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Effect of Mergers on Financial Performance of Commercial Banks in Kenya

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Abstract: ***The main objective of this study is to establish the effect of merger on financial performance of commercial banks in Kenya. The specific objectives were; to evaluate the effect of synergy, access to intangible assets and cost reduction on financial performance of commercial banks in Kenya. The population of interest in this study was comprises of all the 14 banks that have merged in Kenya, all having their headquarters in Nairobi county. The banks considered in this study were those that merged in the period between 2000-2011. The study used secondary sources of data from published audited annual reports of accounts for the population of interest. Financial data from Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements of the 14 banks for the 11years in calculating and analyzing accounting ratios, also known as performance indicators. The study then used accounting ratios to analyze the financial performance of the 14 banks under study. For the pre-merger period, ratios for both the acquirers and the targets were then examined in getting an indication of the relative performance of the acquirer and the target.***

Keywords: merger, financial performance, commercial Banks

1. Introduction

In the modern global economy, mergers are being increasingly used world all 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). The reasoning behind any corporate merger is that two companies are better than one because they increase shareholder value over and above that of the two separate firms (Sharma, 2009). The motives behind mergers are economies of scale, increase in market share and revenues, taxation, synergy, geographical and other diversification. Manne (1965) argued that in a merger, the acquiring concern will be a corporation and not an individual, and the medium of exchange used to buy control will typically be shares of the acquiring company rather than cash. A merger requires the explicit approval of those already in control of the corporation. In addition, most statutes require more than a simple majority vote by shareholders to effectuate a merger

Business amalgamations, Combinations, restructuring, and reorganisations are some of the terms that are associated with mergers (Machiraju, 2007). According to Pandey (2004), the study of mergers initially concentrated on its effect on a firm's competition. However, with the rapid changes in business operational environment, it has been used for other purposes among firms (Machiraju, 2007). Business environment has changed rapidly because of dynamic changes in the global atmosphere forcing organization to change tact if they have to remain competitive. Technological and globalization advances have altered business operating environment therefore requiring them to rethink their strategies if they are to remain competitive. The financial efficiency parameters are determined and measured by gross earnings, profit after tax and net assets (Soludo, 2004).

The banking industry in Kenya has experienced an unprecedented level of consolidation especially since the 1990s. The combination is predominantly based on the belief that gains will accrue from consolidation. Between the year 2005 and 2015, eleven mergers and acquisitions were witnessed, with the last being that between Equatorial Commercial Bank and Mwalimu Sacco society ltd that merged to Spire Bank.

There are three major types of mergers and acquisitions. The first one is the horizontal merger, where firms that produce and sell the same product merges. In this case, the merger occurs between two competing firms whose products are viewed by buyers as the same and therefore their cross elasticity of demand and supply is high. The second type of merger is the vertical merger. This is a merger between firms operating at different stages of production. It happens between firms that have a successive functional link between their products, i.e. the output of one firm is an input for another firm at a higher stage of production. The third type of merger is the conglomerate merger. This is a merger between firms operating at different stages of production.

These are firms that are producing different products that are not substitutes for each other. There is zero cross elasticity of demand and supply of the products.

Mergers have hit headlines from the past as much as the present. They are being talked of and promoted the world over. Studies carried shows that merger and acquisition activities on a wide range of sectors including banking and insurance, oil, gas, electricity among others. Many companies aim at their financial performance after merger. Many of the studies show that merger and acquisitions lead to better financial performance of companies. Contrary to this, Ghosh (2001) show results at odds with the view that mergers and acquisitions improve performance

Financial performance is the level of performance of a business over a specified period, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision makers to judge the results of business strategies and activities in objective monetary terms. It can be measured by use of financial ratios that depict the company's ability to generate economic value and improve its operations.

It has been noted by many researchers such as Altunbas & Marques,(2007); Kemal(2011); Ullah et al.(2010), the fact that mergers have a significant impact on performance of banks and many factors such as liquidity, leverage, capital adequacy and size influence this performance. Studies depict a different picture on the results of mergers involving failures and poor financial returns. Even conservative estimates place mergers failure rates at approximately 50% or higher for nearly four decades (Coffey et al, 2003).

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 Cabinet Secretary for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines CBK(2014).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting its members. There are forty-two banks after the receivership/closure of three banks in 2015-2016 and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small to medium sized, are locally-owned. The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally-owned. Six of the major banks are listed on the Nairobi Stock Exchange CBK (2015).

