Post- Merger and Acquisitions Performance of Commercial Banks Listed at the Nairobi Securities Exchange

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Abstract
This study analyzed the post-merger performance of commercial banks listed in the Nairobi Securities exchange using secondary data over the period 2001 to 2014 using both trend and 'paired t' t test analysis. The empirical results of the trend analysis showed that both the return on assets (ROA) and return on equity (ROE) had dropped below the industry average in the first three years, after which they rose above it. Hence, consistent with past studies, the results showed that mergers increase the value of the firm only in the long run, implying that merged firms outperform the industry with a time lag of about three years in terms of both ROA and ROE. Consequently, it was recommended that merger decisions should integrate time lag structure on the expected benefits. The results of the "paired t" tests on ROA and ROE show that, at both 0.01 and 0.05 levels of significance, we could not reject the null hypothesis that the merged commercial banks do not outperform the banking industry in Kenya. This rather disappointing conclusion is consistent with previous empirical evidence which has failed to reveal significant ex-post performance benefits of mergers and acquisitions across a wide variety of methodologies, samples and time periods (Bernile et el., 2012; Chen et el., 2013**).** Finally, in recognition of mounting mergers and acquisitions despite disappointing empirical evidence, the study recommends that further studies should be undertaken to compare the factors influencing the financial performance of the financial as well as the non-financial companies listed at the Nairobi Securities Exchange as well as those not listed.
Keywords: Financial performance, Return on assets, Return on equity, NSE, Merger, Acquisition

1.0 Introduction

Growing empirical evidence shows a positive finance-growth nexus (Levine, 2005; Yamane, 2009). The evidence shows that a sound financial system is not just correlated to growth but actually causes growth. Specifically, it has been observed that well functioning capital markets increase economic efficiency, investment and growth. Capital markets assist in price discovery, liquidity provision, reduction in transaction costs and risk transfer. They also reduce information cost through generation and dissemination of information on firms leading to efficient markets in which prices incorporate all in information (Yartey & Adjasi, 2007).

Based on the evidence and like other emerging economies, Kenya has fostered the growth of its capital market as a strategic development goal (GoK, 1986). It has implemented significant reforms to underpin the growth including liberalization (ending the long period of financial repression), modernization of the Nairobi Securities Exchange (NSE) (e.g. automation of trading, diversification of listed securities, and dematerialization of stocks) and the development of regulatory and supervisory frameworks (Capital Markets Authority Act, Cap. 485a).

The successful implementation of these reforms, together with improved macroeconomic fundamentals and capital market related reforms such as privatization of state-owned enterprises (SOEs) has been reflected in significant growth and sophistication of the country's capital market. The country's NSE is one of the fastest growing bourses in the emerging markets and is the largest in East Africa with 50 listed companies, market capitalization of about Kshs. 2,500 billion in market capitalization, about 12 million in traded shares, about 500 million in equity turnover and about Kshs. 2 billion in total daily deals. The growth of the market of has facilitated mobilization of resources to provide long term capital for financing investments. In recent past, the bourse has handled a number of highly oversubscribed issues. The implementation of further reforms to both broaden and deepen of the country's capital market and the performance of the firms listed in the NSE would be essential to underpin the goal of *Vision 2030* of achieving an annual economic growth rate of 10% with a 30% investment rate (GOK, 2008).

One of the common features of the firms listed in the Nairobi Securities Exchange is corporate mergers and acquisitions. In tandem with the global wave of consolidation of firms, Kenya has experienced many mergers and acquisitions. Kenya leads East Africa and is ranked fourth (after South Africa) for African mergers and acquisition (See Annex I). The DeaI Drivers Africa Report (Mergermarket, 2004) has also ranked Kenya as Africa's most sought-after country for mergers and acquisitions witnessed substantial in mergers and acquisitions activity during the period 2011-2014. Since 2011 the Competition Authority of Kenya (established under the Competition Act, Cap. 504, Laws of Kenya) has determined more than 50 merger applications (compared to 68 during the period 2005-2011).

The M&A activity in the country's corporate sector has been in a wide array of sectors including banking; insurance; engineering and construction; floriculture; information, communication and technology (ICT); and mining among others (Karanja-Nganga et el., 2013; Karanja-Nganga et el., 2014). During the period 2013-14 five acquisitions took place, namely, acquisitions of AccessKenya Group by Dimensions Data Holdings, plc, Interconsumer Products Group by L ' Oreal South Africa, I&M Bank Limited by City Trust Limited, 66.66 per cent of Merhantile Insurance Company Limited by Saham and REA Vipingo Plantations Limited by REA Vipingo Limited.

Since the late 1980s the country's banking sector has recorded 33 mergers and 3 acquisitions (See Annex II). However, only four of the mergers are listed at the NSE. The M&A of the banks has been attributed to changes in the operating environment. Several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution taken over another's operations (acquisitions). The rationale for mergers and acquisitions include the need : to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others.

