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Effect of Mergers and Acquisitions on the Performance of Commercial Banks in Kenya: A Case of Selected Banks that Have Undergone M&A in Kenya

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Abstract
The purpose of the study was to assess the effect of mergers and acquisition on the performance of Commercial Bank in Kenya. The study employed a survey research design. The population of the study consisted of 36 banks that merged in the period 2000 to 2010 in Kenya with purposive sampling/ Non-probability sampling method. The study used secondary sources of data from the published audited annual reports of accounts and financial statements for the respective banks over the period from C.B.K., N.S.E., C.M.A. The study found out that; (i) ROA of the banks that merged or were acquired communicate mixed signals. ROA of the new institution improved after the acquisition or the merger. However, ROA of the new institution at times dropped slightly compared to the average of the two institutions before the coming together transaction was concluded. (ii) ROE reveals a similar trend to that revealed by ROA. ROE improved gradually from the year of merger/acquisition. (iii) EPS posted mixed reactions. In most cases, EPS of the new institution formed after the merger improved tremendously after the merger/acquisition. This study recommends that commercial banks with a weak and unstable capital base should seek to consolidate their establishments through M & A so as to expand their profitability as the merger and acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders' wealth as opposed to each financial institution operating separately on its own.
Keywords: merger & Acquisitions and performance of commercial banks

1.0 INTRODUCTION

1.1 Background to the Problem

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 (Kumar & Bansal, 2008).M&A 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). In today's globalize economy, mergers and acquisitions (M&A) is being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale among other (Kemal, 2011).

Mergers and Acquisitions in the Kenyan Context

M&A of banks is not exactly a recent phenomenon 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 restructuring 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. In 2005, the then Finance Minister proposed to raise the minimum core capital for banks to 1 billion shillings from 250 million shillings, giving 2012 as the deadline for all banks to comply (Kenyan Banks Consolidation, 2010). Subsequently, Kenyan banks are set for consolidation to meet the deadline to boost minimum core capital. This has made several licensed institutions, mainly commercial banks, to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions) so as to meet the minimum core capital by increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others.

The schedules below detail the Institutions which have merged or participated in acquisitions as well as the dates when mergers or acquisitions were approved.

Table 1.1: Mergers Witnessed in Kenya between 1989 and 2010

No.	Institution	Merged with	Current Name	Date approved
1	9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	1989
2	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
3	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
4	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
5	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
6	Bank of India	Bank of India Finance Ltd.	Bank of India (Africa) Ltd.	15.11.1995
7	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
8	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
9	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
10	CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996
11	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.1997
12	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
13	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
14	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
15	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
16	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
17	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
18	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
19	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
20	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
21	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
22	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
23	Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001
24	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07.12.2001
25	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
26	Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	Investment & Mortgage Bank Ltd.	01.12.2002
27	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
28	East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005
29	Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01.01.2008
30	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008
31	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010
32	City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
33	Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01.06.2010

Table 1.2 Acquisitions Witnessed in Kenya

No.	Institution	Acquired by	Current Name	Date approved
1	Mashreq Bank Ltd.	Dubai Kenya Ltd.	Dubai Bank Ltd.	01.04.2000
2	Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30.04.2004
3	EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16.06.2008

Source: www.centralbank.go.ke/ Central Bank of Kenya website

Commercial Bank 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. CBK notes that, as at March 2014, there were 43 licensed commercial banks and 1 mortgage finance company operating in the country. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution. 10 of the major banks are listed on the NSE.

1.2 Statement of the 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 shareholder 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. 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.

Studies done in Kenya has come up with conflicting findings i.e. Korir studied merger effects of companies listed in the NSE and concluded that mergers improve performance of companies listed at the NSE. Ochieng showed results that indicated a decline in earnings and lower ratios when CBA merged with FABK. Marangu studied the effects of mergers on financial performance of non-listed banks in Kenya from 1994-2001 and results of ratio analysis 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 study therefore designed to fill this knowledge gap by establishing the effect of M & As on the overall financial performance of commercial banks in Kenya.

1.3 Research Questions

The study sought to answer the following research questions;

i. What is the effect of mergers and acquisition (M & A) on a bank Earnings per Share (EPS)?
ii. How does mergers and acquisition (M & A) affect a bank Return on Equity (ROE)?
iii. What is the effect of mergers and acquisition (M & A) on the banks Return on Asset (ROA)?

