THE IMPACT OF MERGERS AND ACQUISITION ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY:

JOSEPH OOKO MAREMBO

REG. NO. D61/63321/2011

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINSTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER, 2012

DECLARATION

This Research project is my original work and has not been submitted in any other University.

Signed……………………………… Date …………………………………..

Joseph Ooko Marembo

D61/63321/2011

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

Signed……………………………… Date ……………………………………

Mr. Herick Ondigo

Lecturer,

Department of Finance and Accounting

School of Business,

University of Nairobi

DEDICATION

This work is dedicated to my beloved son Braden Hawii and wife Diana Rose Akinyi for her love, care and both financial and moral support throughout the entire process.

Special dedication also goes to Dr.Evans Kidero, Brother Juma Aloo, Fredrick Marembo and my sister Rose Aloo and Cousins Isaya Marembo, Francis Kidero, and friends, Andrew Wabwoba, David Ajuma, Elisha Oito, Bernard Ochola, Patrick Omoro and Symon Orega.

ACKNOWLEDGEMENT

I thank the Almighty God, for the gift of life, health, strength, protection that I received throughout my studied and for his many blessings and inspiration during this course.

My heartfelt gratitude goes out to my supervisor Mr Herick Ondigo for his patience, encouragement, professional advice, understanding and enlightenment throughout this research.

Special thanks goes to my cousins Dr. Evans Kidero and Symon Kidero for the financial support and encouragement ,to my colleagues Jennifer, Okoth, Jonah, Janet Ogada and others whom we shared so much during my stay at University.

I also extend my appreciation to mysister inlaw Jane Juma, Harriet Omanya and Ann Kidero.

For all those who contributed directly or indirectly to the accomplishment of this project, you have my sincere gratitude.

ABSTRACT

Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. The objective of this study was to determine the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. The study set to establish whether the many mergers that have happened in Kenya's banking Sector had influenced financial performance.

The type of research design was the causal study that relies on control factors. The study employed a survey of the merged banks within the period of study. The population of the study consisted of 32 banks that merged in the period 1994 to 2010 in Kenya The study used secondary sources of data from the audited annual reports of accounts for the respective banks over the period. Financial data from Statement of financial position, Statement of comprehensive Income and Statement of Cash Flow of the respective commercial banks for five years before and after the mergers was used to calculate and analyse the profitability (EPS), ROE, ROA and CAR from the published financial statements and reports for the merged banks for the period under study.

The study established that following the merger or the acquisition, the Returns on Assets and Returns on equity both improved as the assets of the company improved. Adequate capitals requirements help lessen the chance that banks will become insolvent if sudden shocks occur therefore ensuring financial sector stability. With higher the risk-weighted capital adequacy ratios (CARs), the new financial institution formed after the merger is more financially sound as it carries with it lower is the probability that banks will be exposed to the risk of insolvency. that merging/acquisitions on its own cannot achieve strong, efficient and competitive banking systems because performance is dependent on several factors. This study recommends that commercial banks with a weak and unstable capital base should seek to consolidate their establishments through mergers and acquisitions. The study also recommends that the commercial banks need to deepen their services as statistics only indicate that less than 50% of the population have access to financial services.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

CAR	Capital Adequacy Ratio
CL-NR	Current Liabilities to Net worth Ratio
CR	Current Ratio
EPS	Earnings per Share
FA-NR	Fixed Asset to Net worth Ratio
LDR	Loan to Deposit Ratio
M&A	Mergers and Acquisitions
NPL	Non-performing Loans
QR	Quick Ratio
ROA	Return on Assets
ROE	Return on Equity
TL-NR	Total Liabilities to Net worth Ratio

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like mergers and acquisitions (M&A), strategic alliances, joint ventures etc. The M&A are arguably the most popular strategy among firms who seek to establish a competitive advantage over their rivals. In the last seven years, during the fifth merger wave, the value of acquisitions has increased dramatically (Kumar & Bansal, 2008).

Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are: to gain greater market power, gain access to innovative capabilities, thus reducing the risks associated with the development of a new product or service, maximize efficiency through economies of scale and scope and finally in some cases, reshape a firm's competitive scope (Hitt et al., 2007). Other reasons include a short-term solution to finance problems that companies face due to information asymmetries (Fluck and Lynch, 1999), revitalize the company by bringing in new knowledge to foster long-term survival (Vermeulen and Bakerma, 2001) and to achieve synergy effects (Lubatkin, 1987; Birkinshaw et al., 2000; Vaara, 2002).

1.1.1 Mergers and Acquisition

A merger can be defined as any transaction that forms one economic unit from two or more previous ones. Mergers have already been around for thousands of years: during the ancient times, countries have formed alliances with their neighbours just so to protect themselves or to conquer another country, and for as early as the fifteenth century, international trading was made possible because of alliances. (Freidheim,1998). Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company. Although an acquisition has some attributes of a merger, the acquiring firm usually is the larger one. The smaller firm has to conform and change its operating methods and may have less influence on the management of the practice.

Mergers and acquisitions of banks are not exactly recent phenomena for Kenya. As early as 1989, Kenya witnessed the merger of 9 insolvent financial institutions to form the Consolidated Bank of Kenya Ltd. This incorporation was under the financial sector reform program established by the Government with the objective of taking over and re-structuring various troubled institutions. On 10th November 1994, the Indosuez Merchant Finance merged with Banque Indosuez to form Credit Agricole Indosuez (www.centralbank.go.ke). This has been an ongoing activity as warranted by market forces. The recent merger in the Kenyan financial industry occurred in 2010 with the first merger being on 1st February 2010 between Savings and Loans (K) Ltd and Kenya Commercial Bank to form Kenya Commercial Bank Ltd. It was subsequently followed by a merger between City Finance Bank Ltd and Jamii Bora Kenya Ltd on 11th February 2010 and finally the merger of the year between Equatorial Commercial Bank Ltd and Southern Credit Banking Corporation to form Equatorial Commercial Bank Ltd on 1st June 2010. (www.centralbank.go.ke.)

1.1.2 Financial Performance

Pandey (2008) defines financial performance as a subjective measure of how well a firm uses assets from its primary mode of business to generate revenues. He further says that the term can also be used as a general measure of a firm's overall financial health position over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Evaluating performance of firms is critical in order to ascertain whether the business is viable. A key performance measure used in modern financial management is the financial ratio analysis. The type of financial analysis varies according to the specific interests of the party involved. According to Holtzman (1994) trade creditors are interested primarily in the liquidity of the firm. Their claims are short term, and the ability of the firm to pay these claims is best judged by means of a thorough analysis of its liquidity. The claims of bondholders on the other hand are long term. Accordingly, they are more interested in the cash flow ability of the firm to service debts in the long run. The bondholders may evaluate this ability by analyzing the capital structure of the firm, the major sources and uses of funds, the profitability over time and projections of future profitability. Investors in a Company's common stocks are concerned principally with present and expected future earnings and the stability of these earnings about a trend as well as their covariance with earnings of other Companies. As result, investors might concentrate their analysis on a company's profitability. They would be concerned with the financial condition insofar as it affects its ability to pay dividends and avoid bankruptcy.

There are different ways of measuring financial performance, but all measures should be taken in aggregation. Most growing businesses ultimately target increased profits which make it important to know how to measure profitability. The key standard measures of financial performance include: gross profit margin which measures how much money an organization has made after direct costs of sales have been taken into account; operating margin lies between the gross and net measures of profitability after overheads are taken into account before interest and tax payments known as the EBIT (earnings before interest and taxes) margin. Net profit margin is a much narrower measure of profits, as it takes all costs into account, not just direct ones. All overheads, as well as interest and tax payments, are included in the profit calculation.

1.1.3 Relationship between Mergers and Acquisitions and Financial Performance

There are inconclusive results on the literature on the consequences of mergers and acquisitions (M&A) on the overall financial performance of an entity. This paper aims at synthesizing and analyzing prior literature of mergers and acquisitions and its effects on the financial performance in an attempt to determine factors that might influence post-mergers and acquisitions performance. Previous studies have used varieties of measures to examine the impact of M&A on overall financial performance of an entity, where measures might be accounting measures-based, market measures-based, mixed measures, or qualitative measures-based. Managers should be aware of such factors and their impact on post-merger/acquisition corporate performance to accurately evaluate proposed offers of mergers and acquisitions and take sound decisions, Feroz et al (2005).

1.1.4 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Currently there are 44 licensed commercial banks operating in the country. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members (*ww.centralbank.go.ke)*.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-theshelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market *(www.kba.co.ke).*

1.2 Research Problem

Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. Many studies carried out in the area of M&A have established inconsistent results. A study by KPMG International found that 75% to 83% of the mergers fail. Failure means lowered productivity, labor unrest, higher absenteeism and loss of share holder value. In some cases, it means well-publicized dissolution of the combination. The fact is that it is much easier to make a deal than to make a deal work (Nguyen and Kleiner, 2002). A study conducted by Lev and Mandelker (1972) on 69 firms by comparing the performance of merged firms using profitability measures for 5 pre-merger and 5 post-merger years concluded that the market value of the acquiring firms rose on average by 5.6%.