2. Statement of the Problem

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a result, firms are facing intense competition. To face the challenges and explore the available limited opportunities, firms; banks being one of them, are going for inorganic growth through various strategic alternatives like mergers. Mergers are arguably the most popular strategy among firms which seek to establish a competitive advantage over their rivals. With increasing competition and the economy heading towards globalization, mergers are expected at much larger scale and have played a major role in achieving competitive edge (Koech, 2013).

More recently, CBK's directive that bank's increase their core capital to 1 billion by close of the year 2012 has forced some banks to begin discussions with each other (Think Business, 2011). As at the close of the year 2010, thirteen (13) banks had not reached the threshold stated above (Think Business, 2011). It is predicted that some of these thirteen banks may opt for the use of mergers to quickly increase their capital (Think Business, 2011). Kenya has had 33 mergers in the past 21 years CBK(2010). Recently, CFC Bank and Stanbic Bank merged to form CFC-Stanbic Standard Bank (2008); Kenya Commercial Bank (KCB) and Savings and Loan (S&L) merged to form Kenya Commercial Bank (CBK, 2010); City Finance Bank Ltd and Jamii Bora Ltd merged to form Jamii Bora Bank Ltd CBK (2010); and finally Southern Credit Bank and Equatorial Commercial Bank merged to form Equatorial Commercial Bank Ltd (CBK, 2010) which was later acquired by Mwalimu Sacco Society ltd (CBK, 2015).

Kithinji (2002) carried out a study on the effects of mergers on financial performance of non-listed banks in Kenya by focusing on the profitability of banks that merged between 1994 and 2001. The results showed significant improvements in performance of non-listed companies that had not merged within the same period. Despite findings in previous researches on mergers, there is conflicting evidence on the financial implication of mergers in the banking industry in Kenya. This study, therefore, sought to analyze the financial performance of financial institutions 5 years before and 5 years after their merger.

General objective of the Study

The general objective of the study was to establish the effect of merger on financial performance of commercial banks in Kenya.

Specific objective of the Study

The specific objectives were;
i) To evaluate the effect of synergy on financial performance of commercial banks in Kenya
ii) To assess the effect of access to intangible assets on financial performance of commercial banks in Kenya
iii) To determine the effect of cost reduction on financial performance of commercial banks in Kenya

3. Theoritical Literature

a) Empire-Building Theory

Muellera and Sirowerb (2003) also argued that Managerial Discretion Hypothesis (MDH), also known as empire building, was another reason for merger of companies. The proponents of MDH possess that some firms were usually merged due to the management's need to build empires for their own gratification (Muellera & Sirowerb, 2003). Ojha (2008) called it "seeking glory to satisfy executive ego". As a result, some companies expanded rapidly by undertaking mergers left right and centre.

Described mergers as planned and executed bymanagers trying to maximize their own utility instead of their shareholders. In this approach, managerial goals are the explanatory factor behind a merger. Although, as Trautwein (1990) points out, it is not easy to findexamples where managerial goals were cited to justify a merger, the empire-building theory enjoys popularity inthe business press that seems to grow in proportion with the size of a merger.

Additionally, according to Black (1989) managers are explicitly motivated to invest in the growth of their firm's revenues (sales) or asset base, subject to a minimum profit requirement.

b) Efficiency Theory

View mergers as being planned and undertaken to achieve net gains through synergies.Financial synergies result in lower cost of capital while operational synergies are achieved from combiningoperations of separate units (e.g. sales force, R&D) or from knowledge transfer Porter (1985). Managerial synergies occurswhen the bidder's managers possess superior planning and monitoring abilities that will benefitthe target's competitiveness.

According to Klein (2001), he suggests that mergers will occur only when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a \`friendly\` merger being proposed and accepted. If the gain in value to the target was not positive, it is suggested, the firms' owners would not sell or submit to the acquisition, and ifthe gains were negative to the bidders' owners, the bidder would not complete thedeal. Hence, if we observe a merger deal, efficiency theory predicts value creationwith positive returns to both the acquirer and the target.

4. Conceptual Framework

Conceptual framework is the foundation on which the entire research project is based (Mathooko&Mathooko, 2011).