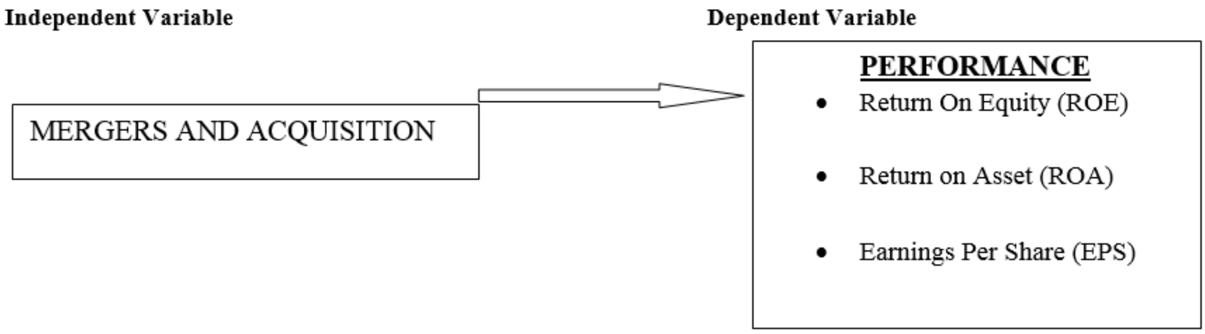
1.4 Theoretical Framework

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. In general, three types of synergies (financial, operational and managerial) can be distinguished. Financial synergies result in lower costs of capital. One way to achieve this is by lowering the systematic risk of a company's investment portfolio by investing in unrelated businesses. Another way is increasing company's size, which may give it access to cheaper capital. Operational synergies can stem from combining operations of separate units or from knowledge transfers (Porter,1985). This theory assisted this study to find the effect of the primary motives for mergers and acquisitions on the performance of firms in our case commercial banks in Kenya that have undergone the process of M& A.

1.5 Conceptual Framework

This study will adopt the following conceptual framework derived from the objectives of the study. The conceptual framework below illustrates the interaction between the independent variables and the dependent variable. It shows the relationship between mergers and acquisition (M & A) and performance as measured by Return on Equity (ROE), Return on Asset (ROA) and Earnings per Share (EPS)

Figure 1.1: Conceptual framework



Source: Adopted from the literature of Feroz et al (2005)

The success of mergers and acquisitions will be measured quantitatively in terms of increased profitability and share price, by comparing pre and post-acquisition performance. Profit is the ultimate goal of all corporate organization. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that companies have no other goals. Companies could also have additional social and economic goals. However, the intention of this study is related to the first objective, financial performance.

Return on Equity (ROE)

ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation.

Return on Asset (ROA)

It measures the ability of the company management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income.

2.0 LITERATURE REVIEW

2.1 Review of Theories

2.1.1Efficiency theory

Financial Operational synergies can stem from combining operations of separate units or from knowledge transfers (Porter, 1985). Both kinds of operational synergies may lower the cost of the involved business units or may enable the company to offer unique products and services. These potential advantages have to be weighed against the cost of combining or transferring assets.

2.1.2The monopoly theory

The monopoly theory views mergers and acquisition as being planned and executed to achieve market power. One possible way is tacit collusion with competitors it meets in more than one market. This theory of mutual forbearance was developed by Edwards (1955). But overall, the monopoly theory's record appears to be even poorer than that of efficiency theory.

2.1.3The valuation theory

The valuation theory states that mergers are planned and executed by managers who have better information about the target's value than the stock market. Bidder's managers may have unique information about possible advantages to be derived from combining the target's businesses with their own. Or they may have detected an undervalued company that only waits to be sold in pieces. Like the financial synergy argument, this hypothesis conflicts with that of an efficient capital market. It has however been argued that the two are not exactly incompatible because the latter only requires that all publicly available information be incorporated in the stock price

2.1.6 The disturbance theory

Disturbance theory, merger waves are caused by economic disturbances. They cause changes in individual expectations and increase the general level of uncertainty. Thereby change the ordering of individual expectations. Previous non-owners of assets now place a higher value on these assets than their owners, and vice-versa which results is a merger wave.

2.2 Criticism of the theories

For the reviewed theories; the idea of financial synergies has received sharp theoretical criticism. Montgomery and Singh, 1984, and Rumelt, 1986 argue that financial synergies because of lower systematic risk cannot be achieved in an efficient capital market. Size advantages, however, seem to exist in the capital market (Scherer et al., 1975). Managerial and operational synergies have, however, been criticized as evasive concepts that are often claimed for mergers but seldom realized (Kitching, 1967; Porter, 1987)

Efficiency theory is, however, fundamentally complicated, and difficult to learn. In particular, grasping the role that the risk premium plays in the theory, and, in this connection, what is really the source of the agency loss is often very difficult for students. However, not only students but also management academics have difficulties understanding the theory. *Secondly*, Ravenscraft & Scherer (1987) have rejected the monopoly theory, saying that the monopoly theory view of mergers and acquisition as being planned and executed to achieve market power may not always be the main purpose of mergers and acquisition. *Thirdly*, many researchers have criticized Ravenscraft & Scherer (1987) statements regarding valuation theory arguing that they are clearly not sufficient to make the valuation theory the merger explanation of choice.