Mergers and acquisitions continue to be a highly popular form of corporate development in today's banking industry world over. However, in a paradox to their popularity, acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target firm shareholders generally enjoy positive short-term returns, investors in bidding firms frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders, (Muia, 2010). The complex phenomenon that mergers and acquisitions represent has attracted substantial interest from a variety of management disciplines for a long time. According to (Ndora, 2010), three primary streams of enquiry can be identified within the strategic and behavioral literature which focuses on the issues of strategic fit, organizational fit and the acquisition process itself.

Powell and Yawson (2005), examined UK active acquires and found some evidence that companies undertaking mergers earned a higher rate of return than those that relied on internal growth. They were however unable to identify a positive relationship between the level of merger activity and profitability. Dymski, G (1999), examined 17 companies which had undertaken large and/or persistent mergers in the period 1985-1998. He established no evidence from the sample that merger intensive firms have higher profitability than the coverage industry.

Wanguru (2011) did a study on the effects of mergers and acquisition on the profitability of commercial banks in Kenya. She analyzed the profitability of the banks for five years before and after the merger. A population of 33 banks that had merged between the period 1994 and 2010 were used. Profitability was measured in terms of return on asset (ROA) and return on equity (ROE). The findings were compared and the results tabulated for the years of study. It was observed that on average, the firm's profitability increased for the five year period prior the merger than before. She concluded that mergers and acquisition for commercial banks leads to increased profitability for the resultant firm.

A study by Wanguru (2011) limited itself to the effects of mergers and acquisition on profitability of commercial banks in Kenya. For the knowledge interest, the researcher sought to establish the impact of mergers and acquisition on the overall financial performance of commercial banks in Kenya.

This study was therefore designed to fill the knowledge gap by answering the research question, what is the impact of Mergers and Acquisitions on the overall financial performance of commercial banks in Kenya?

1.3 Objective of the Study

To determine the impact of mergers and acquisition on the financial performance of commercial banks in Kenya

1.4 Value of the Study

In the light of the fact that mammoth resources both financially and non financially are usually committed to effectively implement mergers and acquisitions, it is noteworthy to establish the actual impact of M&A on the financial performance of Commercial banks in Kenya. The submission of this fact will be of significant use to the following:

Policy Makers

The research would enable the policy makers to devise new standards in establishing an appropriate level of merger and acquisition. The findings would be used to come up with more effective methods of managing liquidity levels of a firm.

Investors and Customers

The study should add knowledge on the understanding of the importance of mergers in analyzing performance by current investors, customers of commercial banks and other banks in this competitive industry.

Researchers

The study would provide a base for further research especially in the areas of merger and acquisitions for researchers interested in building on the already existing knowledge base about theoretical and empirical work on the impacts of mergers and acquisition on the financial performance of commercial banks.

Organization

It will be of benefit to executives and managers of the commercial banks as the study would cover banks that have recently merged and their relative performance.

Academicians

The findings of this study would make contributions to the existing paradigm on investor's behavior toward the mergers, acquisition and restructuring of banks. It would also be used to establish the research gaps and provide reference for further research under the field of merger and acquisition.

CHAPTER TWO

LITERATURE REVIEW

2. 1 Introduction

This chapter builds on the background research problem and the research questions identified in the previous chapter. Literature relevant to the study is summarized and discussed thematically; the chapter discusses relevant literatures from a broader and richer perspective to bring out the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. The chapter begins with theoretical framework of mergers and acquisitions where it discusses theories relevant to the study and then proceeds to present the empirical studies relevant to this study.

2.2 Theoretical Review

Several theories have been advanced towards the justification and impact of mergers and acquisition. M&A can be financially justified only if it increases the wealth of the acquiring company shareholders. Andrade and Stafford (2004) have identified three justifications or motives for acquisitions which are generally considered to be economic, financial or managerial in origin.

2.2.1 Economic Motive Theories

The economic motive for any merger is that shareholder wealth will be increased by the transaction as the two companies are worth more combined than as separate companies, Viverita (2008)

2.2.2 Theory of Synergy

According to Viverita (2008), the differential efficiency theory of mergers, if the management of firm **A** is more efficient than the management of firm **B** and if after firm **A** acquires firm **B,** the efficiency of firm **B** is brought up to the level of firm **A**, then this increase in efficiency is attributed to the merger.

According to this theory, some firms operate below their potential and consequently have low efficiency. Such firms are likely to be acquired by other, more efficient firms in the same industry. This is because firms with greater efficiency would be able to identify firms with good potential operating at lower efficiency. They would also have the 4managerial ability to improve the latter's performance.

2.2.3 Theory of Economy

According to this theory, there are factors that cause the average cost of producing something to fall as the volume of its output increases. When both the target and bidder are equally efficient, simply combining their resources would lead to benefits due to economies of scale and complementary benefits. There are two types of economies of scale i.e. internal economies of scale that refers to the cost savings that accrue to a firm regardless of the industry, market or environment in which it operates and external economies of scale that refers to benefit a firm because of the way in which its industry is, (Trautwein, 1990).

2.2.4 Financial Justification Theories

Merger can also be justified on the grounds of the financial benefits they bring to the shareholders of the companies involved.

2.2.5 Financial Synergy Theory

According to this theory, financial synergy occurs as a result of the lower costs of internal financing versus external financing. A combination of firms with different cash flow positions and investment opportunities may produce a financial synergy effect and achieve lower cost of capital. Tax saving is another considerations. When the two firms merge, their combined debt capacity may be greater than the sum of their individual capacities before the merger.

The financial synergy theory also states that when the cash flow rate of the acquirer is greater than that of the acquired firm, capital is relocated to the acquired firm and its investment opportunities improve.

2.2.6 Tax Incentive Hypothesis Theory

As per Trautwein, (1990), the tax incentive hypothesis of mergers and acquisitions, tax provision is an important incentive for mergers as it not only affects the decision to merge but also the way a merger is structured. He further argues that different ways of structuring a merger will have different tax consequences that includes an opportunity to carry over by the acquirer the net operating losses and unused tax credits, an opportunity to step up assets or use their new sales prices as a basis for depreciation, incentive provided by a lower income tax rate on capital gains than on dividends to retain earnings to acquire other firms and finally the opportunity for an acquiring firm to deduct from taxable income the interest payments incurred on acquisitions related indebtness.

2.2.7 Managerial Motives

According to Kemal, (2011), takeovers can also arise because of the agency problem that exists between shareholders and managers, whereby managers are more concerned with satisfying their own objectives than with increasing the wealth of shareholders. From this perspective, the motives behind some acquisitions may be to increase managers' pay and power. Managers may also believe that the larger their organization, the less likely it is to be taken over by another company and hence the more secure their jobs will become. Takeovers made on these grounds have no shareholder wealth justification since managers are likely to increase their own wealth at the expense of the shareholders.

2.3 Types of Mergers and Acquisitions

Trautwein, (1990), notes that businesses engage in a wide range of activities in seeking to exploit potential opportunities. Mergers, tender offers and joint ventures play an important role in the growth or expansion of firms. Growth is viewed as vital to the well-being of a firm. It is needed for a firm to compete for the best managerial talent by offering rapid promotions and broadened responsibilities. Without able executives, the firm is likely to decline in efficiency and value. Although the terms 'merger' and 'takeover' tend to be used synonymously, in practice there is a narrow distinction between them. A merger can be defined as a friendly reorganization of assets into a new organization, i.e. **x** and **y** merge to become **z**, a new company with the agreement of both sets of shareholders. Mergers involve similar sized companies, reducing the likelihood of one company dominating the other.

A takeover on the other hand is the acquisition of one company's ordinary share capital by another company financed by a cash payment, an issue of securities or a combination of both. Here the bidding company is usually larger than the target company. In practice, most acquisitions are takeovers rather than mergers since one of the two parties is dominant. The term itself is understood to connote hostility. Kumar and Bansal (2008), discusses three types of mergers: horizontal, conglomerate mergers and vertical.

2.3.1 Horizontal Mergers

A horizontal merger involves the combination of two companies operating in the same industry and at a similar stage of productions. Forming a larger firm may have the benefit of economies of scale. Horizontal mergers are regulated by the government for their potential negative effect on competition. The number of firms in an industry is decreased by horizontal mergers and this may make it easier for the industry members to collude for monopoly profits. Horizontal mergers are also believed by many as potentially creating monopoly power on the part of the combined form enabling it to engage in anti competitive practices.

2.3.2 Conglomerate Mergers

This is a combination of two companies operating in different areas of business; any combination that is not vertical or horizontal. Three types of conglomerate mergers have been distinguished. Product-extension mergers broaden the product lines of firms. These are mergers between firms in related business activities and may also be called concentric mergers. A geographic market-extension merger involves two firms whose operations have been conducted in non-overlapping geographic area while a pure conglomerate merger involves unrelated business activities.

Conglomerate firms differ fundamentally from investment companies in that they control the entities to which they make major financial commitments. Two important characteristics define a conglomerate firm. One, it controls a range of activities in various industries that require different skills in the specific managerial functions of research applied engineering, production and marketing. Two, diversification is achieved mainly by external acquisitions and mergers not by internal development.

2.3.3 Vertical Mergers

Vertical mergers occur between firms in different stages of production operation within the same industry. In the oil industry, for example, distinctions are made between exploration and production, refining, and marketing to the ultimate consumer. In the pharmaceutical industry one could distinguish between research and the development of new drugs, the production of drugs and the marketing of drug products through retail drug stores.

