,423.00	10,801.00	8,361.00	676.00
14	Development Bank of Kenya Ltd	95.00	2,903.00	16,418.00	13,515.00	5,789.00	2,019.00	1,738.00	8,074.00	10,083.00	2,594.00
15	Diamond Trust Bank Ltd	8,876.00	36,432.00	36,432.00	0.00	169,600.00	33,904.00	29,720.00	183,223.00	141,702.00	5,520.00
16	Dubai Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17	Ecobank Kenya Ltd	-2,889.00	7,307.00	47,124.00	39,817.00	32,243.00	7,606.00	6,961.00	39,119.00	27,393.00	5,359.00
18	Equatorial Commercial Bank Ltd	-968.00	1,817.00	13,802.00	11,985.00	8,543.00	1,895.00	1,569.00	11,646.00	8,319.00	1,322.00
19	Equity Bank Ltd	22,778.00	52,341.00	379,749.00	327,408.00	277,275.00	55,095.00	51,248.00	356,088.00	221,039.00	15,457.00
20	Family Bank Ltd	633.00	12,619.00	69,432.00	56,813.00	41,474.00	14,450.00	11,980.00	69,534.00	53,485.00	7,015.00
21	Fidelity Commercial Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
22	Fina Bank Ltd	659.00	8,366.00	29,619.00	21,253.00	16,562.00	5,580.00	5,462.00	20,599.00	13,418.00	994.00
23	First Communi	-41.00	1,557.00	14,962.00	13,405.00	12,656.00	1,969.00	1,463.00	14,071.00	11,926.00	3,853.00

	ty Bank Ltd										
24	Giro Bank Ltd	601.00	3,077.00	16,254.00	13,177.00	12,939.00	3,077.00	2,954.00	11,924.00	9,287.00	196.00
25	Guardian Bank Ltd	302.00	2,215.00	14,705.00	12,490.00	12,314.00	2,215.00	2,149.00	11,288.00	9,604.00	787.00
26	Gulf African Bank (K) Ltd	754.00	4,376.00	27,156.00	22,780.00	21,755.00	4,266.00	4,239.00	22,788.00	16,686.00	1,617.00
27	Habib Bank AG Zurich	622.00	2,965.00	17,033.00	14,068.00	11,773.00	2,965.00	2,908.00	9,179.00	5,361.00	158.00
28	Habib Bank Ltd	493.00	2,454.00	12,508.00	10,054.00	8,216.00	2,454.00	2,139.00	5,412.00	4,339.00	816.00
29	Housing Finance Co of Kenya Ltd	1,445.00	9,775.00	68,085.00	58,310.00	38,156.00	9,580.00	8,519.00	54,161.00	56,786.00	6,193.00
30	I & M Bank Ltd	8,651.00	31,305.00	164,116.00	132,811.00	103,741.00	26,934.00	24,685.00	148,414.00	104,302.00	5,072.00
31	Imperial Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,286,525.00	211,231.00
32	Jamii Bora Bank Ltd	-490.00	3,590.00	15,724.00	12,134.00	8,096.00	2,789.00	2,686.00	13,888.00	10,497.00	2,141.00
33	K-Rep Bank Ltd	62.00	3,869.00	20,875.00	17,006.00	13,686.00	3,817.00	3,785.00	16,420.00	14,488.00	2,459.00
34	Kenya Commercial Bank Ltd	28,482.00	80,990.00	504,778.00	423,788.00	386,611.00	85,691.00	72,611.00	430,839.00	373,031.00	28,333.00
35	Middle East Bank (K) Ltd	-101.00	1,192.00	5,234.00	4,042.00	3,997.00	1,186.00	1,173.00	3,749.00	4,015.00	1,193.00
36	National Bank of Kenya Ltd	162.00	10,996.00	115,114.00	104,118.00	96,967.00	10,501.00	10,033.00	88,325.00	68,616.00	29,987.00
37	NIC Bank Ltd	5,926.00	30,288.00	161,847.00	131,559.00	104,161.00	31,883.00	25,350.00	147,419.00	112,509.00	12,650.00
38	Oriental Commercial Bank Ltd	36.00	2,931.00	9,920.00	6,989.00	6,937.00	2,788.00	2,698.00	7,207.00	7,109.00	856.00
39	Paramount Universal Bank Ltd	105.00	1,664.00	9,427.00	7,763.00	7,668.00	1,638.00	1,555.00	5,979.00	6,243.00	778.00
40	Prime Bank Ltd	2,336.00	10,834.00	65,338.00	54,504.00	49,313.00	10,765.00	9,741.00	48,576.00	40,170.00	1,855.00
41	Standard Chartered Bank (K) Ltd	12,764.00	43,905.00	250,274.00	206,369.00	186,599.00	42,104.00	35,258.00	201,321.00	132,497.00	15,038.00
42	Trans-National Bank Ltd	160.00	2,073.00	10,465.00	8,392.00	8,000.00	2,073.00	1,969.00	9,974.00	7,026.00	891.00