2.3 Empirical Review

2.3.1 International Studies

In 2008 Viverita conducted a study on the impact of mergers and acquisition on 6 commercial banks in Indonesia. The study collected both primary data and secondary data to benefit from triangulation. Primary data were collected using a pretested interview guide that was used to interview senior managers drawn from key functional areas of the publicly traded firms. Secondary data was collected from published annual financial statements of the publicly traded firms. The data findings were analyzed using Excel software tools. 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 nonperforming 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 (Viverita, 2008)

Jin 2004 examined the impact mergers and acquisitions had on the operational aspects of the publicly traded firms in China. Jin conducted a survey of 30publicly traded firms operating in China. The study collected both primary data and secondary data to benefit from triangulation. Primary data were collected using a pretested interview guide that was used to interview senior managers drawn from key functional areas of the publicly traded firms. Secondary data was collected from published annual financial statements of the publicly traded firms. The data findings were analyzed using Excel software tools. They used changes in revenue, profit margin, return on assets and the total asset turnover ratio before and after the mergers and acquisitions as proxies for firm performance and conducted tests to determine whether mergers and acquisitions resulted in significant changes. Their study showed that there were significant improvements in total revenue, profit margin, and return on assets following mergers and acquisitions but there was no evidence of any significant impact on asset turnover ratio. They also found evidence of significant market anticipation and over reaction to the mergers and acquisitions announcements (Jin, 2004)

In 2009 Selvam conducted a study on the impact of mergers on the corporate performance of acquirer and target companies in India. A sample of 13 companies which underwent merger in the same industry during the period of 2002-2005 listed on the Bombay Stock Exchange was choicen. The study focused on comparing the liquidity performance of the 13 sample acquirer and target companies before and after the period of mergers by using ratio analysis and t-test. The data collection instrument used was questionnaire which was administered by the researcher through drop and pick method. It was found out that the shareholders of the acquirer companies increased their liquidity performance after the merger event (Selvam, 2009).

2.3.2 African Studies

2.3.3 Local Studies

Ndora 2010 studied the effects of mergers and acquisitions on the financial performance of insurance companies in Nairobi, Kenya. A sample of 6 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. The study collected both primary data and secondary data to benefit from triangulation. Primary data were collected using a pretested interview guide that was used to interview 10 senior managers drawn from key functional areas of the insurance companies. Secondary data was collected from published annual financial statements of the insurance companies. The data findings were analyzed using Excel software tools and the findings showed a positive relationship between mergers and acquisitions and financial performance. 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 (Ndora, 2010)

Marangu 2011 studied the effects of mergers and acquisition on financial performance of 3 petroleum firms in Nairobi, Kenya. The study collected both primary data and secondary data to benefit from triangulation. Primary data were collected using a pretested interview guide that was used to interview 10 senior managers drawn from key functional areas of the petroleum firms. Secondary data was collected from published annual financial statements of the petroleum firms. The data findings were analyzed using Excel software tools and the findings showed a positive relationship between mergers and acquisitions and financial performance. The research focused on the profitability of petroleum firms in Kenya which merged from 2005 to 2009 and used four measures of performance: profit, return on assets, shareholders equity/total assets, and total liabilities/ total assets. Comparative analysis of the petroleum firm'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 petroleum firms which merged compared to the petroleum firms 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 (Marangu, 2011).

Critique of the Review

The above 3 studies done in the United States of America (USA) by Houston, James, and Ryngaert, the Indian study done by Selvam and the Egyptian study done by Ismail are different from my study because data (primary data) in the empirical study were collected by means of a questionnaire by for the case my study it is mainly based on secondary sources of data from published audited annual reports of accounts i.e. (Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements) from the population of interest, C.B.K., N.S.E., C.M.A., and bank supervision annual reports from C.B.K. Also other study done in Kenya by Ndora in 2010 and Marangu in 2011 are different from this study because (i) the Ndora study was on the effects of mergers and acquisitions on the financial performance of insurance companies whereas the Marangu study was on the effects of mergers and acquisition on financial performance of petroleum firms but for my case it will be on the effects of mergers and acquisitions on the financial performance of financial institution's (commercial banks) which are operating in different industries i.e. insurance sector (for insurance companies), Energy and Petroleum industry (for Petroleum Firms) and banking industry (for financial institution's/ commercial banks).

2.4 Knowledge gap

There are inconclusive results on the literature on the consequences of mergers and acquisitions (M&A) on the overall financial performance of an entity. Many of the existing studies (e.g., Healy et al. 1992; Grabowski et al., 1995; Switzer, 1996; Waldfogel and Smart, 1994; Vander, 1996) empirically support the proposition that MA lead to better financial performance of the firms. Contrary to this, there are also studies (e.g., Dickerson et al., 1997; Ravenscraft and Scherer, 1987a and 1987b; Mueller, 1985; Ghosh, 2001) that report results at odds with the view that MA improve corporate performance. Therefore this study therefore sought to fill this knowledge gap by establishing the effect of M & As on the performance of commercial banks in Kenya.