2.0 Statement of the problem

While the expected shareholder gains and managers' gains from mergers and acquisitions in Kenya's corporate are premised on sound theory, empirical evidence of these benefits is not only scanty but mixed. Kithitu et al. (2012) found out that ROA of the new institutions at times dropped slightly compared to the average of the two institutions before the merger transaction was concluded. Mutia (2011), on the other hand, concluded that there was improvement in financial performance after bank merger and there was general increase in the profitability of the banks after the merger. Ireri (2013) similarly found a positive impact on financial performance of the merged oil firms. Unlike the past studies, this study analyzes the post-merger performance of the commercial banks listed on the NSE using the industry average performance of both ROA and ROE. Using financial ratio analysis and 'paired t" test, the study by Mboroto (2013) revealed that mergers/acquisitions have insignificant effect on the overall financial performance of petroleum firms in Kenya.

The continuing deepening of the merger and acquisition phenomenon in Kenya's corporate sector despite of insignificant improvement post-merger performance could be attributed to methodological shortcomings of the reduced-form methods of data (i.e., events and accounting) analysis employed in the literature, as well indicators of financial performance used.(Mortis, 2007). These studies lack a structural analysis of the merger mechanism and, hence, lack a proper assessment for inferring the merger gains. They are also fraught with misspecification problems. Furthermore, these studies fail to disentangle motive from the observation of the merging and non-merging firms' gains (Chen, et el., 2013).

The study builds on past studies to establish the effects of mergers and acquisitions on the financial performance of commercial banks listed at the Nairobi Securities exchange.

3.0 Research questions

1. What is the industry average performance of commercial banks in Kenya?
2. What is the trend of post-merger performance of commercial banks in Kenya?
3. Is there any significance difference between the post-merger performance and industry average of commercial banks in Kenya?
4. What are the policy implications of post-merger performance of commercial banks in Kenya?

4.0 Literature review

4.1 Merger and Acquisition Theories

Although often used interchangeably to refer to business reorganizations that serve to transfer ownership control from one (the target) to the other (the acquirer), mergers and acquisitions are different (Motis, 2007). The explicit differences between the two forms of corporate reorganization are premised on how the transaction is announced to the target company and on the resultant new corporation structure. In mergers, the takeover bid is proposed to the representative manager of the target firm and in acquisitions directly to the owners of the company (the shareholders). In acquisitions, the acquirer makes a tender offer in the form of a public invitation to the shareholder to sell all or part of their stock. In mergers, the involved firms cease to have separate identity and combine to one surviving entity. In acquisitions, on the other hand, the target firm may be legally combined but not economically combined as it may run as separate plant of the acquirer.

Since the last (nineteenth) century the world has experienced waves of horizontal beginning of the 1900s), vertical (during the decade of the 1920s), conglomerate (during the 1960s) and disciplinary mergers (during the 1980s). Mergers are defined as horizontal when two companies are in direct competition and the same product lines and markets. They considered vertical when one is the customer of the other (downstream-upstream mergers). Mergers are considered conglomerate when firms are in different markets and/or do not have business lines in common. Finally, mergers are considered to disciplinary if the takeover is hostile involving the replacement of the target firm's manager. A fifth wave of mergers took place during the 1990s. These were size increasing mergers and were neither purely horizontal nor conglomerate. Rather they presented market extensions of companies in the same industry that served different and currently non-competing markets.

The merger waves have been characterized by two distinctive features (Bernile et el., 2011). First, within each wave, the mergers have tended to cluster by industry and within industry. Second, higher merger activity is associated with larger positive or negative shocks).Motta (2004) argues that, whereas horizontal and vertical mergers possess antitrust concerns, conglomerate mergers do to a less extent because they do not necessarily have impact on the product market.

The economics and finance literature is abounding with competing theories (motives) of M&A Bernile et al., 2012; Vos & Kelleher, 2001; Motis, 2007; Chen et el., 2013). Motis (2007) has proposed a convenient classification of these theories into two distinct categories depending on whether the M&A motives depending on the claimant of the merger gains (i.e., shareholders or managers).

4.1.1 Shareholders Gain Theories

The shareholders gains theories assert that M&A increase the market value of the firm and , hence, benefiting its shareholders. A firm may increase its market value by decreasing costs, operating more efficiently, implementing efficient incentives to managers or enhancing market power. The M&A motives that produce gains to shareholders include efficiency gains, synergy gains, cost savings, financial cost savings, enhancement or strengthening of market power, preemptive or defensive moves and disciplining of inefficient or incompetent managers.

The efficiency gains for a merger accrues from economies of scale, economies of scope and economies of vertical integration. A firm is said to have economies of scale in its average cost decreases as total output increases. Economies of scope are economies of scale generalized to multi-product firm or to firms related by chain of supply. These are reached if the average cost of producing and two products separately falls when products are produced jointly. Economies of vertical integration are revealed when sum cost of separated owned stages of production falls when a single firm performs the two stages of production. These cost savings can be localized in the technical relationship between the two stages of production or in the market transaction costs (distribution costs).