43	UBA Bank (K) Ltd	50.00	2,143.00	5,601.00	3,458.00	1,948.00	2,143.00	2,131.00	5,541.00	3,127.00	69.00
44	Victoria Commercial Bank	0.00	5,060.00	22,403.00	17,343.00	15,696.00	4,988.00	4,849.00	19,599.00	15,293.00	0.00

TABLE 1.8: KES MILLIONS.

	2017 BANK NAME	Net Profit (loss)	Total Share holders fund	Total Assets	Total Liabilities	Total Deposits	Total Capital	Core Capital	Total Risk Weighted Assets	Total Gross Loans and advances	Total Non performing Loans
1	African Banking Corporation Ltd	203.00	3,160.00	24,804.00	21,644.00	19,701.00	2,906.00	2,488.00	19,239.00	16,371.00	3,535.00
2	Bank of Africa (K) Ltd	35.00	8,468.00	54,191.00	45,723.00	31,572.00	6,986.00	4,946.00	44,275.00	33,589.00	10,571.00
3	Bank of Baroda Ltd	5,053.00	17,900.00	96,132.00	78,232.00	73,005.00	16,909.00	16,203.00	52,365.00	43,943.00	2,666.00
4	Bank of India	2,675.00	11,625.00	56,631.00	45,006.00	31,286.00	11,069.00	10,665.00	20,508.00	20,771.00	435.00
5	Barclays Bank of Kenya Ltd	10,006.00	43,559.00	271,682.00	228,123.00	186,245.00	43,934.00	38,768.00	243,728.00	11,472.00	12,615.00
6	CFC Stanbic Bank Ltd	5,599.00	33,051.00	239,408.00	206,357.00	153,009.00	36,208.00	32,569.00	206,090.00	135,443.00	10,359.00
7	Chase Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Chaterhouse Bank Ltd	0.00	0.00	0.00	0.00	2,993.00	0.00	0.00	0.00	0.00	0.00
9	Citibank N A	6,373.00	20,177.00	98,232.00	78,055.00	64,369.00	19,763.00	19,037.00	77,348.00	38,080.00	1,724.00
10	Commercial Bank of Africa Ltd	7,189.00	229,525.00	31,571.00	0.00	178,378.00	26,130.00	20,394.00	150,898.00	107,038.00	7,798.00
11	Consolidated Bank of Kenya Ltd	-439.00	1,068.00	13,456.00	12,388.00	13,120.00	595.00	354.00	11,686.00	9,882.00	2,481.00
12	Cooperative Bank of Kenya Ltd	16,502.00	68,227.00	382,830.00	314,603.00	285,566.00	81,048.00	58,859.00	357,310.00	7,232.00	18,714.00
13	Credit Bank Ltd	179.00	2,665.00	14,465.00	11,800.00	7,463.00	2,644.00	2,594.00	16,679.00	10,171.00	877.00
14	Development Bank of Kenya Ltd	58.00	2,930.00	16,320.00	13,390.00	6,429.00	1,898.00	1,617.00	8,060.00	10,710.00	2,310.00
15	Diamond Trust Bank Ltd	8,228.00	43,004.00	270,082.00	227,078.00	190,469.00	38,790.00	35,344.00	204,039.00	156,843.00	11,901.00
16	Dubai Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17	Ecobank Kenya Ltd	-1,434.00	6,439.00	53,456.00	47,017.00	43,686.00	5,995.00	5,767.00	37,495.00	21,456.00	8,287.00