RESEARCH DESIGN AND METHODOLOGY

3.1 Research design

This study adopted survey design to establish the relationships among variables, for instance, how the profitability of banks changes before or after Merger& Acquisition activity relate

3.2 Target population and sample size

The banks considered in this study are those that either merged (33) or were acquired during the study period of (3) 2000 to 2010. The period was selected so as to provide insightful information on the performance of mergers and acquisition in Kenyan Banking industry thereby the effects on the profitability, shareholders' value creation and management efficiency. The study applied purposive sampling/Non-probability sampling method which was used in selecting the sampling frame for period. Therefore a representative sample of 6 banks was selected for this study owing to the homogeneity of the banks that merged or were acquired during the study period.

3.3 Description of Data collection instrument

The study used secondary sources of data from published audited annual reports of accounts for the population of interest, C.B.K., N.S.E., C.M.A., and bank supervision annual reports from C.B.K. Financial data from Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements of the 6 banks for 10 years were used in calculating and analyzing the accounting ratios, also known as performance indicators.

RESULTS

4.2 Findings of the Study

4.2.1Kenya Commercial Bank Limited

Kenya Commercial Bank (K.C.B) and Kenya Commercial Finance Company (KCF Co.) mergered on 21 March 2001 to become Kenya Commercial Bank (KCB) Ltd. The Findings of Kenya Commercial Bank Limited ROA, ROE and EPS are shown below

4.2.1.1 Findings on Kenya Commercial Bank Limited ROA

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 further 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	199	2000	2001	2002	2002	2004	2005
KCF Co.	1.14	1.18	0.98	1.25	1.39					
KCB	1.32	0.98	1.16	1.24	1.1					
Average	1.23	1.08	1.07	1.25	1.25					
KCB Ltd.						0.19	-3.5	0.93	1.32	1.83

Source:Secondary, data, (2015)

4.2.1.2 Findings on Kenya Commercial Bank Limited ROE

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, 12.5, 9.68, 4.29 and 5.98 for the years 1996 to 2000. Kenya Commercial Bank on the other hand had negative ROE of 21.4, -5.29, 2.9, 2.67 and 3.21 for the years 1996 to the year 2000. The average ROE for the two banks before the merger was -7.95, 3.625, 6.3, 3.48 and 4.6 respectively for the period 1996 to 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.These findings are well illustrated in table 4.2 below.

Table 4.2: Kenya Commercial Bank Limited ROE

	Pre- merger					**Post- merger**				
Institution \ Year	1996	1997	1998	199	2000	2001	2002	2002	2004	2005
KCF Co.	5.58	12.5	9.68	4.29	5.98					
KCB	-21.4	-5.29	2.9	2.67	3.21					
Average	-7.95	3.63	6.3	3.48	4.6					
KCB Ltd.						2.65	-74.1	10.6	13.5	19.2

Source: Secondary, data, (2015)

4.2.1.3 Findings on Kenya Commercial Bank Limited EPS

The study also sought to establish the EPS of the two banks before and after the merger. Kenya Commercial Finance Company had EPS of 1.57, 1.3, 1.45, 1.52 and 1.36 for the years 1996 to 2000. Kenya Commercial Bank on the other hand had EPS of -0.5, 0.98, 1.3, 1.15 and 1.2for the years 1996 to the year 2000.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 1.31 compared to the average of the year before the merger of 1.28. In the second year after the merger, EPS dropped drastically to -20.1 before picking a positive trend of 3.57, 3.21, and 6.73 for the period 2002 to 2005 respectively. These findings are well illustrated in table 4.3 below.

Table 4.3: Kenya Commercial Bank Limited EPS

	Pre- merger					Post- merger				
Institution \ Year	1996	1997	1998	199	2000	2001	2002	2002	2004	2005
KCF Co.	1.57	1.3	1.45	1.52	1.36					
KCB	-0.5	0.98	1.3	1.15	1.2					
Average	0.54	1.14	1.38	1.34	1.28					
KCB Ltd.						1.31	-20.1	3.57	3.21	6.73

Source: Secondary, data, (2015)

4.2.2 National Bank of Kenya

National Bank of Kenya (NBK) and Kenya National Capital Corp (KNC Corp.) mergered on 24 May 1999 to become National Bank of Kenya Ltd. The Findings of National Bank of Kenya ROA, ROE and EPS are shown below

4.2.2.1 Findings on National Bank of Kenya ROA

Both banks (National Bank of Kenya and Kenya National Capital Corp) had negative ROA before the merger/acquisition National Bank of Kenya had ROA of -1.6, -1.98, -2.6, -2.5 and -2.4 for the years 1994 to the year 1998 respectively. Kenya National Capital Corp on the other hand had a positive ROA of 0.17, 1.12, 1.5, 1.4 and 1.3 the period 1994 to 1998 respectively. The average ROA for the two banks before the merger was -0.72, -0.43, -0.55, -0.55, and -0.55 respectively for the period 1994 to 1998.