Muia (2010) advances various reasons for vertical mergers. First, there are technological economies such as the avoidance of retreating and transportation costs in the case of an integrated lion and steel producer. Second, transactions within a firm may eliminate the cost of searching for prices, contracting, payment collecting, and advertising and may also reduce the costs of communicating and of coordination production. Three, planning for inventory and production may be improved due to more efficient information flow within a single firm. Finally, when assets of a firm are specialized to another firm, the latter may act opportunistically to expropriate the quasi-rents accruing to the specialized assets. Expropriation can be accompanied by demanding supply of a good or service produced from the specialized assets at a price below its average cost to avoid the costs of haggling, which arise from the expropriation attempt. The assets are owned by a single vertically integrated firm. Divergent interest of parties to transaction will be reconciled by common ownership.

A vertical takeover can involve a more forward in the production process to secure a distribution outlet, or a more backward in the production process to secure the supply of raw materials e.g. a toy manufacturers merges with a chain of toy stores (forward integration; an auto manufacturers merges with a tire company (back integration).

2.4 Measures of Financial Performance

Financial ratios are a useful indicator of the firm's performance and financial health. The ratios are computed from the financial statements (Statement of Financial position, Comprehensive Income Statement as well as the Statement of Cash flow) of firms. The ratios are used in analyzing trends within the same industry. They can also be used in comparison of results with competitors and industry benchmarks (Muhammad, 2011). Profitability, solvency and capital adequacy measures can be used to analyze financial performance of a bank pre -and post-merger.

2.4.1 Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. According to Muhammad (2006), financial managers should continuously evaluate the efficiency of the company in terms of profit to ensure its survival and growth. Profitability ratios indicate what the firm is earning on its sales, assets or equity.

Pandey (1999) cites return on asset (ROA) and return on equity (ROE) as the measures of profitability. Return on assets (ROA) is a comprehensive measure of overall performance of an entity from an accounting perspective. According to Mitchell and Mulherin (1996), ROA is a primary indicator of managerial efficiency as it indicates how capable the management of an entity has been converting the entity's assets into net earnings. It is computed by dividing the_Earning after interest and taxes over the total assets of an entity.

According to Myers and Majluf (2006), Return on equity (ROE) measures accounting profitability from the shareholder's perspective. It actually illustrates the rate of return flowing to the entity's shareholders as it approximates the net benefit that the stockholders have received from investing their capital. It is computed by dividing the earnings after interest and taxes over equity.

2.4.2. Solvency Ratios

According to Pandey (1999), solvency ratios measure the financial soundness of a firm and how well the firm can satisfy its short and long term obligations. Solvency ratios that can be used to evaluate an entity's financial performance include: quick ratio, current ratio, current liabilities to net worth ratio, total liabilities to net worth ratio and fixed asset to net worth ratio. Quick ratio or acid test ratio considers only cash, marketable securities (cash equivalents and account receivable) because they are considered to be the most liquid forms of current assets. It is calculated as dividing the sum of cash and account receivables by the current liabilities.

Current liabilities to net worth ratio indicate the amount due to creditors within a year as a percentage of the owners or stakeholders investment. The smaller the net worth, the larger the liabilities and the less security for creditors, the ratio is calculated by dividing the current liabilities by the net worth of the entity. Total liabilities to net worth ratio show how all of a company's debt relates to the equity of the owner or stock holders. The higher the ratio, the less protection there is for the creditors of the business. The ratio is calculated as total liabilities over the net worth. Fixed asset to net worth ratio on the other hand shows the percentage of assets centered in fixed assets compared to total equity. The ratio is computed by dividing the fixed assets with the net worth of an entity.

2.4.3. Capital Adequacy Ratio

According to Dymski,(1999), banks have to make decisions about the amount of capital they need to hold. Bank capital helps prevent bank failure, a situation in which the bank can not satisfy its obligations to pay its depositors and other creditors as and when necessary. A bank's capital is the "cushion" for potential losses, which protect the bank's depositors and other lenders. Capital adequacy ratio shows a bank's strategy regarding its capital structure and is measured as the Capital (Tier I+ Tier II) divided by the Risk weighted assets.

Two types of capital are measured for this calculation. Tier one capital is the capital in the bank's balance sheet that can absorb losses without a bank being required to cease trading. It consists of equity capital and disclosed reserves. Tier two capital can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. Tier two capital comprises of undisclosed reserves, general loss reserves and subordinate term debts. CAR determines the capacity of a bank in terms of meeting the time liabilities and other risk such as credit risk, market risk, operational risk, and others. It is a measure of how much capital is used to support the banks' risk assets

2.4.4 Other Measures of Bank Financial Performance

The CAMELS ratings system can also be used to evaluate the financial performance of commercial banks for any given period. According to Powell and Yawson (2005), CAMELS rating is a supervisory rating of a financial institution based on financial statements of an entity and on-site examination by regulators. The process asses the following components of an entity's condition, **C**apital adequacy in terms of an entity's ability to respond to a need to replenish or increase equity at any given time, **A**sset quality in terms of an entities policies for investing in fixed assets that meets the needs of both staff and clients **M**anagement in terms of how well the institution's board of directors functions, including the diversity of its technical expertise, its independence from management, and its ability to make decisions flexibly and effectively, **E**arnings in terms of the ability of the institution to maintain and increase its net worth through earnings from operations, **L**iquidity in terms of the composition of the institution's liabilities including their tenor, interest rate, payment terms, and sensitivity to changes in the macroeconomic environment as well as **S**ensitivity to Market Risk in terms of business strategies adopted by the organization in response to the competitive market. The institutions are rated on a scale of 1 to 5 with 1 being strongest and 5 being weakest.

2.5 Empirical Studies on Mergers and Acquisitions

2.5.1 International Studies

Shanmugam (2003) conducted a study on mergers and acquisitions of banks in Malaysia and found out that merging on its own cannot achieve strong, efficient and competitive banking systems. However, it can be supplemented by other measures such as enhancing the expertise and professionalism of the banking personnel and bringing about more effective corporate governance to further increase the resilience and competitiveness of the banking institutions in the context of the challenges of a globalized and liberalized environment.

Viverita (2008) conducted a study on the impact of mergers and acquisition on commercial banks in Indonesia. By comparing the financial performance for seven years before and after the merger, the study revealed that mergers did increase bank's ability to gain profits. This was indicated by the increase in the performance indicators such as return on asset, return on equity, net interest margin, capital adequacy ratio and non-performing loans. In contrast, it is also found that merged banks could not improve their ability to carry out its function as an intermediary institution, indicated by declining the ratio of loan to deposits collected from their customers that could be due to slower activities in the real sectors.

Muhammad (2011), conducted a study of the post-merger profitability of Royal Bank of Scotland (RBS) and found out that out of 20 ratios, score for the 'better' ratios after merger was just 6 (i.e. 30% only). The study thus concluded that the merger of RBS failed to pull up its profitability. From the ratio analysis it was proved that the RBS merger proved to be a failure in banking history.

2.5.2 Local Studies

Marangu (2007) studied the effects of mergers and acquisition on financial performance of non-listed commercial banks in Kenya. The research focused on the profitability of non - listed banks which merged from 1994 to 2001 and used four measures of performance: profit, return on assets, shareholders equity/total assets, and total liabilities/ total assets. Comparative analysis of the bank's performance for the pre and post merger periods was conducted to establish whether mergers lead to improved financial performance before or after merging. The results of the data analysis showed that three measures of performance: profit, Return on Assets and shareholders' equity/total assets had values above the significance level of 0.05 with exception of total liabilities/total assets. His results concluded that there was significant improvement in performance for the non-listed banks which merged compared to the non-listed banks that did not merge within the same period. This confirms the theoretical assertion that firms derive more synergies by merging than by operating as individual outfits.

Ndora (2010) studied the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. A sample of six insurance companies that had merged between the year 1995 and 2005 were used from a population of 42 registered insurance companies in the country as at that time. To measure financial performance, profitability ratios, solvency ratios as well as capital adequacy ratios were computed for the firms. The information for five years before and after the merger was compared and the results tabulated. The findings indicated an increased financial performance by the firms for the five years after the merger than it was five years before the merger. It was concluded that mergers and acquisition would result to an increase in the financial performance of an insurance company.

2.6 Summary and Conclusions

This Chapter looked at in the literature review which included the discussion of the theoretical framework. Theories relating to mergers and acquisitions were explained. The chapter also presented empirical studies where it discussed the research done by other scholars relating to mergers and acquisition. Also advanced in this chapter are the various types of mergers and acquisitions and finally the measures of financial performance for commercial and other financial institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the blueprint that was followed in this research to establish the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. It specifically detailed the research design, population of study, data collection instrument and finally the data analysis.

3.2 Research Design

The type of research design was the causal study that relies on control factors. Causal studies are concerned with learning why, that is, how one variable produces changes in another (Cooper & Schindler, 2003). The researcher analysed the financial performance for the merged banks within the period of study. This analysis was suitable as it enables the researcher to critically evaluate the data to find the insight that would otherwise not be discovered if another research design was employed.