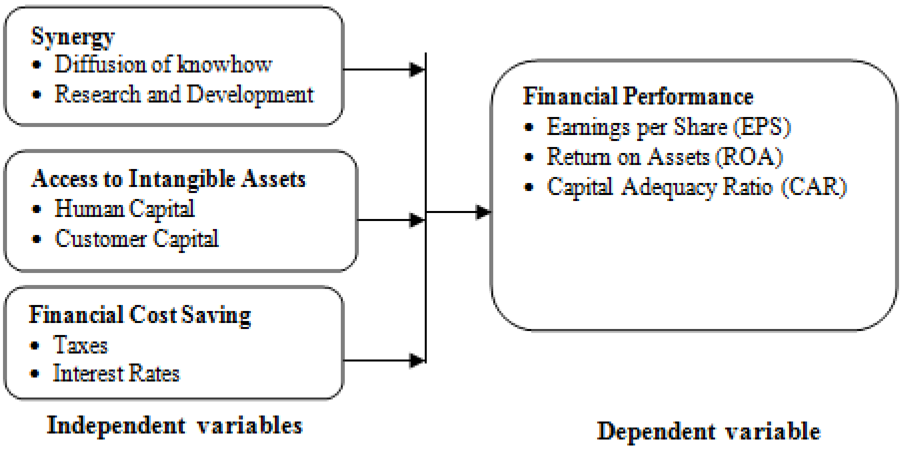

Figure 2.1: Conceptual Framework

i) Synergy

Gaughan (2007) states that the term "synergy" is often associated with the physical sciences rather than with economics or finance. It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. In mergers this translates into the ability of a corporate combination to be more profitable than the individual parts of the firms that were combined.

The two main types of synergy are (DePamphilis 2003): 1) Operating synergy, which consists of both: economies of scale (or the spreading of fixed costs, such as depreciation of equipment and amortization of capitalized software; normal maintenance spending; obligations such as interest expense, lease payments, and union, customer, and vendor contracts; and taxes, of over increasing production levels); and economies of scope (which refers to using a specific set of skills or an asset currently employed in producing a specific product or service to produce related products or services). 2) Financial synergy, which refers to the impact of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from the merger or acquisition. Theoretically, the cost of capital could be reduced if the merged firms have uncorrelated cash flows, realize financial economies of scale, or result in a better matching of investment opportunities with internally generated funds.

Synergies are efficiencies that can only be achieved by merging, that is, they are merger specific. Synergies are generally associated with a shift on the production possibilities of the merging parties that go beyond technical efficiencies (associated with changes within the joint production capabilities of the merging parties, i.e., economies of scale or scope). There is a general recognition that synergies involve either a process of learning, the close integration of specific hard-to-trade assets or a transfer of know-how among the merging firms. For example, when a small firm launches a new product but lacks of large scale sales, marketing and reputation, merging with a well established firm will most probably bring it gains that would have not been possible without merging. The diffusion of know-how, in turn, can be achieved when the merging firms exchange different R&D activities, patents, human skills, and organizational culture. Since these assets are in general non-tradable, firms can benefit from their combination uniquely by merging.

Research &Development: As well as know-how, R&D is a very powerful non-tradable asset that combined in better ways (by merging with a complement) may allow for a technological progress and an increase in the firms' joint production possibilities. According to Roller, Stennek and

Verboven (2006), an acquiring firm may see a high R&D target as a faster mean of investment on R&D than internally expending on it. Indeed, often merging firms claim that by integrating their R&Ds they will faster introduce new or better quality products and innovate in cost reducing processes.

ii) Access to Intangible Assets

The emergence of the knowledge era since the 1980s has brought significant change in both global and local markets. Knowledge, as a core organizational resource and the basis for the development of organizational capabilities, is playing a key role in driving changes in companies. Today the value of knowledge-based, intangible resources has grown geometrically in companies. The intangible assets include (Saint-Onge, Chatzkel 2009): i) Human capital, which is the sum of all the capabilities of everyone who is currently working in a company, i.e. the cumulative knowledge, experience, attributes, competencies, and mindsets of all employees, managers, and leaders. These individual capabilities of employees create value for the customers. ii) Customer capital, which consists of the strategies, structures, processes, and leadership that translate into a company's specific core competencies.These organizational capabilities leverage employees' individual capabilities to create value for customers. These can be production, design, and product development processes; people development processes; communication processes; strategy making processes, and knowledge development, capture, and leveraging processes), iii) Structural capital, which is the sum of all customer relationships, that can be defined by four parameters: depth (penetration or share of customers' wallets), breadth (coverage or share of the market), sustainability (the durability of relationship with customers) and the profitability of company's relationships with all customers.

Furthermore, human capital interfaces with customer capital and structural capital to create knowledge value capital. These weightless assets now have a greater value in organizations than physical or financial assets. This has been coupled with fundamental changes in legal, competitive, and global requirements. For example, one such quantum shift is the emergence of the European Union (EU), with its dismantling of boundaries and reduction of trade barriers. The emergence of the EU has also led to a shift in the regulatory environment in Europe, creating pressures to combine organizational strengths simply to be able to compete on a larger scale.