Synergistic M&A theory posits that firm managers achieve efficiency gains by combining an efficient target with their business and then improving the target's performance. The gains accrue from specific complementarities between the two firms. Thus, even though the target is performing well, it should perform even better when it is combined with its complementary counterpart. The complementarities in M&A accrue from gaining fast access to new technologies or new markets, benefiting from economies of scale in R&D and/or production, tapping into sources of know-how located outside the boundaries of the firm and finally monopoly type advantages (Vos & Kelleher, 2001).Theoretically, a firm will enter into M&A if they believe that the NPV (Company A + Company B) ≥ NPV (Company A) + NPV (Company B) where NPV is the net present value. The synergistic theory implies that target firms or plants perform well before and after M&A.

Cost savings in M&A may take form of reduction in average, marginal, fixed costs of production or financial costs. These may accrue from acquiring a high R&D target or a target with patents instead of directly expanding on it. Transferring more efficiency from one firm to another clearly decreases total costs. Elimination of duplication of fixed when merging, will, of course, decrease costs as well. Other examples of cost savings that have been proposed as merge motives include rationalization (optimal reallocation of production across the different line of production of the merging firms, purchasing power (especially in the case of vertical integration) and creation of internal capital markets. Financial savings of M&A accrue from tax advantages, competitive interest rates, risk diversification. Under modern portfolio theory, the market value of a firm can be increased if it achieves optimal risk by in many uncorrelated instruments.

Enhancement or strengthening of power through M&A accrue the ability to raise prices above the level that could prevail under competitive conditions and ability to exclude competitors. The scope of enhancement of market power is associated with industry concentrations, product-differentiations, entry barriers and cost advantages.

Fridolfsson and Stennek (2005) propose a merge rationale that they call a preemptive (or defensive) motive. Under this motive firms pre-empt acquisition of a target by a competitor. The reason is that a merged firm will be a more efficient firm (provide cost efficiencies) and will become a more difficult competitor.

The disciplinary theory asserts that M&A discipline firms' managers who pursue objective objectives than maximization of shareholders wealth. Under this motive it is hypothesized that a firm is undervalued due to inefficient management and that any bidder can detect this, acquire that firm and replace the manager. The excess of free-cash flows is also considered as a result of management inefficiency. Hence, companies that hold high free-cash flows are frequent targets in hostile takeovers. Thus, the disciplinary theory suggests that acquiring merge with poorly performing firms and improves their performance as new management realizes the full potential of the target.

4.1.2 Managerial Gain Theories

The managerial gains theories (motives) are inspired by the principle-agent theory that emphasizes conflicts between shareholders and managers whenever there is incomplete and asymmetric information between them. These conflicts arise since the shareholders (principle) seek to maximize firm's value and managers (agents) seek to maximize their wage (or their ego). In the nutshell, the agency motive (driver) state that the manager seeks for gains at the expense of the shareholders gains. The agency motives for M&A include empire building, hubris and risk spreading or diversification.

Empire building, also known as managerial discretion, states that managers' objective is to increase the size of the organization they want to lead. Their goal is to grow and the fastest way to do it is by acquiring. The reason might be that their compensations are directly related to the size of the company they lead.

The Hubris M&A driver (motive) state that managers overestimate their ability to improve the performance of the underperforming target (Mortis, 2007). The overconfident in their managerial abilities may lead to overpaying for a target, implying loss to the acquiring firm (hubris consequence). The result is that the shareholders of the acquiring firm lose from the deal because the market reacts to the mistake of the acquiring firm's manager.

The risk spreading or diversification motive is premised on the modern portfolio theory. Under this motive the manager's overall investment strategy is to construct and optimal portfolio that includes mergers and acquisitions in order to diversify risk (by spreading a selected portfolio) and maximize expected returns. However, some times the manager seeks for a personal portfolio rather than an optimal portfolio for the firm. Since he has the power to select the portfolio, personal diversification might be his goal.

4.1.2 Synthesis of Merger and Acquisition Theories

Some of the M&A theories are premised on the theory of industrial organization and refer to enhancement of market power, efficiency gains and preemptive motives. Some other M&A theories refer such motives as the correction of internal inefficiencies, agency problems and capital market imperfections. The Motis (ibid.) categories of M&A theories are not mutually exclusive. A firm could for example, enter into M&A to seek market power and simultaneously be building an empire and believe that it can more efficiently manage the business of a firm or plant it has targeted as a potential M&A. The M&A theories have a welfare effect, which is producer surplus and/or consumer surplus.

Economic theory and antitrust practitioners only focus on the consumer welfare effect of M&A. Some of the shareholders gains motives including efficiency gains, monopoly power affect market products' prices, quality, diversity of choice and innovation (new product) which, in turn, affect consumer surplus (welfare). Managerial gains theories have no consumer welfare effects as they only involve a redistribution of gains between shareholders and managers. Except the Hubris, M&A theories posit the positive post-M&A value the target firm. The synergistic theory implies that target firms or plants perform well before and after M&A.

4.2 Empirical Evidence: Merger and Acquisition Gains, Motives and Effects

M&As have attracted a large and growing body of empirical literature. Two broad methods have used in the empirical literature to investigate the gains, motives and effects of mergers and acquisitions. These are the reduce-form analysis or structural-form analysis (Motis, 2007). The two types of methods differ in terms of the statistical and databases they employ. The empirical reduced-form analysis establishes an indirect, incomplete or informal relationship between the observed data and the economic model. The events and accounting studies make use of cross sectional and or panel (cross sectional alongside time series) datasets involving several mergers and acquisitions that are not necessarily related among each other.