After the merger, ROA of the new institution posted mixed signals. In the year of the merger, ROA was a positive at 0.12. In the second year after the merger ROA dropped further to 0.19 before dropping to -3.5 before picking up to 0.3 and 1.2 for the period 1999 to 2003. These findings are well illustrated in table 4.4 below.

Table 4.4: National Bank of Kenya ROA

	Pre- merger					Post- merger				
Institution \ Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NBK	-1.6	-1.98	-2.6	-2.5	-2.4					
KNC Corp	0.17	1.12	1.5	1.4	1.3					
Average	-0.72	-0,43	-0.55	-0.55	-0.55					
NBK						0.12	0.19	-3.5	0.3	1.2

Source: Secondary, data, (2015)

4.2.2.2Findings on National Bank of Kenya ROE

The study also sought to establish the ROE of the two banks before and after the merger. National Bank of Kenya limited had a negative ROE of -10.5, -39.1, -8.5, -18.5 and -12.3 for the years 1994 to 1998. Kenya National Capital on the other hand had positive ROEof 3.26, 2.36, 3.78, 4.12 and 3.27 for the years 1994 to 1998. The average ROE for the two banks before the merger was -3.64, -18.3, -2.36, -7.19 and -4.52 respectively for the period 1994 to 1998. After the merger, ROE of the new institution dropped compared to the average of the two institutions just before the merger to -6.27. In the second year after the merger, ROE dropped further to -8.13 and kept the trend in the year 2001 to stand at -14.6. In the year 2002, the ROE improved slightly to -12.3 and -9.21 in 2003.These findings are well illustrated in table 4.5 below:

Table 4.5: National Bank of Kenya ROE

	Pre- merger					Post- merger				
Institution \ Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NBK	-10.5	-39.1	-8.5	-18.5	-12.3					
KNC Corp	3.26	2.36	3.78	4.12	3.27					
Average	-3.64	-18.3	-2.36	-7.19	-4.52					
NBK						-6.27	-8.13	-14.6	-12.3	-9.21

Source: Secondary, data, (2015)

4.2.2.3 Findings on National Bank of Kenya EPS

The study also sought to establish the EPS of the two banks before and after the merger. National Bank of Kenya limited had an EPS of -5.21, -4.27, -4.19, -3.12 and -2.89 for the years 1994 to 1998. Kenya National Capital on the other hand had EPS of 1.26, 1.79, 1.54, 1.89 and 1.45 for the years 1994 to 1998.The average EPS for the two institutions over the five years before the merger was weakly positive. The average EPS was -1.98, -1.24, -1.33, -0.62 and -0.72 for the period 1994 to 1998 respectively. In the year of the merger, the EPS was -2.16, -2.79, -3.2, -4.2 and -3.78 for the years 1999 to 2000 respectively. These findings are well illustrated in table 4.6 below.

Table 4.6: National Bank of Kenya EPS

	Pre- merger					Post- merger				
Institution \ Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NBK	-5.21	-4.27	-4.19	-3.12	-2.89					
KNC Corp	1.26	1.79	1.54	1.89	1.45					
Average	-1.98	-1.24	-1.33	-0.62	-0.72					
NBK						-2.16	-2.79	-3.2	-4.2	-3.78

Source: Secondary, data, (2015)

4.2.3 Commercial Bank of Africa Limited

First American Bank ltd and Commercial Bank of Africa (CBA) mergered on 01 July 2005 to become Commercial Bank of Africa ltd (CBA Ltd).Findings of Commercial Bank of Africa Limited ROA, ROE and EPS are shown below

4.2.3.1 Findings on Commercial Bank of Africa Limited ROA

The study sought to establish the ROA of First American Bank and Commercial Bank ofAfrica 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, 3.3 and 3.4 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 2.02 as the lowest before the acquisition. However, on acquisition, the ROA reduced to 1.68 in the year of the merger from 2.09 the average of the two firms before the merge 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. These findings are well illustrated in table 4.7 below.

Table 4.7: Commercial Bank of Africa Limited ROA

	Pre- merger					Post- merger				
Institution \ Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American	1.62	2.71	2.3	2.23	2.23					
CBA	2.55	2.34	1.8	1.8	1.94					
Average	2.09	2.53	2.05	2.02	2.09					
CBA Ltd						1.68	2.9	3.5	3.3	3.4

Source: Secondary, data, (2015)

4.2.3.2 Findings on Commercial Bank of Africa Limited ROE

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 ROEs. First American Bank had an ROE of 19.9, 15.9, 15.6 and 16.2for the four year period starting 2001 to 2004 respectively. Commercial Bank of Africa's ROE was 28, 22.4, 22.6 and 23.0 for the four year period starting from the year 2001 to 2004 respectively. An analysis of the average ROE suggests an improvement in firm performance after the merger. Before the merger, the ROE was 24, 19.2, 19.1 and 19.6 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 4.8 above. 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.These findings are well illustrated in table 4.8 below.