3.3 Population of the study

The population of the study consisted of all the banks that had merged during the period 1996 to 2010. In total, there were 27 banks that merged in the period hence formed the researcher's population. (See Appendix 1)

3.4 Data Collection

The study used secondary sources of data from the audited annual reports of accounts for the respective banks over the period. Financial data from Statement of financial position, Statement of comprehensive Income and Statement of Cash Flow of the respective commercial banks for five years before and after the mergers was used to calculate and analyse the profitability (EPS), ROE, ROA and CAR from the published financial statements and reports for the merged banks for the period under study.

3.5 Data Analysis

To establish the impact of Mergers and Acquisitions on the overall financial performance of commercial banks in Kenya, accounting ratios used to analyze the financial performance of the 27 banks under study. For the pre-merger/acquisition period, ratios for both the acquirers and the targets examined to get an indication of the relative financial performance of the acquirer and the target. For the post-merger period, the focus of the analysis was on the combined institution. Pre-merger average data ($\mathbf{y_1}$) was compared with the post-merger average data ($\mathbf{y_2}$) to determine what changes occurred in financial performance following the merger or the acquisition. In this study, 3 financial performance indicators were used: profitability ratio (EPS), ROA, ROE, and CAR.

The researcher then conducted a multivariate regression analysis to establish the relationship between the dependent and independent variables. The dependent variables being the financial performance as denoted by **y** against the independent variables being the ROA, ROE, and CAR.$\mathbf{X_1}$, $\mathbf{X_2}$ and $\mathbf{X_3}$ respectively.

3.5.1 Analytical Model

The following regression model was applied:

For the pre-merger average data (**y_2**):

$$\mathbf{y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_{2+} \beta_3 X_{3+} \epsilon}$$

The post-merger average data (**y_2**):

$$\mathbf{y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_{2+} \beta_3 X_{3+} \epsilon}$$

Where **y**= Financial Performance

X1= Return on Assets

X2= Capital adequacy Ratio

X3= Return on Equity

β_0 = Constant term

β_1, **β_2** and **β_3=** Beta coefficients,

ϵ= Error term

To establish the strength of the model, the researcher has conducted an ANOVA test. This has help to establish whether the model is significant in explaining the relationship between mergers and acquisition on the financial performance of commercial banks in Kenya. A significance test at 5% and confidence level shall be conducted at 95% to measure the significance of the factors in explaining the changes in the dependent variables.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. The data was gathered exclusively from the secondary data.

4.2 Findings of the Study

4.2.1 Kenya Commercial Bank Limited

The study sought to establish the ROA of the performance of Kenya Commercial Bank and Kenya Commercial Finance Company before the merger. Both Kenya Commercial Bank and Kenya Commercial Finance Company had positive ROA before the merger. Kenya Commercial Finance Company had ROA of 1.14, 1.18, 0.98, 1.25 and 1.39 for the years 1996 to the year 2000 respectively. Kenya Commercial Bank on the other hand had a positive ROA of 1.32, 0.98, 1.16, 1.24 and 1.1 for the period 1996 to 2000 respectively. The average ROA for the two banks before the merger was 1.23, 1.08, 1.069, 1.245 and 1.245 respectively for the period 1996 to 2000. After the merger, ROA of the new institution posted mixed signals. In the year of the merger, ROA was a positive at 0.19. In the second year after the merger ROA dropped to -3.5 before picking an upward momentum to 0.93, 1.32, and 1.83 for the period 2003 to 2005. These findings are well illustrated in table 4.1 below.

Table 4.1: Kenya Commercial Bank Limited ROA

	Pre-Merger					Post-Merger				
Institution \ Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Kenya Com Fin Co.	1.14	1.18	0.97	1.25	1.39					
Kenya Com Bank	1.32	0.98	1.16	1.24	1.1					
Average	1.23	1.08	1.07	1.25	1.25					
Kenya Com Bank Ltd.						0.19	-3.5	0.9	1.32	1.83

Source: Research findings.

The study also sought to establish the ROE of the two banks before and after the merger. Kenya Commercial Finance Company had a positive ROE of 5.58, 12.54, 9.68, 4.29 and 3.21 for the years 1996 to 2000. Kenya Commercial Bank on the other hand had negative ROE of 21.37, -5.29, 2.9, 2.67 and 3.21 for the years 1996 to the year 2000. After the merger, ROE of the new institution dropped compared to the average of the two institutions just before the merger. In the second year after the merger, ROE dropped further to -74.1 before picking ground in the third year after the merger to stand at 10.6. In the year 2004, the ROE increased further to 13.5 and 19.2 in the year 2005.

Table 4.2: Kenya Commercial Bank Limited ROE

	Pre-Merger					Post- Merger				
Institution\ Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Kenya Commercial Finance Co.	5.58	12.54	9.68	4.29	5.98					
Kenya Commercial Bank	-21.37	-5.29	2.9	2.67	3.21					
Average	-7.95	3.63	6.3	3.48	4.6					
Kenya Commercial Bank Ltd.						2.65	-74.1	10.6	13.5	19.2

Source: Research findings.

The study also sought to establish the Earnings per Share of the two institutions before the merger. The average EPS for the two institutions over the five years before the merger was weakly positive. The average EPS was 0.54, 1.14, 1.38, 1.34 and 1.28 for the period 1996 to 2000 respectively. In the year of the merger, the new institution registered a slightly improved EPS of 1.32 compared to the average of the year before the merger of 1.28. In the second year after the merger, EPS dropped drastically to -20.06 before picking a positive trend of 3.57, 3.21, and f6.73 for the period 2002 to 2005 respectively.

The study also sought to establish the Earnings per Share of the two institutions before the merger. The average EPS for the two institutions over the five years before the merger was weakly positive. The average EPS was 0.54, 1.14, 1.38, 1.34 and 1.28 for the

period 1996 to 2000 respectively. In the year of the merger, the new institution registered a slightly improved EPS of 1.32 compared to the average of the year before the merger of 1.28. In the second year after the merger, EPS dropped drastically to -20.06 before picking a positive trend of 3.57, 3.21, and f6.73 for the period 2002 to 2005 respectively.

Table 4.3: Kenya Commercial Bank Limited EPS

	Pre-merger					**Post -Merger**				
Institution\ Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Kenya Commercial Finance Co.	1.57	1.3	1.45	1.52	1.36					
Kenya Commercial Bank	-0.5	0.98	1.3	1.15	1.2					
Average	0.54	1.14	1.38	1.34	1.28					
Kenya Commercial Bank Ltd.						1.31	-20.06	3.57	3.21	6.73

Source: Research findings.

4.2.2 Commercial Bank of Africa

The study sought to establish the ROA of First American Bank and Commercial Bank of Africa before the acquisition to form Commercial Bank of Africa Kenya Limited in 2005. Both institutions had positive ROAs. First American Bank had an ROA of 1.62, 2.71, 2.3, 2.23 and 2.23 for the five year period starting 2000 to 2004 respectively. Commercial Bank of Africa's ROA was 2.55, 2.34, 1.8, 1.8 and 1.94 for the five year period starting from the year 2000 to 2004 respectively. After the acquisition, the new firm was Commercial Bank of Africa Limited. The ROA of the new bank in 2005 to 2009 was: 1.68, 2.9, 3.5 and 3.3 respectively. The ROA grew at a stable rate since the formation of the new company. An analysis of the average ROA over the five year period gives 2.015 as the lowest before the acquisition. However, on acquisition, the ROA reduced to 1.68 in the year of the merger and then picked an upwards trend from 2006 to 2007 stand at 2.9, 3.5 respectively before reducing slightly to 3.3 in 2008. In 2009, it stood at 3.4.

Table 4.4: First American/CBA ROA

	Pre-Merger					**Post- Merger**				
Institution\ Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American Bank	1.62	2.71	2.3	2.23	2.23					
Commercial Bank of Africa	2.55	2.34	1.8	1.8	1.94					
Average	2.085	2.525	2.05	2.015	2.085					
Commercial Bank of Africa Limited						1.68	2.9	3.5	3.3	3.4

Source: Research findings.

The study also sought to establish the ROE of CBA. Both institutions had positive ROEs before the acquisition. The ROE of First American Bank were 19.87, 15.9, and 16.18 from 2001 to 2004 respectively. After the acquisition, ROE for the new institution was 26.3, 36.1, 31.03 and 34.2 from 2005 to 2008 respectively. These findings are well illustrated in table 4.6. An analysis of the average ROE suggests an improvement in firm performance after the merger. Before the merger, the ROE was 23.95, 19.2, 19.1 and 19.57 from 2001 to 2004 respectively. After the merger, ROE shot up to stand at 26.3, 36.1, 31.03, 34.2 and 35.6 respectively for the period from 2005 and 2009.

Table 4.5: First American/CBA ROE

	Pre-Merger				**Post-Merger**				
Institution\ Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American	19.87	15.9	15.6	16.18					
Commercial Bank of Africa	28.02	22.4	22.6	22.95					
Averages	23.95	19.2	19.1	19.57					
Commercial Bank of Africa Limited					2.38	9.17	9.15	5.9	6.25

Source: Research findings.

The study also computed the CAR for the two institutions prior to the acquisition and for the new commercial bank after the acquisition. The average CAR for the two commercial banks stood at 32.94%, 31.8%, 26.85%, 22.45% and 17.8% for the years 2000 to 2004 respectively. On acquisition, the CAR for the new institution was 12.86%, 15.29%, 13.02% and 13.86% for the years 2005 to 2009 respectively.