Event studies are indirectly test semi-strong efficiency form of the Efficient Market Hypothesis (EMH) using Capital Assets Pricing Model (CAPM). If a market is semi-strong efficient then all public information including announcement of M&A is reflected in the stock prices. The studies investigate whether of the M&A causes the stock returns of the bidder and the target to perform differently. The M&A gains are said to be the abnormal return that is observed in excess of what it would have been if no merger was announced. Most of this event studies find while that acquired firms gain from the deal,, acquirers at best do not lose.

The accounting studies analyze merger performance by measuring and comparing accounting profits before and after their integration with those of a control group. These studies are less homogeneous between them than event studies because different measures of profitability are adopted. Different alternatives are used to control for external shocks, i.e., comparing the merging firms with their base industry or with merging firms (firms similar with the merged ones in industry and size). The findings of these studies have shown that, in most cases, post-merger profits of the merging are weaker than the one of merging-control group.

Various accounting empirical studies on corporate mergers and acquisition have focused on firms' financial performance (Pazarskis et el., 2006; Saboo & Gopi,2007; Mantravadi & Reddy, 2008; Selvam et el., 2009;U llah et el., 2010; Ismail, et el., 2010; Wen, 2010; Mishra & Chandra, 2010; Adebayo et el., 2012; Badreldin & Kalhoefert, 2009). Under the shareholders gains motives (i.e. increased market share and revenues, economies of scale and scope, among others) the fundamental logic for the mergers and acquisitions is to maximize shareholders value. This is generally reflected in such standard financial performance indicators as profitability, liquidity and solvency. Profitability shows the extent to which a firm has been efficient in its operations or gauges its operating success using such indicators as Return on Equity (ROE), Return on Assets (ROA), Gross Profit Margin (GPM), Net interest Margin (NIM) (for commercial banks), Tobin's Q and Earnings Before Tax (EBT).

ROE is a financial ratio that measures how much profit a firm has earned compared to the total amount of shareholders equity invested or found on the balance sheet. ROA, on the other hand, is a financial ratio that measures how much income a firm has earned compared to its total assets. It measures the ability management to generate income by utilizing company assets at their disposal, i.e. it shows how efficiently the resources of a company are used to generate the income.

Liquidity measures the ability of the firm to pay its short-term debt and meet unexpected cash needs. Illiquidity has potential negative effects including fall in its market ratings and loss of confidence by its customers. Solvency indicates a firm's ability to meet long-term obligations when due and measures the long-term financial strength of the firm. In mergers and acquisitions, solvency is best through the total debt ratio (TDR) and Total Assets ratio (TAR). The financial performance of firms is managerial in managerial efficiency (Athanasoglou et el., 2006, 2008; Houssem, 2013). This is measured both qualitatively (through subjective evaluation of management systems, organizational discipline, quality of staff, etc.) and quantitatively (through asset growth, sales growth and such proxy financial ratios of managerial efficiency include the ratio of operation profit profits to total income and operating expenses to total assets)

The accounting empirical studies of the effects of mergers and acquisitions on the financial performance of firms typically compare pre-merger/acquisition and post-merger/acquisition financial performance ratio using 'paired t' tests or regression analysis. In the regression analysis approach the profitability of the firms is expressed as a linear function of internal (firm-specific) and external (macroeconomic industry-specific and governance) factors. Flaming et el. (2009) and Houssem (2013) identifies several determinants of bank profitability including capital adequacy, liquidity, growth of deposits, bank size, interest income share, credit risk, off-balance sheet activities, ownership, concentration, central bank intervention, inflation rate, GDP growth, effective tax rate and term structure of interest rates.

The accounting empirical studies are based on secondary data available in the firms' audited financial statements of listed companies. These statements are accessible through the firms' registered websites or the securities exchanges. Data from these financial statements include current assets, current liabilities, total liabilities, networth and total assets. Data from the securities exchange include stock prices of firms that have engaged in mergers and acquisitions.

The structural- form empirical methodology is premised on structural (behavioral) economic model which, in turn, serves to interpret the estimated data. Studies employing this methodology proceed on a case-by-case basis with the objective of predicting the merger effects on pricing). The empirical studies under this methodology are based on f Bertrand oligopolistic competition model and employ structural econometrics to predict the effect of merger on prices. The studies under structural-form methodology not only require high econometric skills but also large cross sectional and/or panel datasets (including product prices, market shares, size of the market and product characteristics) that are used to compute sources of market power (i.e. own and cross price elasticities).