Table 4.8: Commercial Bank of Africa Limited ROE

	Pre- merger				Post- merger				
Institution \ Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American	19.9	15.9	15.6	16.2					
CBA	28.0	22.4	22.6	23.0					
Average	24.0	19.2	19.1	19.6					
CBA Ltd					26.3	36.1	31.0	34.2	35.6

Source: Secondary, data, (2015)

4.2.3.3 Findings on Commercial Bank of Africa Limited EPS

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 EPSs. First American Bank had an EPS of 3.56, 4.25, 4.51 and 5.23 for the four year period starting 2001 to 2004 respectively. Commercial Bank of Africa's EPS was 5.26, 7.06, 5 and 7.93 for the four year period starting from the year 2001 to 2004 respectively.From the data findings, all banks had a positive EPS. The average EPS for the two institutions before the acquisition was 4.41, 5.66,4.76 and 6.58 for the period 2001 to 2004 respectively. In the year of the acquisition, the EPS of the new institution dropped 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 (2006 2009).These findings are well illustrated in table 4.9 below.

Table 4.9: Commercial Bank of Africa Limited EPS

	Pre- merger				Post- merger				
Institution \ Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American	3.56	4.25	4.51	5.23					
CBA	5.26	7.06	5	7.93					
Average	4.41	5.66	4.76	6.58					
CBA Ltd					2.38	9.17	9.15	5.9	6.25

Source: Secondary, data, (2015)

4.2.4Co-operative Bank of Kenya Limited

Co-operative Merchant Bank ltd and Co-operative Bank ltd mergered on 28 May 2002 to become Co-operative Bank of Kenya ltd. Findings of Co-operative Bank of Kenya Limited ROA, ROE and EPS are shown below

4.2.4.1 Findings on Co-operative Bank of Kenya Limited ROA

Co-operative Merchant Bank Limited and Co-operative Bank Limited merged in the year 2002 to form Co-operative Bank of Kenya Limited. The ROA of the two institutions before the merger were both negative. Co-operative Merchant Bank's ROA for the year 1997-2001 was -10.4, -13.7, -6.34, -3.58 and -8.63. Co-operative Bank Limited's ROA was -9.58, -7.35, -5.19, -5.08, and -1.43 for the same period 1997 to 2001 respectively. After the merger, ROA improved to stand at positive 0.2 in the year of merger, 2002. The ROA increased steadily thereafter. In 2004, ROA stood at 0.57. It further increased to 0.99 and 1.6 for 2005 and 2006 respectively. A comparison of the ROA with the average ROA of the two institutions before the merger indicates tremendous growth. From the year of the merger, the ROA grew continuously from 0.2 in 2002 to stand at 1.6 in the year 2006.These findings are well illustrated in table 4.10 below.

Table 4.10: Co-operative Bank of Kenya Limited ROA

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Co-op Merchant	-10.4	-13.7	-6.34	-3.58	-8.63					
Co-operative Bank	-9.58	-7.35	-5.19	-5.08	-1.43					
Average	-9.98	-10.5	-5.77	-4.33	-5.03					
Co-operative Bank						0.2	0.36	0.57	0.99	1.6

Source: Secondary, data, (2015)

4.2.4.2 Findings on Co-operative Bank of Kenya Limited ROE

Before the merger, Co-operative merchant Bank Ltd ROE was 5.3, -3.85, -4.86, -3.58 and -5.08 for the years 1997 to 2001 respectively. Co-operative Bank Limited had a positive ROE of 95.5, 143.98, 189.8, 202.2 and -22.05 in the year 1997 to 2001 respectively. After the merger, the ROE grew steadily to stand at 5.7 in 2002, 8.94 10.72, 17.39 and 25.64 from 2003 to 2006 respectively. These findings are well illustrated in table 4.11 below.

Table 4.11: Co-operative Bank of Kenya Limited ROE

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Co-op Merchant	5.3	-3.85	-4.86	-3.58	-5.08					
Co-operative Bank	95.5	144.0	189.8	202.2	-22.1					
Average	50.4	70.1	92.5	99.3	-13.6					
Co-operative Bank						5.7	8.94	10.72	17.39	25.64

Source: Secondary, data, (2015)

4.2.4.3 Findings on Co-operative Bank of Kenya Limited EPS

Co-operative Merchant Bank Ltd had the following EPS 9.5, 4.2, 1.4, -3.64 and -4.5 for the period 1997 to 2001 respectively while Co-operative Bank Ltd had a positive EPS of 3.8, 8.5, 5.6, 6.75 and -4.75 for the period 1997 to 2001 respectively, The EPS of the new institution formed after the merger showed a positive trend. It grew steadily after the merger from 6.38, 7.58, 9.72, 9.12, and 8.95 for the years 2002 to 2006 respectively. These findings are well illustrated in table 4.12 below.