Table 4.6: First American/CBA EPS

	Pre-Merger					Post-Merger				
Institution\ Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American	41.06	39.8	29.9	26.8	18					
Commercial Bank of Africa	24.81	23.8	23.8	18.1	17.6					
Average	32.935	31.8	26.85	22.45	17.8					
Commercial Bank of Africa Limited						12.86	15.29	14.1	13.02	13.86

Source: Research findings.

The study also sought to establish the EPS of the two companies before the acquisition. From the data findings, all banks had a positive EPS. The average EPS for the two institutions before the acquisition was 4.165, 4.41, 5.66, 4.76 and 6.58 for the period 2001 to 2004 respectively. In the year of the acquisition, the EPS of the new institution dropped steadily to 2.38 before gaining momentum in the second year of the merger to 9.17, 9.15 5.9 and 6.25 for the years (2005- 2007). The findings are well represented in the table 4.7 below.

Table 4.7: Commercial Bank of Africa EPS

	Pre-Merger					Post-merger				
Institution\ Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
First American	3.17	3.56	4.25	4.51	5.23					
Commercial Bank of Africa	5.16	5.26	7.06	5	7.93					
Averages	4.165	4.41	5.66	4.76	6.58					
Commercial Bank of Africa Limited						2.38	9.17	9.15	5.9	6.25

Source: Research findings.

4.2.3 Southern Credit Banking Corporation

The study sought to establish the ROA of Bullion Bank Ltd and Southern Credit banking Corporation before the acquisition. The acquisition took place in the year 2001. Before the acquisition, both institutions had negative ROAs. Bullion Bank's ROA was 7.2, 4.27, -11.7, -12.3 and -15 and Southern Credit Banking Corp. was 1.57, 1.25, 1.42, 0.65 and -0.7. After the acquisition, the ROA of the new organization was 1.63, 0.4, 1.37 and 0.62 from 2001 to 2005 respectively. The average ROA was established by the researcher. In the year 2000, average ROE stood at -7.85. From the negative average ROA, the ROA of the new institution grew steadily to 1.63 in the year of the merger after which the ROA dropped to 0.4 in 2002, 0.92 in 2003, and 1.37 in 2004 and 0.62 in 2005.

Table 4.8: Southern Credit Banking Corporation ROA

	Pre-Merger					**Post-Merger**				
Institution \ Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Bullion Bank Ltd	7.2	4.27	-11.7	-12.3	-15					
Southern Credit Banking Corp	1.57	1.25	1.42	0.65	-0.7					
Average	4.385	2.76	-5.14	-5.825	-7.85					
Southern Credit Banking Corporation						1.63	0.4	0.92	1.37	0.62

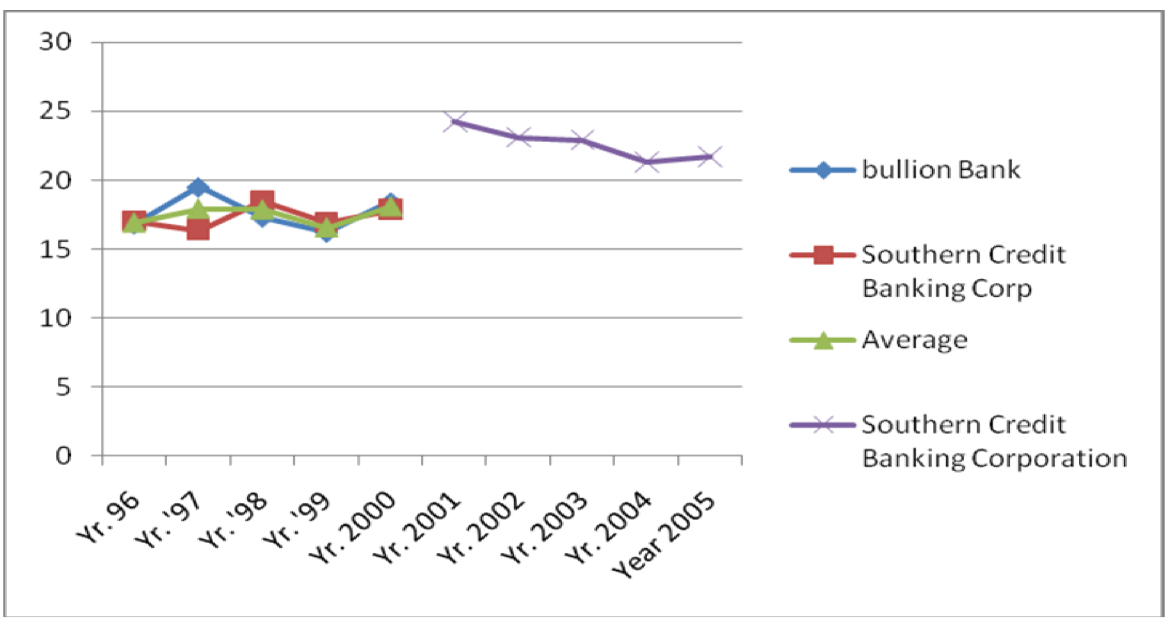
Source: Research findings.

The study sought to find the ROE of the individual institutions before the acquisition and after the acquisition. Both institutions had negative ROE before the acquisition. Bullion had an ROE of -14.67 while Southern Credit Corp has ROE of -0.7. However after the acquisition, the ROE of the new institution deteriorated further to -5.79 in the year of acquisition (2001). However, thereafter, the ROE improved tremendously to stand at 3.2% in 2002, 12.07 in 2004 and 5.98 in 2005.

The study also sought to establish the average ROE of the institutions before the merger. The average ROE was 4.55, 6.2, 6.91,-4.8, and -7.69 from the year 1996 to 2000 respectively. From the negative ROE, the performance of the new institution improved slightly to -5.79 in the year of the merger in 2001. Thereafter, the ROE grew steadily to 3.2, 7.25, and 12.07 for the period 2002 to 2004 respectively before reducing to 5.98 in 2005.

The study also computed the capital adequacy ratios for the two commercial banks before the acquisition and for the new bank formed on the acquisition. The findings were as illustrated in the figure 4.1 below:

Figure 4.1: Southern Credit Banking Corporation ROA



Source: Research findings.

From the computations, the average CAR for the two commercial banks prior to the acquisition were 16.91% in the year 1996, 17.94% in the year 1997, 17.88% in 1998, 16.56 in the year 1999 and 18.115% in the financial year 2000. Following the acquisition, the CAR for the new institution formed grew to 24.23% in the year of the merger. In the year 2002, the CAR was 23.1% and 22.9% in the year 2003. For 2004 and 2005, the CAR was 21.3% and 21.7% respectively.

Table 4.9: Southern Credit Banking Corporation ROE

	Pre-Merger					**Post-Merger**				
Institution \ Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Bullion Bank Ltd	5.9	10.8	12.4	-11.2	-14.7					
Southern Credit Banking Corp	3.2	1.6	1.42	1.6	-0.7					
Average	4.55	6.2	6.91	-4.8	-7.7					
Southern Credit Banking Corporation						-5.79	3.2	7.25	12.07	5.98

Source: Research findings.

The study sought to establish the EPS of Bullion Bank Ltd and Southern Credit Banking Corporation just before the merger. Both banks had negative EPS. Bullion Bank Ltd had -4.56, while Southern Credit Banking Corp had 1.6, 1.4,-2.4, -5.2 and -5.36 from the year 1996 to 2000 respectively. The average EPS for the two banks was 1.4, -0.6, -2.8, -6.05 and -4.96 for the financial years 1996 to 2000. After the merger, the EPS dropped further in the year of the merger to -4.25 before picking up points to stand at 2.45 in the year 2002. Thereafter, EPS of the new institution grew steadily to 4.36, 5.32 and 6.7 in the years 2003 to 2005.

4.2.4 CFC Stanbic Bank

The study sought to establish the ROA of the institutions before the merger. Both institutions had positive ROA between 2004 and 2007 just before the merger. CFC Bank Ltd had its ROA as 1.91, 1.54, 2.1 and 3.1 for the years 2004 to 2007 respectively while Stanbic Bank Ltd had ROA of 1.29, 2.5, 2.9 and 3.4 respectively for the same period 2004 to 2007. After the merger, the new institution's ROA dropped to 1.5, 2.8 and 3.1.

The study sought to establish the average performance of the two institutions before the merger. Before the merger, the average ROA was 1.6 in 2004, 2.02 in the year 2005, 2.5 in the year 2006 and 3.25 in 2007. In the year of the merger, ROA dropped significantly to 1.5 in the year 2008 before picking momentum to stand at 2.8 in 2009, 3.1 in the year 2010 and 2.23% in the year 2011.

Table 4.10: CFC Stanbic Bank ROA

	Pre-Merger					Post-Merger			
Institution\ Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
CFC Bank Ltd	1.87	1.91	1.54	2.1	3.1				
Stanbic Bank Ltd	1.48	1.29	2.5	2.9	3.4				
Average	1.675	1.6	2.02	2.5	3.25				
CFC Stanbic Ltd						1.5	2.8	3.1	2.23

Source: Research findings.