While the expected shareholder gains and managers' gains from mergers and acquisitions are premised on sound theory, empirical evidence of these benefits has been disappointing if not paradoxical. The empirical evidence has failed to reveal significant ex-post evidence of realized performance benefits across a wide variety of methodologies, samples and time periods (Motis, 2007**).** The mounting wave of mergers among institutions despite such disappointing results has fueled a controversial debate on the real premises of the mergers. Empirical studies evaluating efficiency gains from disciplinary and synergistic mergers have generated mixed results. Some studies have revealed zero or negative returns while others have found little evidence of efficiency gains from M&A (Bernile et el., 2012). Studies of the abnormal returns to takeover participants show that in general bidding firms seem to have no significant positive returns (Chen, et el., 2013).

The lackluster and rather paradoxical result that mergers may not lead to significant positive performance outcome has been attributed to methodological shortcomings of the reduced-form methods of data (i.e., events and accounting) analysis employed in the literature (Mortis, 2007). These studies lack a structural analysis of the merger mechanism and, hence, lack a proper assessment for inferring the merger gains. They are also fraught with misspecification problems. Furthermore, these studies fail to disentangle motive from the observation of the merging and non-merging firms' gains (Chen, et el., 2013).

5.0 Methodology

5.1 Research Design

We adopted a descriptive survey design to determine the relationship between mergers and acquisitions and the financial performance of the commercial banks listed on the Nairobi Securities Exchange in Kenya. By using a descriptive study, we were able to depict whether mergers and acquisitions do have an impact on the financial performance of the listed commercial banks firms in Kenya.

5.2 Population Size

The population under study consisted of all the commercial banks listed in the Nairobi Stock Exchange. Although there are 46 commercial banks in Kenya only eleven are listed at the Nairobi Stock Exchange. Some of the firms in this sector had engaged in mergers and acquisitions in efforts to improve financial performance and maximize shareholder value. The main focus is on firms that have engaged in mergers and acquisitions in this sector between the years 2001-2012. These include; merger of Kenya Commercial Bank Ltd Kenya Commercial Finance Company to form Kenya Commercial Bank Ltd on March 21, 2001; merger of Co-operative Merchant Bank Ltd with Co-operative Bank Ltd on, May 28, 2002 to form Co-operative Bank of Kenya Ltd; merger of CFC Bank Ltd with Stanbic Bank Ltd on June 1, 2008 to form CFC Stanbic Ltd and merger of Savings and Loan (K) Ltd with Kenya Commercial Bank Ltd on February 1, 2010 to form Kenya Commercial Bank Ltd.

5.3 Data Collection

The study was 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 financial while net income (net worth) was obtained from the income the statements. The raw financial data for the period 2001-2012 is summarized in Annex IV.

5.4 Data Analysis

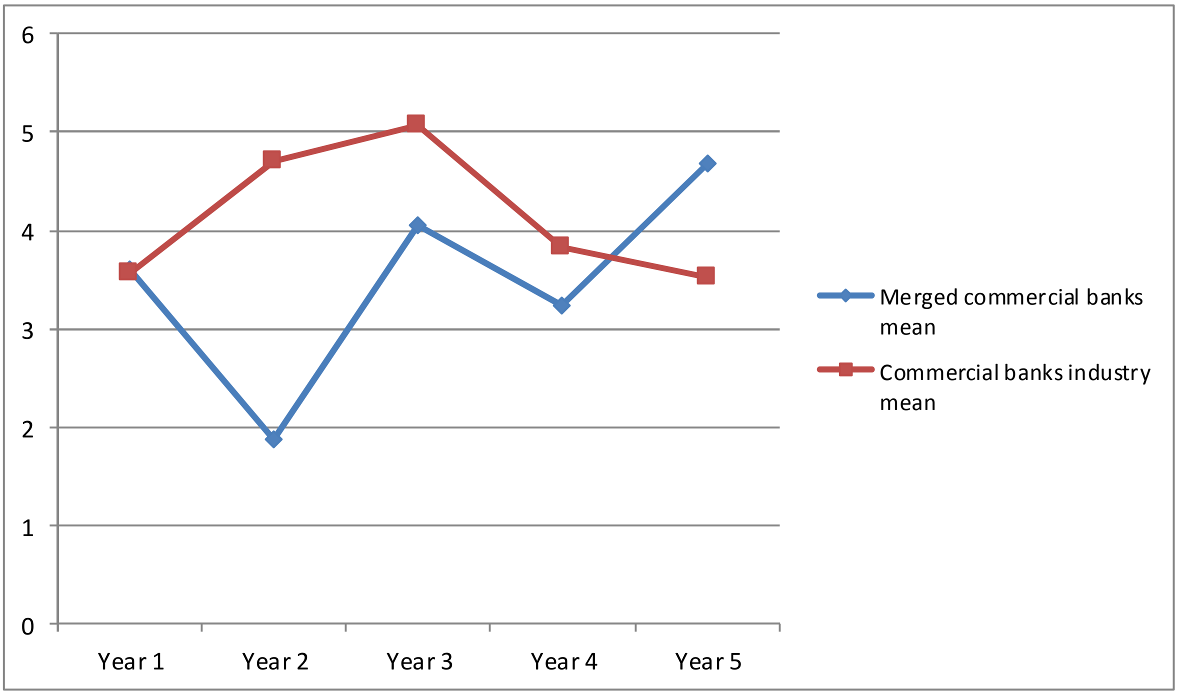
The study performed financial ratio analysis method to determine and test the effects of mergers and acquisitions on the financial performance of listed commercial banks in Kenya. Return on Assets (ROA) and Return on Equity (ROE) were computed from the raw data in Annex V. In order to determine improvements in the post-merger performance of the listed commercial banks the study conducted "paired t" tests of the difference of the mean financial ratios of the post-merger and acquisition commercial banks and the listed banking industry. The study formulated the two null hypotheses stated thus;
H1: There is no significant difference between the means of ROA of the post-merger and acquisition commercial banks and the (listed) commercial banking industry in Kenya.
H2: There is no significant difference between the means of ROE of the post-merger and acquisition commercial banks and the (listed) commercial banking industry in Kenya.