Table 4.12: Co-operative Bank of Kenya Limited EPS

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Co-op Merchant	9.5	4.2	1.4	-3.64	-4.5					
Co-operative Bank	3.8	8.5	5.6	6.75	-4.75					
Average	6.65	6.35	3.5	1.555	-4.63					
Co-operative Bank						6.38	7.58	9.72	9.12	8.95

Source: Secondary, data, (2015)

4.2.5 Southern Credit Banking Corporation

Bullion Bank Ltd and Southern Credit Banking Corp mergered on 07 December 2001 to become Southern Credit Banking Corp. Ltd, Findings of Southern Credit Banking Corporation ROA, ROE and EPS are shown below

4.2.5.1 Findings on Southern Credit Banking Corporation ROA

Before the acquisition, Bullion Bank Ltd and Southern Credit banking Corporation 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.These findings are well illustrated in table 4.13 below.

Table 4.13: 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	1.57	1.25	1.42	0.65	-0.7					
Average	4.385	2.76	-5.14	-5.83	-7.85					
Southern Credit Ltd						1.63	0.4	0.92	1.37	0.62

Source: Secondary, data, (2015)

4.2.5.2 Findings on Southern Credit Banking Corporation ROE

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 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.

Table 4.14: 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	3.2	1.6	1.42	1.6	-0.7					
Average	4.55	6.2	6.91	-4.8	-7.7					
Southern Credit Ltd						-5.79	3.2	7.25	12.07	5.98

Source: Secondary, data, (2015)

4.2.5.3 Findings on Southern Credit Banking Corporation EPS

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. These findings are well illustrated in table 4.15 below.

Table 4.15: Southern Credit Banking Corporation EPS

	Pre- merger					Post- merger				
Institution \ Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Bullion Bank Ltd	1.6	1.4	-2.4	-5.2	-4.56					
Southern Credit	1.2	-2.6	-3.2	-6.9	-5.36					
Average	1.4	-0.6	-2.8	-6.05	-4.96					
Southern Credit Ltd						-4.25	2.45	4.36	5.32	6.7

Source: Secondary, data, (2015)

4.2.6 Investment & Mortgage Bank Ltd

Biashara Bank Limited and Investments & Mortgages Bank mergered on 01 December 2002 to become Investment & Mortgage Bank Ltd. Findings of Investment & Mortgage Bank LtdROA, ROE and EPS are shown below

4.2.6.1 Findings on Investment & Mortgage Bank Ltd ROA

Both institutions (Biashara Bank Limited and Investments and Mortgages) had positive ROAs before they came together to form a new institution. Biashara Bank Ltd had ROA of 2.4, 1.98, 2.59, 2.49 and 2.57 for the years 1997 to 2001 respectively while Investments and Mortgage has ROA of 1.2, 1.7, 1.3, 1.59 and 1.14 for the same period of 1997 to 2001 respectively. The average ROA was 1.8, 1.84, 1.94, 2.04 and 1.86 in the year 1997 to 2000 respectively. In the year of the merger, the ROA dropped compared to the average before the merger to 1.2 in 2002. Thereafter, the ROA grew to 1.84 and 2.37 for the years 2003 and 2004 respectively before dropping to 2 in 2005 and picking up an upward trend in 2006 to stand at 3.1%.These findings are well illustrated in table 4.16 below.

Table 4.16: Investment & Mortgage Bank Ltd ROA

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Biashara Bank	2.4	1.98	2.59	2.49	2.57					
Invest & Mortgage	1.2	1.7	1.3	1.59	1.14					
Average	1.8	1.84	1.945	2.04	1.855					
Inve & Mortg Ltd						1.2	1.84	2.37	2	3.1

Source: Secondary, data, (2015)

4.2.6.2 Findings on Investment & Mortgage Bank Ltd ROE

Both banks had positive ROEs. Biashara Bank's ROE was 9.2, 12.4, 8.65, 4.6, and 16.21 in the year 2000 and 18.83 in 2001. Investments and mortgages had ROE of 6.25, 3.84, 4.57, 3.58, and 12.88 in the year 1997 to 2000 respectively. After the Merger/ Acquisition, ROE stood at 113.45, 17.53, 20.62, 25.53, and 35.15 for the years 2002 to 2006 respectively. The study sought to establish the average ROE for the two institutions before the merger. The ROE in 2000 was 4.09 and improved to 14.55 in the year 2001 just before the merger.

After the merger, ROE dropped slightly to 13.5 in year of the merger. Thereafter, ROE grew steadily to 17.5, 20.6, 25.5 and 35.1 for the period 2003 to 2006 respectively. These findings are well illustrated in table 4.17 below.