The study sought to find out the ROE of both institutions before and after the merger. Before the merger, CFC Bank Ltd had ROE of 20.77, 15.36, 2.1 and 27.59 for the period 2004 to 2007 respectively while Stanbic Bank Ltd's ROE was 8.7, 21.6, 2.9 and 33.48 respectively for the period 2004 to 2007 respectively. After the merger, the new institution's ROE stood at 18.4 in 2008, 25.4 in 2009, 28.43 in 2010 and 30.82 in 2011.

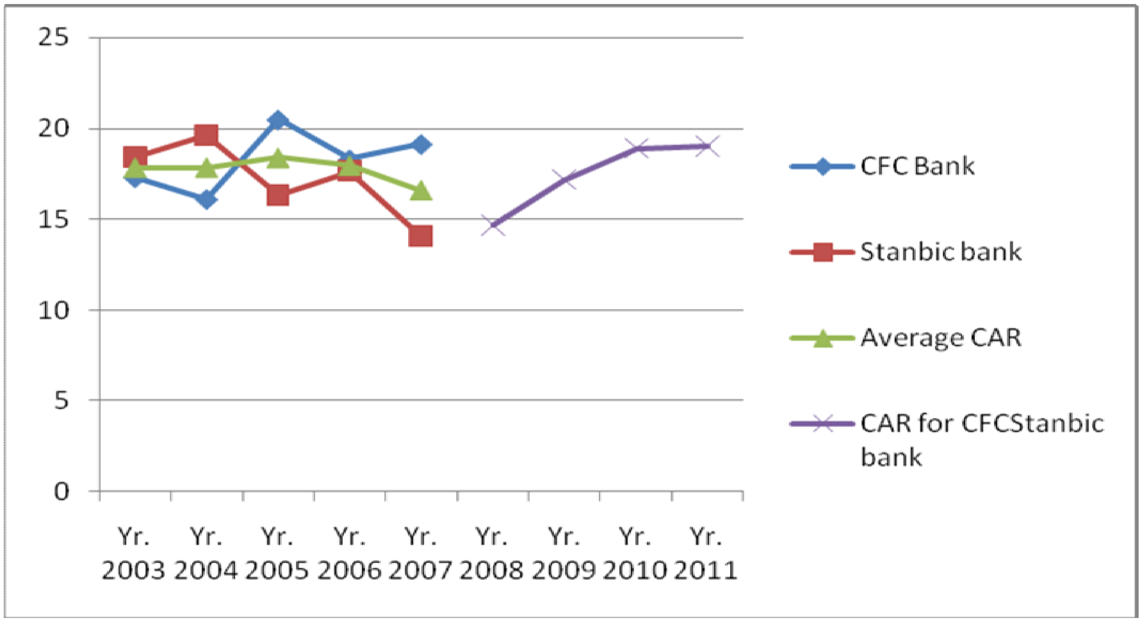
Table 4.11: CFC Stanbic Bank Kenya Limited ROE

	Pre-Merger					Post-Merger			
Institution\ Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
CFC Bank Ltd	23.65	20.77	15.4	19.4	27.59				
Stanbic Bank Ltd	12.4	8.7	21.6	24.3	33.48				
Average	18.025	14.73	18.5	21.85	30.535				
CFC Stanbic Ltd						18.4	25.4	28.43	30.82

Source: Research findings.

The study also computed the Capital adequacy ratios for the two institutions before and after the merger. The findings were as indicated in the figure 4.1 below:

Figure 4.2: CFC Stanbic Bank Kenya Limited ROE



Source: Research findings.

From the findings, CAR for CFC Bank was 17.3 in the year 2003, 16.1 in the year 2004, 20.48% in 2005, 18.29% and 19.13 for the years 2006 and 2007 respectively. For Stanbic bank, CAR started at 18.4%, 19.6%, 16.31%, 17.63% and 14.03% for the period 2003 to 2007 respectively. The average for the two commercial banks was 17.85% for 2003 and 2004, 18.39%, 17.96% and 16.58% for the years 2005 to 2007 respectively. After the merger, the CAR for the new commercial bank formed was 14.65% in the year of the merger then grew to 17.18% in 2009. The growth continued to have it reach 19.04% by the year 2011.

4.2.5 Prime Bank Limited

The study sought to establish the performance of the institutions that merged to form Prime bank Limited in 2007. Both Banks had positive ROAs before the merger/acquisition. Prime Capital and Credit Limited had its ROA as 4.33, 4.49, 4.1 and 2.5 for years 2004 to 2007 respectively while Prime Bank Ltd had slightly low but positive ROAs of 1.71, 1.4, 1.5 and 2.2 for the same period starting 2004 to 2007 respectively. In the year of acquisition, the new institution registered ROA of 2.3% in 2008.

The study also sought to establish the average ROA for the two institutions before the acquisition. From the findings, the average ROA was 3.09, 3.02, 2.95, 2.8 and 2.35 for the year 2003 to 2007. In the year of the acquisition, the new institution registered ROA of 2.3 in 2008 which increased steadily thereafter to 2.8 and 3.42 for the period 2009 and 2010 respectively. In 2011, the ROA was 3.07 posting a small drop compared to that recorded in 2010.

Table 4.12: Prime Bank Limited ROA

	Pre-Merger					**Post-Merger**			
Institution\ Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Prime Capital & Credit Ltd	4.26	4.33	4.49	4.1	2.5				
Prime Bank Ltd	1.92	1.71	1.4	1.5	2.2				
Average	3.09	3.02	2.95	2.8	2.35				
Prime Bank Ltd						2.3	2.8	3.42	3.07

Source: Research findings.

The study sought to establish the ROE of the institutions before and after the acquisition. Both institutions had a highly positive ROE before the acquisition. Prime Capital and Credit Ltd had 17.27, 17.2, 11.86 and 5.6 for the period 2004 to 2006 respectively. From the trend, the ROA was reducing each year. On the other hand, Prime Bank Ltd had 15.33, 17.3, 14.51 and 16.45 for the same period starting 2004 to 2007 respectively. In 2008, the institutions merged and in the year of the merger, ROE stood at 15.

The study sought to establish the average performance of the two institutions before the acquisition. The average ROE was 16.3 in 2004, 17.3 in the year 2005, 13.185 and 11.03 for the years 2006 and 2007 respectively. In the year of the merger, the ROE grew to 15, 17.36, 21.03 and 28.88 for the period 2008 to 2011 respectively.

Table 4.13: Prime Bank Kenya Limited ROE

	Pre-Merger					**Post-Merger**			
Institution\ Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Prime Capital & Credit Ltd	18.35	17.27	17.2	11.86	5.6				
Prime Bank Ltd	17.34	15.33	17.3	14.51	16.45				
Average	17.84	16.3	17.25	13.185	11.025				
Prime Bank Ltd						15	17.36	21.03	28.88

Source: Research findings.

The study also computed the CAR for the two commercial banks prior to the acquisition after which this was compared with the CAR after the acquisition. The average for the two financial institutions prior to the merger was 29.9% in the year 2003, 31.25% in the year 2004, 29.615% in the financial year 2005. The average CAR then reduced to 20.95% and 20.7% for the financial years 2006 and 2007 respectively. After the acquisition, the CAR for the new commercial bank was 16.05 in the year 2008 then grew continuously to 28.88% in the year 2011. These findings are well illustrated in the table below.

Table 4.14: CAR for the New Prime Bank Kenya Limited

	Pre-Merger					Post-Merger			
Year	‘ 03	'04	'05	'06	'07	'08	'09	2010	2011
Prime Capital & Credit Ltd	42.96	43.6	43.64	28.89	26.44				
Prime Bank Ltd	16.83	18.9	15.59	13	14.94				
Average	29.895	31.25	29.615	20.945	20.69				
Prime Bank Ltd						16.05	20.92	24.64	28.88

Source: Research findings.

4.2.6 EABS Bank Limited

The study sought to find out the performance of East African Building Society and Akiba Bank Limited before their merger to form EABS Bank Limited. In 2004, East African Building Society has a positive ROA though very low of 0.42 while Akiba Bank Ltd had a negative ROA of -1.2. After their merger to form EABS bank in 2005, the ROA gained to stand at a positive of 0.07. The ROA grew marginally between 2006 and 2007 to stand at 0.4 and 1.0 respectively before reducing to 0.5 in 2008.

The study sought to establish the average performance of the two institutions before the merger. The average ROA was in 2004 was -0.39. In the year of the merger, the ROA improved slightly to 0.07 positive then 0.4 in the year after the merger. The positive growth continued until the third year after the merger to stand at 1 in the year 2007 before dropping to 0.5 in 2008.

Table 4.15: EABS Bank Limited ROA

Institution\ Year	**2004**	**2005**	**2006**	**2007**	**2008**
East Africa Building Society	0.42				
Akiba Bank Ltd	-1.2				
Average	-0.39				
EABS Bank Limited		0.07	0.4	1	0.5

Source: Research findings.

The study also sought to establish the ROE of the institutions that merged to form EABS Bank Limited in 2005. East African Building Society had ROE of 3.29 in 2004 while Akiba Bank had an ROE of -10 in 2004 just before their merger. On the year of the merger, the ROE of the new institution stood at 0.56. A year later, in 2006, ROE grew steadily to stand at 3.01 in 2006 and 6.94 in 2007 before the new institution was again acquired by Ecobank Kenya Limited. The study sought to establish the performance of the two institutions before the merger. ROE of the two institutions stood at -3.36 in the year 2004. In the year of merger, the ROE grew to positive 0.56 in the year 2005.