6.0 Empirical Results

6.1 Analysis of Means of ROA

The results in figure 11 show that the average return on assets for merged commercial banks is below that of the industry average between years one and three and thereafter the average return on asset for merged banks starts to rise above the industry average.

Figure 1: Comparable means on return on assets



The results of the “paired t” tests on ROA are summarized Table 3. The results show that at both 0.01 and 0.05 levels of significance we cannot reject the null hypothesis that the post-merger and acquisition does not outperform the banking industry in Kenya in terms of ROA.

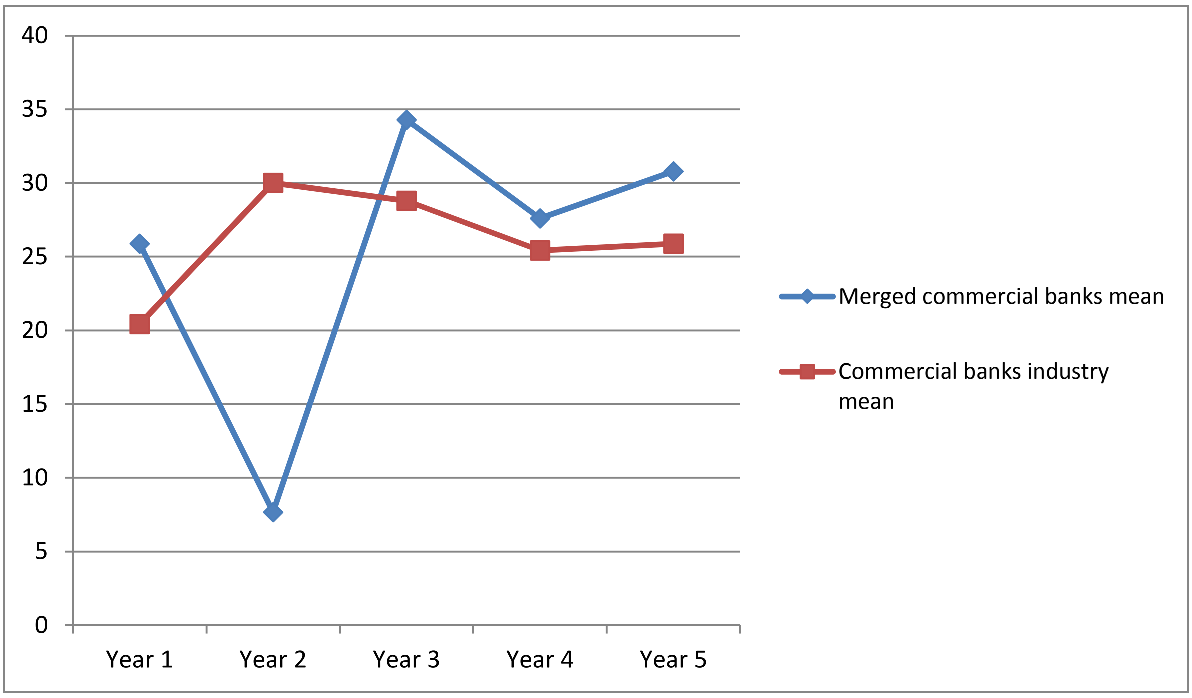
Table 3: Empirical Results of Mean Ratios of ROA

	t values	Decision
Year 1	0.01	Accept H1
Year 2	0.65	Accept H1
Year 3	(0.33)	Accept H1
Year 4	(0.06)	Accept H1
Year 5	0.24	Accept H1

6.2 Analysis of Means of ROE

The results in figure 2 also show that the average return on equity for the banks reduces drastically after the merger and then rises to above the industry average from year three onwards as shown in table 2 and figure 2 below.

Figure 2: Comparable means on return on equity



These findings are consistent with the findings of Badreldin and Kalhoefert (2009) showing that bank mergers and acquisitions in Egypt did not result in significant improvement on return on assets (ROA) and return on equity (ROE). The results are also consistent with other past studies showing that, on average, mergers and acquisitions are value destroying in the first one to two years after the acquisition. The results were also consistent with findings of past studies that the potential synergistic benefits from mergers and acquisitions only come with a time lag; initially dipping and reversing thereafter after a few years of their announcement date (Smit & Ward,2007; Mahesh &Prasad, 2012). The results however contradict those of some past studies showing that bank mergers and acquisitions resulted in significant improvement in return on assets (ROA) and/or return on equity (ROE). The contradiction may be attributed to the methodology used as they used the event-study methodology which is not the case in this study.