Table 4.17: Investment & Mortgage Bank Ltd ROE

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Biashara Bank	9.2	12.4	8.65	4.6	16.21					
Invest & Mortgage	6.25	3.84	4.57	3.58	12.88					
Average	7.71	8.1	6.6	4.09	14.55					
Inve & Mortg Ltd						13.5	17.5	20.6	25.5	35.1

Source: Secondary data, (2015)

4.2.6.3 Findings on Investment & Mortgage Bank Ltd EPS

EPS before the merger was positive for both banks. The average EPS for the two banks was 7.725, 8.12, 6.61, 4.09 and 14.545 for the years 1997 to 2001 respectively. After the merger, the EPS grew steadily to 13.45, 17.53, 20.62, 25.53 and 35.15 for the years 2002 to 2006 respectively. These findings are well illustrated in table 4.18 below.

Table 4.18: Investment & Mortgage Bank Ltd EPS

	Pre- merger					Post- merger				
Institution \ Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Biashara Bank	9.2	12.4	8.65	4.6	16.21					
Invest & Mortgage	6.25	3.84	4.57	3.58	12.88					
Average	7.71	8.1	6.6	4.09	14.55					
Inve & Mortg Ltd						13.5	17.5	20.6	25.5	35.1

Source: Secondary, data, (2015)

4.3 Interpretation of findings

The study confirmed mixed results on the effect of Mergers and Acquisitions on banks performance. 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 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.

DISCUSSIONS & CONCLUSIONS

5.1 Summary of the findings

The study aimed at establishing whether M & As lead to an improved 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.

Analyses of the ROA on the banks that merged or were acquired communicate mixed signals. ROA of the new institution improved after the acquisition or the merger. However, ROA of the new institution at times dropped slightly compared to the average of the two institutions before the coming together transaction was concluded. For example, using the case of Commercial Bank of Africa saw its ROA drop in the year of the acquisition but improved steadily thereafter to exceed the average of the two institutions before the acquisition. The ROA moved from the highest average of 2.085 just before the acquisition dropped to 1.68 in the year of the acquisition after which it picked a positive trend to 2.9 in one year after the merger and maintained an average of above 3.3 thereafter. Further, a look at cooperative bank revealed the same trend. Before the merger, the average ROA was -5.03 which improved on merging to positive 0.2 in the year of the merger and continuously increased to 1.6 by the end of five years after the merger. The same trend is observed across all the institutions that underwent merger or acquisition between the year 2000 and 2010.

An analysis of ROE reveals a similar trend to that revealed by ROA. ROE improved gradually from the year of merger/acquisition. Commercial Bank of Kenya Limited average ROE of the two institutions before the acquisition improved from 19.57 just before the acquisition to 26.3 in the year of the acquisition and 36.1 one year after the acquisition. Thereafter, the ROE dropped to 31.03 after which it picked an upward trend to stand at 34.2 and 35.6. Further looks at other mergers reveal the same trend. Cooperative bank merger saw ROE improve from an average of -13.66 to positive figures of 5.7, 8.94, 10.72, 17.39 and finally 25.64 in the fifth year after the merger. Just like ROA trend, a drop in the year of the merger was followed by an increase beyond the average ROE witnessed just before the merger.

An analysis of EPS posted mixed reactions. In most cases, EPS of the new institution formed after the merger improved tremendously after the merger/acquisition.

5.2 Conclusions

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

Analysis of ROE reveals similar trend before the merger or acquisition. The same banks that had negative ROA also had negative ROE. The rest of the institutions had positive ROE. However, the average ROEs were slightly lower than the ROE of the new institution after the merger.

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

The profitability of the new institution formed on the merger/ acquisition registered a higher profitability as depicted by an increase in the ROA and ROE on the merger/acquisition. Merging/ acquisition improved the profitability of the new institution compared to the two separate institutions separately. In some cases however, the improvement was not realized immediately after the merger/acquisition. The increase in profitability was more pronounced in the second and the third year than it was in the year of the merger. This was supported by the improvement in the ROAs and ROEs of the new institution after the merger/ acquisition. An analysis of EPS indicates that the profitability of the banks increased tremendously after merger/acquisitions.

The effects of the merger/acquisition in the financial institutions profitability were evident when looking at the average ROA and average ROE of the institutions before the merger/acquisition and the ROA and ROE of the new institution formed on the merger/ acquisition. In majority of the mergers/acquisitions, the merger improved the profitability of the new institution as the ROA and ROE kept on increasing immediately after the merger/acquisition.

However, the profitability increased more in the second year after the merger/acquisition as compared to immediately after the merger/acquisition. EPS indicates the mergers and acquisitions improve the profitability of the financial institutions. 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.

5.3 Recommendations

The study also recommends that those firms facing constraints on the market should consolidate their energies by resorting to merger/acquisition so as to expand their profitability as the merger/ acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders' wealth as opposed to each financial institution operating separately on its own.

5.4 Areas recommended 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.

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