18	Equatorial Commercial Bank Ltd	-1,576.00	1,188.00	11,148.00	9,960.00	5,383.00	1,206.00	987.00	9,537.00	6,867.00	2,349.00
19	Equity Bank Ltd	23,086.00	61,906.00	406,402.00	344,496.00	298,703.00	61,902.00	59,198.00	374,209.00	221,698.00	14,758.00
20	Family Bank Ltd	-1,371.00	11,608.00	69,051.00	57,443.00	47,425.00	13,147.00	10,832.00	66,207.00	46,928.00	9,478.00
21	Fidelity Commercial Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
22	Fina Bank Ltd	241.00	8,609.00	27,628.00	19,019.00	15,141.00	5,354.00	5,257.00	19,923.00	13,746.00	1,421.00
23	First Community Bank Ltd	216.00	1,709.00	17,360.00	15,651.00	6,816.00	2,021.00	1,407.00	13,173.00	10,995.00	4,399.00
24	Giro Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	Guardian Bank Ltd	228.00	2,375.00	15,803.00	13,428.00	1,181.00	2,375.00	2,307.00	11,746.00	10,303.00	1,122.00
26	Gulf African Bank (K) Ltd	254.00	4,419.00	31,316.00	26,897.00	26,074.00	4,836.00	4,247.00	29,847.00	20,144.00	1,962.00
27	Habib Bank AG Zurich	409.00	2,842.00	18,708.00	15,866.00	8,646.00	2,842.00	2,770.00	10,505.00	5,680.00	592.00
28	Habib Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
29	Housing Finance Co of Kenya Ltd	393.00	9,963.00	62,127.00	52,164.00	36,898.00	9,109.00	8,298.00	53,576.00	52,630.00	8,212.00
30	I & M Bank Ltd	7,516.00	35,024.00	183,953.00	148,929.00	132,801.00	32,227.00	29,790.00	173,455.00	126,983.00	17,669.00
31	Imperial Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
32	Jamii Bora Bank Ltd	-762.00	3,454.00	12,851.00	9,397.00	6,249.00	2,349.00	2,283.00	12,156.00	9,929.00	2,106.00
33	K-Rep Bank Ltd	-633.00	3,447.00	19,302.00	15,855.00	2,080.00	3,354.00	3,325.00	20,377.00	12,330.00	2,596.00
34	Kenya Commercial Bank Ltd	27,472.00	88,991.00	555,630.00	466,639.00	440,164.00	78,020.00	71,970.00	483,986.00	411,666.00	34,182.00
35	Middle East Bank (K) Ltd	-41.00	1,162.00	5,121.00	3,959.00	10,940.00	1,157.00	1,143.00	2,717.00	3,242.00	1,438.00
36	National Bank of Kenya Ltd	740.00	7,048.00	109,942.00	102,894.00	94,544.00	4,771.00	3,503.00	87,998.00	68,153.00	27,658.00
37	NIC Bank Ltd	5,676.00	28,938.00	192,817.00	163,879.00	130,561.00	32,964.00	27,652.00	165,647.00	118,459.00	13,265.00
38	Oriental Commercial Bank Ltd	116.00	3,028.00	10,577.00	7,549.00	7,729.00	2,887.00	2,780.00	8,506.00	7,741.00	809.00
39	Paramount Universal Bank Ltd	96.00	1,760.00	9,541.00	7,781.00	7,874.00	1,638.00	1,555.00	5,974.00	6,345.00	778.00
40	Prime Bank Ltd	1,977.00	14,338.00	76,438.00	62,100.00	57,555.00	11,796.00	11,176.00	52,478.00	39,763.00	2,252.00
41	Standard Chartered Bank (K) Ltd	9,510.00	44,584.00	285,125.00	240,541.00	213,349.00	42,242.00	35,628.00	228,112.00	139,406.00	17,621.00