The results of the "paired t" tests on ROA are summarized Table 4. The results, similarly, the results show that at both 0.01 and 0.05 levels of significance we cannot reject the null hypothesis that the post-merger and acquisition commercial bank do not outperform the banking industry in Kenya in terms of ROE.

Table 4: Empirical Results of Mean Ratios of ROE

	t values	Decision
Year 1	0.28	Accept H_2
Year 2	(0.63)	Accept H_2
Year 3	0.27	Accept H_2
Year 4	0.09	Accept H_2
Year 5	0.27	Acceptt H_2

7.0 Conclusions

From the trend analysis of both ROA and ROE, we drew three main conclusions. First, the potential synergistic benefits from mergers and acquisitions only come with a time lag. These benefits showed a fluctuating trend; initially dipping and reversing after about three years of the announcement date. Second, the benefits were higher in terms of the ROE than ROA. Third, the commercial banks under mergers and acquisitions did not outperform the banking in terms of both ROA and ROE. The averages of both ROA and ROE of these banks was generally significantly below their banking the industry averages, implying that the potential (theoretically premised) abnormal returns of merged could not be confirmed. From the results of the "paired t" tests on ROA and ROE at both 0.01 and 0.05 levels of significance, we similarly concluded that the post-merger and acquisition commercial banks did not outperform the banking industry in Kenya.

8.0 Recommendations

Based on the conclusions on the post-merger performance of publicly traded commercial banks in Kenya, we can make several recommendations. First, merger and acquisition decisions should explicitly integrate a lag structure of their potential benefits. Publicly traded commercial banks in Kenya which wish to merge should only do so if they are looking for long term gains. This is because in the short run the merged banks are expected to perform below the industry average as noted from this research. Second, with their potential initial negative benefits (value-destroying), mergers and acquisitions continuously monitor their financial performance to minimize the fluctuations and look for ways of sustaining themselves during the initial years when the returns are expected to fall below the industry average and even be negative. Finally, with the growing merger and acquisition activity in the NSE despite disappointing empirical results of their benefits, there is a clear need for further studies in different sectors s and/or methodological shortcomings of data analysis of the previous studies..

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ANNEX I

KENYA MERGERS AND AQUISITIONS

M&A deals approved by the Kenya Competition Authority

Agri-Business & Food

1. The acquisition by Almasi Beverages of Kisii Bottlers, Rift Valley Bottlers and Mount Kenya Bottlers
2. The acquisition of Lord Erroll Limited by Koita International Kenya.
3. The acquisition of Ocean Agriculture (EA) by JH Verwiel.
4. The acquisition of Siret Tea Company by Siret Outgrowers Empowerment & Produce Company.
5. The acquisition by the Rai Family of shares of Sukari Industries.

Banking, Insurance & Finance

1. The acquisition of I&M Bank by City Trust Limited.
2. The acquisition of PSJ & Associates by PKF Kenya.
3. The acquisition of 66.66% of Mercantile Insurance by Colina Holdings

Building, Energy & Real Estate

1. The acquisition of shares in Cemtech (who were to put up a cement factory in Pokot) by Rock Field Corporation.
2. The acquisition of Economic Housing by Mali Rasili Group.
3. The acquisition of all assets of Mutonga Mutuandaju Small Hydro Power (a hydro-power project in South Imenti, Meru) by Intrepid Energy.

Health & Beauty

1. The purchase of shares in Alexander Forbes Healthcare by Zanele Investments Holding Company
2. The acquisition of the health and beauty business (cosmetic & hair brands) of Interconsumer Products by L'Oreal East Africa
3. The acquisition of certain assets & liabilities of RTT Health Services by Imperial Group
4. The acquisition of Lyntons Pharmacy by Luwada Management
5. The acquisition of Star Biotech Lab & Diagnostics (a pathology lab) by Metropolis Health Healthcare

Media & Communications

1. The acquisition of Alldean Networks Limited by ISAT Africa Limited FZC and Richard W. Bell.
2. The acquisition by EMC Acquisition, LLC and Emerging Markets Communication, LLC of EMC, LLC.
3. The acquisition of shares in Dodhia Packaging Limited by Corpak Africa and Corpark Kenya
4. The acquisition of the investment in Rodwell Press held in Interlabels Africa by Interlabels Industries Private

Limited.

Oil & Mining

1. The acquisition of Aviva Mining Kenya by Africa Barrick Gold (from Aviva Corporation)
2. The acquisition of 87.25% of Pacific Seaboard Investments Limited by Tardigrade International Inc.