The ROE of the new institution grew steadily thereafter to 3.01 and 6.94 for the year 2006 and 2007 respectively.

Table 4.16: EABS Bank Limited ROE

Institution\ Year	**2004**	**2005**	**2006**	**2007**
East Africa Building Society	3.29			
Akiba Bank Ltd	-10			
Average	-3.36			
EABS Bank Limited		0.56	3.01	6.94

Source: Research findings.

The study sought to find out the trend in the EPS of EABS Bank Limited. Before the merger, East African Building Society had a positive EPS of 3.5 while Akiba Bank Limited had a negative EPS of -9.0 and an average of -2.75. In the year of the merger, the EABS Bank Limited registered a positive EPS of 1.59 2.98, and 5.91 for the years 2005 to 2007 before the bank was again acquired by Ecobank Kenya Limited.

Table 4.17: EABS Bank Limited EPS

Institution\ Year	**2004**	**2005**	**2006**	**2007**
East Africa Building Society	3.5			
Akiba Bank Ltd	-9			
Average	-2.75			
EABS Bank Limited		1.59	2.98	5.91

Source: Research findings.

The study also computed CAR for the banks both prior to and after the mergers. The average for the two commercial banks prior to the merger was 14.6 then it grew to 16.97 after the merger and then 20.55% in the year 2006. In 2007, the CAR was 18.87%.

Table 4.18: EABS Bank Limited CAR

Institution\ Year	**2004**	**2005**	**2006**	**2007**
East Africa Building Society	10.7			
Akiba Bank Ltd	18.5			
Average	14.6			
EABS Bank Limited		16.97	20.55	18.87

Source: Research findings.

4.2.7 Regression analysis

In order to establish the impact of mergers and acquisition on the financial performance of commercial banks in Kenya the researcher conducted a regression analysis. The researcher applied the statistical package for social sciences (SPSS) aid in the computation of the measurements of the multiple regressions for the study. Two regression analyses were conducted: one for before the merger whiles the other one for after the merger.

Table 4.19: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845[a]	0.714025	0.6963	0.73413

Source: Research findings.

Coefficient of determination explains the extent to which changes in the dependent variable (earning per share) can be explained by the change in the independent variables or the percentage of variation in the dependent variable that is explained by all the three independent variables (ROA, ROE, and CAR).

The three independent variables that were studied, contribute 71.40% of the effects of mergers and acquisition on the financial performance of commercial banks prior to the merger/acquisition as represented by the R^2. This therefore means that there are other factors not studied in this research which contributes 28.60% of the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. Therefore, further research should be conducted to investigate these factors affecting (28.60%) the changes noted in the financial performance of commercial banks following the merger/acquisitions.

Post-Merger Regression

In addition to the above analysis, the researcher conducted a multiple regression analysis so as to test relationship among variables (independent) after the merger/acquisition.

Table 4.20: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.9925[a]	0.855	0.7963	0.73413

Source: Research findings.

The three independent variables that were studied, explain only 79.63% of the impact of mergers and acquisition on the financial performance of commercial banks in Kenya the researcher conducted a regression analysis as represented by the R^2. A comparison of the impact of the factors is higher after the merger hence indicating that the merger positively influenced the performance of commercial banks in Kenya.

4.3 Interpretation of findings

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

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

Analysis of the effect of Mergers and Acquisitions on the Capital Adequacy Ratio (CAR) confirmed mixed reactions too. The results indicated that some banks posted an increase in the capital adequacy ratio while others posted a decrease in the capital adequacy ratio for five years after the merger. An increase in the Capital Adequacy Ratio confirms that the banks were able to meet their liabilities and other obligations as and when they were due. On the other hand, a decrease in the Capital Adequacy Ratio confirmed that the respective banks were not able meet their liabilities and other obligations as and when they were due.

Analysis of the effects of the Mergers and Acquisition on the Earnings per Share (EPS) for commercial banks after the merger also recorded mixed results. From the findings, some banks posted an increase in the EPS after the merger an indication that they were able to increase the value of their shareholders worth in the firm during the period. On the other hand a decrease in the EPS indicated that the bank were not able to increase the value of shareholders worth in the business for the period after the merger.

From the data presented above, the mergers and acquisitions that occurred in Kenya posted mixed performance and with reasons. Some led to improved performance while others led to a smooth entry of a new commercial bank in the local market. For example, the merger between prime bank Kenya limited and Prime Capital & Credit Ltd posted improved performance of the newly formed commercial bank as compared to the average for the two commercial banks operating separately.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of the results on the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. Based on the findings in chapter four, the study gives recommendations on what the banks' management can do to improve their financial performance of the banks following a merger or acquisition. The recommendations are presented also based on the objective of the study after which recommendations for further studies are drawn.

5.2 Summary

The study aimed at establishing whether M & As lead to an improved performance of commercial banks in Kenya. The objective of the study was to determine the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. From the financial statistics discussed in chapter four above, the study established that following the merger or the acquisition, the Returns on Assets and Returns on equity both improved as the assets of the company improved. However the improvements were not significant as they were influenced by a slow growth in the returns compared to the assets. For the Capital Adequacy Ratio, the study established that merging/ acquisition improved the CAR of commercial banks in Kenya. Adequate capitals requirements help lessen the chance that banks will become insolvent if sudden shocks occur therefore ensuring financial sector stability. With higher the risk-weighted capital adequacy ratios

(CARs), the new financial institution formed after the merger is more financially sound as it carries with it lower is the probability that banks will be exposed to the risk of insolvency.

From the regression analysis conducted, the post merger/acquisition findings indicate that following the merger/acquisition, the financial institutions became more financially sound and profitable as the market share of the new company improved tremendously. With increased market share came the higher profitability recorded by the commercial banks. This has lead to a shareholders' wealth maximization.

5.3 Conclusions

The study concludes based on the data presentations in chapter four and the summary of the findings above that commercial banks financial performance improves with the merger/acquisition. This is because the merger/acquisition brings about higher capital and customer base which important ingredients in firm performance. With increased commercial banks' stability and ability to lend, the commercial banks in turn make higher profits.

The study also concludes that merging/acquisitions on its own cannot achieve strong, efficient and competitive banking systems because performance is dependent on several factors. Just like (Shanmugam, 2003) explained, mergers/acquisition need to be supplemented by other measures such as enhancing the expertise and professionalism of the banking personnel and bringing about more effective corporate governance to further increase the resilience and competitiveness of the banking institutions in the context of the challenges of a globalized and liberalized environment.

5.4 Policy Recommendations

From the findings presented in chapter four and summary above, this study recommends that commercial banks with a weak and unstable capital base should seek to consolidate their establishments through mergers and acquisitions. Through mergers and acquisitions, the commercial banks will be able to extend their market share and revenue base hence increase their profitability. In addition, mergers and acquisition leads to a higher CAR which improves the financial soundness of commercial banks.

The study also recommends that the commercial banks need to deepen their services as statistics only indicate that less than 50% of the population have access to financial services. With increased financial sector deepening, the financial institutions will be in a position to improve their financial performance by gaining more financial stability with high capital adequacy ratios.

5.5 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were: the data used was secondary data generated for other purposes. In addition the data availability was limited as the organizations meant to provide the data referred the researcher to their website and study a few reports. However, the data was limited and only scanty data was available hence forcing the researcher to work with somewhat incomplete records.

Another limitation of the study include the fact that the change of government rules and regulations governing the operation of commercial banks from time to time. For example, the changing of reserves kept with the central banks may affect the ability of commercial banks to lend hence their profitability.

5.6 Recommendation for Further Studies

This study concentrated on the impact of mergers and acquisition on the financial performance of commercial banks in Kenya.

This study therefore recommends that another study be done to establish the impact of bank expansion on the financial performance of Kenyan commercial banks. In particular, the new study needs to look at the opportunities that have been opened up following the signing of East African Common market and the subsequent expansion of Kenyan Commercial banks to the East African market.

Further studies should also be carried out for a longer period to determine whether there is significant impact of mergers on bank performance. More variables both the quantitative and qualitative should be included in the studies to come up with a more comprehensive conclusion.