42	Trans-National Bank Ltd	54.00	2,132.00	10,295.00	8,163.00	12,468.00	2,010.00	1,888.00	6,663.00	7,365.00	1,595.00
43	UBA Bank (K) Ltd	14.00	2,162.00	6,505.00	4,343.00	3,908.00	2,162.00	2,162.00	5,575.00	3,309.00	152.00
44	Victoria Commercial Bank	849.00	5,612.00	25,985.00	20,373.00	18,677.00	5,517.00	5,363.00	24,265.00	18,887.00	17.00

TABLE 1.9: Summary Output
KES MILLIONS.

	BANK NAME	TOTAL 5 YEARS P VALUE	5 YEAR AVERAGE P VALUE	Minimum Risk Weighted Assets ratio (15%)
1	African Banking Corporation Ltd	2.82	0.56	15.00
2	Bank of Africa (K) Ltd	3.07	0.61	13.00
3	Bank of Baroda Ltd	1.64	0.33	22.00
4	Bank of India	0.31	0.06	42.00
5	Barclays Bank of Kenya Ltd	2.32	0.46	17.00
6	CFC Stanbic Bank Ltd	2.09	0.42	21.00
7	Chase Bank Ltd	2.60	0.52	15.00
8	Chaterhouse Bank Ltd	2.84	0.57	0.00
9	Citibank N A	1.26	0.25	35.00
10	Commercial Bank of Africa Ltd	2.98	0.60	13.00
11	Consolidated Bank of Kenya Ltd	3.37	0.67	11.00
12	Cooperative Bank of Kenya Ltd	3.31	0.66	21.00
13	Credit Bank Ltd	2.43	0.49	27.00
14	Development Bank of Kenya Ltd	2.97	0.59	24.00
15	Diamond Trust Bank Ltd	1.83	0.37	21.00
16	Dubai Bank Ltd	2.80	0.56	17.00
17	Ecobank Kenya Ltd	3.06	0.61	31.00
18	Equatorial Commercial Bank Ltd	3.31	0.66	12.00
19	Equity Bank Ltd	6.33	1.27	24.00
20	Family Bank Ltd	2.44	0.49	19.00
21	Fidelity Commercial Bank Ltd	2.91	0.58	19.00
22	Fina Bank Ltd	1.83	0.37	34.00
23	First Community Bank Ltd	3.11	0.62	15.00
24	Giro Bank Ltd	1.77	0.35	29.00
25	Guardian Bank Ltd	2.13	0.43	18.00
26	Gulf African Bank (K) Ltd	2.31	0.46	18.00
27	Habib Bank AG Zurich	1.26	0.25	33.00
28	Habib Bank Ltd	2.39	0.48	37.00
29	Housing Finance Co of Kenya Ltd	2.70	0.54	22.00

30	I & M Bank Ltd	2.03	0.41	19.00
31	Imperial Bank Ltd	2.69	0.54	15.00
32	Jamii Bora Bank Ltd	2.71	0.54	26.00
33	K-Rep Bank Ltd	2.42	0.48	21.00
34	Kenya Commercial Bank Ltd	2.74	0.55	22.00
35	Middle East Bank (K) Ltd	3.01	0.60	36.00
36	National Bank of Kenya Ltd	3.22	0.64	24.00
37	NIC Bank Ltd	3.05	0.61	15.00
38	Oriental Commercial Bank Ltd	2.28	0.46	30.00
39	Paramount Universal Bank Ltd	2.47	0.49	42.00
40	Prime Bank Ltd	1.89	0.38	18.00
41	Standard Chartered Bank (K) Ltd	2.91	0.58	21.00
42	Trans-National Bank Ltd	2.40	0.48	31.00
43	UBA Bank (K) Ltd	2.17	0.43	47.00
44	Victoria Commercial Bank	1.53	0.31	20.00