A merger can open up and recombine the resource sets of the two companies involved. For example, the intangible, financial, and tangible assets of Company A are joined with the clusters of those resources from Company B. In a merger or an acquisition, there are unprecedented opportunities to bring these resources from the acquiring and the acquired companies together in novel ways – and in ways that were not previously possible – to produce significant gains in your company's overall performance and wealth. This is the potential promise of a merger or acquisition. It is not merely adding the cumulative resources of one company to those of the other, but a recombining of all resources: financial, tangible, and all the dimensions of intangibles (Saint-Onge, Chatzkel 2009).

iii) Financial cost savings

Too high financial costs may be a motive to merger as well. According to Roller, Stennek and Verboven (2006), financial costs savings do not generate real cost savings (savings in productions costs); instead, they involve redistributive cost savings. That is, financial costs do not necessarily imply a value increase in the merging entity; they only reflect a redistribution of wealth from shareholders to debt-holders. Among other ways they can be attained by saving on:

Taxes: Mergers before the 1980s were strongly motivated by tax advantages. The reason is that at the time when an acquisition premium was paid above the values at which a company's depreciable assets were recorded in tax accounts, the acquired assets could benefit of higher depreciation charges, protecting the acquirer from tax liabilities. Until reforms are passed, acquiring companies making such acquisitions could normally escape immediate capital gains taxation. Such tax advantages had an important role in many merger decisions, but not critical enough to determine whether merger would or would not occur. Nowadays there is a tax rule that differentiates the tax liability according to the accounting method by which the acquisition is registered (purchase of assets or pooling of interest).

Interest rates: Often small firms cannot borrow at competitive interest rates due to liquidity constraints or to asymmetric information in the external capital market. Since a large corporation has better access to the outside capital market that a small one, the merger is said to be motivated by the possibility of borrowing more cheaply than separate units borrowed.

iv) Financial Performance

Financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision makers to judge the results of business strategies and activities in objective monetary terms. It can be measured by use of financial ratios which depict the company's ability to generate economic value and improve its operations.

Financial performance can be measured in several aspects that shows increase in stock prices such as earning per share EPS, return on investment ROI, earnings before interest and tax EBIT, Capital Adequacy Ratio CAR.

Shareholders value in terms of positive performance is affected by different reasons behind mergers which include; achievement of economies of scale and increasing of market share. According to Brealey (2006), reduction of average unit cost of production as a result of reduction increasing output is what is referred to as economies of scale. As the market share increases, the force of the suppliers and buyers reduces. Companies are able to overcome price wars as well as utilizing technological advancements (Pandey, 2006).

A company's earnings per share EPS is the available to common shareholders divided by common stock shares outstanding, and the ratio is a key indicator of a firm's shareholder value. Malik (2004) evaluated the relationship between shareholders value and EPS as well as return on capital employed. He established that there was a positive correlation between EVA and EPS. EPS is used to predict future cash flows, for the comparison of companies' performance to establish the impact of issuing common stocks.

Earnings per share EPS is the portion of a company's profit allocated to each outstanding share of common stock which serves as an indicator of a company's profitability i.e. when a company can increase earnings, the ratio increases and investors view the company as more valuable.

Diluted EPS is another metric used to gauge the quality of a company's EPS if all convertible securities were exercised. Convertible securities include all outstanding convertible debentures, stock options (primarily employee based) and warrants.
EPS is also a calculation that shows how profitable a company is on a shareholder basis.

EPS is the same as any profitability or market prospect ratio. Higher earnings per share is always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders (Murthy and Sree, 2003).

Return on equity (ROE) is a measure of profitability that calculates how shillings of profit a company generates with each shilling of shareholders i.e. ROE is the amount of net income returned as a percentage of shareholders equity which measures a corporation's profitability by revealing how much profit a company generates with the money the shareholders have invested.

ROI is a business metric purposed to measure, per period rates of return on money invested in an economic entity in order to decide whether or not to undertake an investment. It is also used as indicator to compare different project investments within a project portfolio.

Return on investment (ROI) is the most common profitability ratio. This is the benefit to an investor resulting from an investment of some resource. A high ROI means the investment gains compare favorably to investment cost.

Earnings before interest and taxes (EBIT) is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is therefore, the difference between operating revenues and operating expenses. When a firmdoes not have non-operating income, then operating income is sometimes used as a synonym for EBIT and operating profit.

EBIT= revenue-operating expenses+ non-operating income.