REFERENCES

Ahmed Badreldin and Christian Kalhoefer (2009), "The Effect of Mergers and Acquisitions on Bank Performance in Egypt", *Working Paper Series, No.18, pp.5-13*

Andrade and Stafford (2004), Investigating the economic role of mergers, *Journal of Corporate Finance, Vol.10, pp. 1-36.*

Baysinger, B. and R.E. Hoskisson (1989), "Diversification Strategy and R&D Intensity in Multiproduct Firms", *Academy of Management Journal, Vol. 32, No. 2, pp. 310–332*

Berger, A.N. and Humphrey D.B., (1991), "Megamergers in Banking and the Use of Cost Efficiency as an Antitrust Defense", *Anti Trust Bulletin Vol. 37, pp. 541-600*

Chakrabati, A.K. and J. Burton (1983), "Technologist Characteristics of mergers and acquisitions in the 1970's in Manufacturing Industries in the US", *Quarterly Review of Economics and Business, Vol. 23, pp. 81-90*

Chamberlain, S.L., (1998), "The Effect of Ownership Changes on Subsidiary – *Level Earnings", Kluwer Academic, Boston MA, pp. 137-172*

Cooper, D.R and Schindler, P.S. (2003), Business Research Methods (8th edn), *McGraw-Hill: New York.*

Dymski, G.A. (1999). The Bank merger Wave: The Economic Causes and Social Consequences of Financial Consolidation. *M.E. Sharpe: New York*

Feroz, E. H., S. Kim and R. Raab, 2005. "Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period?", *Review of Accounting and Finance 4, pp. 86-101.*

Fluck, Z. Lynch, A.W. (1999), “Why Do Firms Merge and then Divest? A Theory of Financial Synergy”, and *Journal of Business, Vol. 72 No. 3, pp. 319-46.*

Freidheim, C. (1998). The Trillion-Dollar Enterprise: How the Alliance Revolution Will Transform Global Business. *Perseus Books, Reading, MA.*

Haim Levy and Marshall Sarnat (1998), “Capital Investment and Financial Decisions”, *Fifth Edition Prentice Hall, pp. 682-95*

Hitt, M.A., Ireland, R.D. and Hoskisson, R.E. (2007), “Strategic Management: Competitiveness and Globalisation Concepts” , *South-Western, London.*

Holtzman, E. (1994), ‘There *is* No Such Thing as a Perfect Merger or Acquisition’, *The CPA Journal, Vol. 64, Issue 12, p. 78.*

Kemal, M, (2011). Post-merger profitability: A case of Royal Bank of Scotland. *International Journal of Business and Social Science*, 2, 5, 157-162.

Kumar S. and Bansal K. (2008), “The Impact of Mergers and Acquisitions on Corporate Performance in India”, *Management Decision, Vol. 46, Issue10 pp.1531-43*

Kiplangat Edwin (2006), “Effects of Mergers on Financial Performance of Companies Listed on the Nairobi Stock Exchange”, *MBA Project University of Nairobi*

Lev, B. and G. Mandelker (1972), “The Microeconomic Consequences of Corporate Mergers”, *the Journal of Business Vol.45, pp. 85-104*

Lichtenberg, Frank and Donald Siegel (1990), "The Effect of Leveraged Buyouts on productivity and Related Aspects of Firm Behavior," *Journal of Financial Economics, Vol. 27, No. 1, pp. 165-194*

Lubatkin, M. (1987), "Merger Strategies and Stockholder Value", *Strategic Management Journal, Vol. 8 No. 1, pp. 39-53*

Luypaert (2008), Determinants of Growth through M&As. The US evidence, *Journal of Financial Economics, Vol.13, pp. 187-221.*

Marangu K. (2007), "The effects of mergers and acquisition on financial performance of non-listed commercial banks in Kenya" *Unpublished MBA project University of Nairobi.*

Mitchell and Mulherin (1996), The impact of industry shocks on takeover and restructuring activity, *Journal of Financial Economics, Vol.41, pp. 193-229*.

Muhammad U. (2011), "Post-Merger Profitability: A Case of Royal Bank of Scotland (RBS)", *International Journal of Business and Social Science, Vol. 2, No.5. pp.157-162*

Muia F, (2010). Determinants of growth of firms through mergers and acquisitions in Kenya: a study of firms listed at the Nairobi Stock Exchange. *An unpublished MBA Project Report, Department of Economics and Business Studies, Maseno University*

Myers and Majluf (2006), Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics, Vol.13, pp. 187-221.*

Ndora N (2010), The effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. *Unpublished MBA project University of Nairobi*

Nguyen and Kleiner (2002), "The Effective Management of Mergers, " Leadership & *Organizational Development Journal, Vol. 24, No. 7, pp. 447-455*

Obaid Ullah, Sabeeh Ullah and Abid Usman (2010), "Post-merger Performance of Atlas Investment and Al-Faysal Investment Bank Ltd. in Pakistan", *International Research Journal of Finance and Economics, Issue 60, pp. 170-74*

Pandey (2008), Financial Management. *Ninth Edition. Vikas*

Powell and Yawson (2005), The Relationship between Mergers and Acquisitions and Macro-economic Fundaments: Evidence from the UK, *Journal of Banking & Finance, Vol.29, pp. 3015-3040.*

Rhoades, S.A., (1998), "The Efficiency Effects of Bank Mergers: An Overview of Case Studies of Nine Mergers", *Journal of Banking and Finance, Vol. 22, pp. 273-291*

Rhodes, K. (2002). 'Making Mergers a Growth Strategy', Root Strategic Assets, The *Journal of Banking and finance, Vol. 53, Issue 12, p. 78.*

Shanmugam Bala (2003), "Mergers and Acquisitions of Banks in Malaysia", *Journal of Banking and Finance Vol. 30, No. 4 pp. 13*

Soemonagoro, Koeswardojo,(2006), "Challenging the Performance of a Restructured Indonesian Bank: A Case Study of Bank Mandiri's merger and recapitalization", *unpublished thesis, Swiss German University, Indonesia*.

Thomas E. Copeland and J. Fred Weston (1992), "Financial Theory and Corporate Policy", *Third Edition, Addison Wesley Longman, pp. 676-80*

Trautwein, F (1990), Merger Motives and Managerial Prescriptions, *Strategic Management Journal, Vol.11 (4), pp. 283-295.*

Utton M, (1974), "On Measuring the Effects of Industrial Mergers", *Scottish Journal of political economy, Vol. 21, pp. 13-28*

Vermeulen, F. and Bakerma, H. (2001), "Learning though Acquisitions", *Academy of Management Journal, Vol. 44 No. 3, pp. 457-76*

Vaara, E. (2002), "On the Discursive Construction of Success/Failure in Narratives of Post-Merger Integration", *Organizational Studies, Vol. 23 No. 2, pp. 211-48*

Viverita M. (2008), "The Effect of Mergers on Bank Performance: Evidence From Bank Consolidation Policy in Indonesia", *International Review of Business Research Papers Vol. 4 No. 4, pp.376-77*

Wanguru A, (2011) the effects of mergers and acquisition on the profitability of commercial banks in Kenya, *Unpublished MBA project University of Nairobi.*

www.centralbank.go.ke as at 30th July 2012,

www.kba.co.ke as at 30th July 2012,

APPENDICES

APPENDIX 1: LIST OF COMMERCIAL BANKS IN KENYAAS AT 2012

No.	Name of Bank	No. of Branches
1.	African Banking Corporation	10
2.	Bank of Africa Kenya Ltd.	18
3.	Bank of Baroda (K) Ltd.	11
4.	Bank of India	**5**
5.	Barclays Bank of Kenya Ltd.	103
6.	CFC Stanbic Bank Ltd.	20
7.	Charterhouse Bank Ltd. (Under Statutory Mgt.)	10
8.	Chase Bank (K) Ltd.	18
9.	Citi Bank N.A. Kenya	4
10.	Commercial Bank of Africa Ltd.	20
11.	Consolidated Bank of Kenya Ltd.	14
12.	Co-operative Bank of Kenya Ltd.	87
13.	Credit Bank Ltd.	7
14.	Development Bank of Kenya Ltd.	3
15.	Diamond Trust Bank (K) Ltd.	36
16.	Dubai Bank Kenya Ltd.	5
17.	Ecobank Kenya Ltd.	20
18.	Equitorial Commercial Bank Ltd.	12
19.	Equity Bank Ltd.	123
20.	Family Bank ltd.	52
21.	Fidelity Commercial Bank ltd.	7
22.	Fina Bank Ltd.	15
23.	First Community Bank ltd.	18
24.	Giro Commercial Bank Ltd.	7
25.	Guardian Bank Ltd.	7
26.	Gulf African Bank Ltd.	15

27.	Habib Bank A.G. Zurich	5
28.	Habib Bank Ltd.	4
29.	Imperial Bank ltd.	16
30.	I & M Bank Ltd.	19
31.	Jamii Bora Bank Ltd.	1
32.	Kenya Commercial Bank Ltd	165
33.	K-Rep Bank Ltd.	31
34.	Middle East Bank (K) Ltd.	3
35.	National Bank of Kenya Ltd.	54
36.	NIC Bank Ltd.	16
37.	Oriental Commercial Bank Ltd.	6
38.	Paramount Universal Bank Ltd.	6
39.	Prime Bank Ltd.	14
40.	Standard Chartered Bank (K) Ltd.	33
41.	Trans-national Bank Ltd.	18
42.	UBA Kenya Bank Ltd.	4
43.	Victoria Commercial Bank Ltd.	3
44.	Housing Finance Ltd.	11

Source: *Central Bank of Kenya*

APPENDIX 2: LIST OF MERGED BANKS IN KENYA BETWEEN 1996 & 2010

No	Institution	Merged with	Current Name	Date
1	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
2	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
3	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
4	CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996
5	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.1997
6	National Industrial Credit Bank Ltd	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
7	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
8	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
9	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
10	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
11	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
12	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
13	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
14	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
15	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
16	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
17	Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001
18	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Ltd.	07.12.2001
19	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002

20	Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	I & M Bank Ltd.	01.12.2002
21	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
22	East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005
23	Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01.01.2008
24	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008
25	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010
26	City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
27	Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010

Source: www.centralbank.go.ke