Paul (2001), carried out a study on evidence on mergers and acquisitions and asserts that a second approach to measuring merger effects is by evaluating the data from financial statements. This is done before and after the merger inorder to know what happened after the merger or acquisition.The study focuses on profit margins, cash flows statements, accounting rate of return among others.
On the other hand, return on equity is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested. Reflects how effectively a bank management is using shareholders' funds .Debt to equity ratio is a financial ratio indicating the relative proportion of equity and debt used to finance a company's assets. It identifies the advantage used in the firm. Earnings per share are the proportion of a company's profit allocated to each outstanding share of common stock. Koech (2013) measured the performance implication of mergers by calculating the aforementioned ratios among others, and came up came with the conclusion on how mergers have a clear positive performance implication in the banking industry in Kenya.

5. Research Methology

The study adopted a descriptive survey design to determine the relationship between mergers and the financial performance of the commercial banks in Kenya. According to CBK report (2011), there are 14 major mergers and acquisitions that had taken place in the banking industry in Kenya since 2000. The population of this study comprised of all the 14 banks that have merged in Kenya since year 2000.

Table 1: Study Population

Institution	Merged with	Name after merger	Date approved
Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01. 2000
NBK Ltd.	Kenya National Capital Corporation	National Bank of Kenya Ltd.	24.05.2000
Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001
Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd	07.12.2001
Co-operative Merchant Bank Ltd.	Co-operative Bank Ltd.	Co-operative Bank of Kenya Ltd.	28.05.2002
Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	Investment &Mortgage Bank Ltd.	01.12.2002
Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30.04.2004
First American Bank Ltd.	Commercial Bank of Africa Ltd.	Commercial Bank of Africa Ltd.	01.07.2005
East African Building Society	Akiba Bank Ltd.	EABS Bank Ltd.	31.10.2005
CfC Bank Ltd.	Stanbic Bank Ltd.	CfCStanbic Bank Ltd.	01.06.2008
EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16.06.2008
Savings and Loan (K) Limited	Kenya Commercial Bank limited	KCB LTD	01.02.2010
City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd.	ECB Ltd	01.06.2010

Source: CBK Report (2011)

This study adopted a sample of 6 commercial banks selected by a simple random sampling, sample size of above 10% (Mugenda and Mugenda, 2003).The study was majorly based on secondary data available in the commercial banks' audited financial statements. These statements were accessible through their registered websites. The data on current assets, current liabilities, total liabilities, total assets and shareholders wealth was obtained from the statements of finance while net income (net worth) was obtained from the income statements. This was then entered in a data sheet.The study undertook financial ratio analysis method to determine and test the effects of mergers on the financial performance of merged commercial banks in Kenya. In order to determine improvements in the post-merger performance of the commercial banks, the study performed "paired t" tests of the difference of the mean financial ratios of the 14 commercial banks under study.For the pre-merger 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 was compared with the post-merger average data to determine what changes occurred in financial performance following the merger. In this study, financial performance indicators used were: profitability ratio (EPS), ROA, ROE, and CAR.

6. Findings

The study here summarizes only two sets of banks that have merged:

a) 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.

Table 2: 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

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 2000.

Table 3: 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	12.5	9.68	4.29	5.98					
Kenya Commercial Bank	-21.4	-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

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 6.73 for the period 2002 to 2005 respectively.

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Table 4: 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	-20.1	3.57	3.21	6.73

a) 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 5: 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	2.09	2.53	2.05	2.02	2.09					
Commercial Bank of Africa Limited					1.68	2.9	3.5	3.3	3.4	

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 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 6: First American/CBA ROE

	Pre-Merger				Post-Merger				
Institution\ Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American Bank	19.9	15.9	15.6	16.2					
Commercial Bank of Africa	28	22.4	22.6	23					
Average	24	19.2	19.1	19.6					
Commercial Bank of Africa Limited					2.38	9.17	9.15	5.9	6.25

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 commercialbanks 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 7: First American/CBA EPS

	Pre-Merger					Post-Merger				
Institution\ Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American Bank	41.1	39.8	29.9	26.8	18					
Commercial Bank of Africa	24.8	23.8	23.8	18.1	17.6					
Average	32.9	31.8	26.9	22.5	17.8					
Commercial Bank of Africa Limited						12.9	15.3	14.1	13.02	13.86

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 below:

Table 8: Commercial Bank of Africa EPS

		Pre-Merger					Post-merger			
Institution\Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
First American Bank	3.17	3.56	4.25	4.51	5.23					
Commercial Bank of Africa	5.16	5.26	7.06	5	7.93					
Average	4.17	4.41	5.66	4.76	6.58					
Commercial Bank of Africa Limited						2.38	9.17	9.15	5.9	6.25

7. Conclusion

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 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 on its own cannot achieve strong, efficient and competitive banking systems because performance is dependent on several factors. Just like (Shanmugam, 2003) explained, mergers 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.

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