Tourism

1. The acquisition of East Africa Safari Ventures by Natural Habitat Safaris.
2. The acquisition of 80% of Nairobi Tented Camp by Porini Limited.
3. The acquisition of Leleshwa Safari Company by Natural Habitat Safaris
4. The acquisition of Vittoria Limited and subscription of shares in Olarro Conservancy Limited by Arabian Ranchers Property Investments

Transport, Engineering & Logistics

1. The acquisition Swift Global Logistics by DSV Air & Sea Holdings
2. The purchase of 55% of Tradewinds Aviation by NAS Africa Aviation
3. The acquisition of 60% of Treadsetters Tyres by Bharat Doshi, Aashit Shah and Carlet Overseas Corporation.
4. The acquisition of 40% of Tredcore Kenya by Magister Limited
5. The acquisition of Vtechnologies (Kenya) Limited by UHT SAS.

Other recent deals in the News

1. Jacana Partners and InReturn Capital announced a merger, and plans for a ***$75 million SME Fund***
2. *88mph* and the ***eVentures Africa (eVA) Fund*** announced a partnership to improve investment opportunities
3. Does ***Tuskys Supermarket want to buy Ukwala*** a rival supermarket chain?
4. 90% of ***I&M Bank shareholders*** have accepted the takeover by City Trust Ltd and the deal makers have been granted a 2 week extension to reach out to the remaining shareholders. Next steps include a share split. mandatory acquision of the balance of shares, and a possible NSE-listing on June 12.
5. ***Airtel signed an agreement to fully acquire Warid Uganda*** – the combined entity will remain the number two carrier in Uganda with 7.4 million customers and a market share of 39%.
6. ***Fastjet and the CEO of Fly540*** agreed to cease their court battles and work towards on acquisition of Fly540 – freeing FastJet to commence Kenyan operations.

Annex II

List of Mergers and Acquisition of Banks in Kenya

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

Acquisitions

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

ANNEX III

LIST OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

1 Barclays Bank Limited
2 CFC Stanbic Holdings Limited
3 I & M Holdings Limited
4 Diamond Trust Bank Kenya Limited
5 Housing Finance Co. of Kenya (HFCK) Limited
6 Kenya Commercial Bank (KCB) Limited
7 National Bank of Kenya (NBK) Limited
8 NIC Bank Limited
9 Standard Chartered Bank Limited
10 Equity Bank Limited
11 The Co-operative Bank of Kenya Limited

ANNEX IV
BIOGRAPHIES OF THE AUTHORS

1. Aloys Ayako is an Associate Professor of Economics at the Catholic University of Eastern Africa (CUEA). He holds a PhD, Masters of Political Economy (MAPE) and Masters of Economics degrees. He has over thirty years of teaching, supervision of Masters and PhD theses and research experience. He has published widely in peer reviewed journals.
2. Danson Musyoki is a Lecturer in Finance at the Catholic University of Eastern Africa (CUEA). He holds a PhD and Masters of Business Administration (MBA) degrees. He has over fifteen years of teaching, supervision of Masters theses and research experience. He has published widely in peer reviewed journals.
3. Silveria Murungi has recently completed her Masters of Business Administration (MBA) in Finance from the Catholic University of Eastern Africa (CUEA) and is currently enrolled for PhD studies at the University of Nairobi.

ANNEX IV
FINANCIAL DATA AND RATIOS
Table 1: Kenya Commercial Bank Ltd

year	Net Income (sh m)	Total Assets (sh m)	Return on Assets (ROA)	Shareholders' Equity (shs m)	Return on Equity (ROE)
2001	183	64,984	0.003	8,341	0.022
2002	(4,179)	59,689	(0.070)	5,467	(0.764)
2003	877	60,488	0.14	5,664	0.155
2004	1,074	69,600	0.015	8,080	0.133
2005	1948	78,315	0.025	9,802	0.199
2010	11,537	223,024	0.052	40,876	0.282
2011	14,081	284,490	0.049	45,162	0.312
2012	15,755	304,112	0.052	52,926	0.298

Table 2: Co-operative Bank of Kenya Ltd.

Year	Net Income (sh m	Total Assets (sh m)	Return on Assets (ROA)	Shareholders' Equity (shs m)	Return on Equity (ROE)
2002	104	28,675	0.004	3,680	0.028
2003	181	32,394	0.006	3,417	0.053
2004	356	46,434	0.008	5,206	0.068
2005	714	51,830	0.014	5,601	0.127
2006	1,256	58,038	0.022	4,776	0.263

Table 3: CFC Stanbic Bank Ltd.

Year	Net Income (sh m)	Total Assets (sh m)	Return on Assets (ROA)	Shareholders' Equity (shs m)	Return on Equity (ROE)
2008	1,313	83,166	0.158	7,638	0.172
2009	1,332	97,337	0.014	8,142	0.164
2010	2,103	107,138	0.020	10,034	0.210
2011	3,128	140,086	0.022	10,150	0.308
2012	4,711	133,378	0.035	18,101	0.260

Table 4: Barclays Bank of Kenya ltd.

Year	Net Income (sh m)	Total Assets (sh m)	Return on Assets (ROA)	Shareholders' Equity (shs m)	Return on Equity (ROE)
2001	5,346	73,647	0.073	8,777	0.610
2002	2,550	75,925	0.034	8,774	0.291
2003	4,764	85,892	0.055	9,622	0.495
2004	5,591	97,788	0.057	10,510	0.532
2005	5,401	91,345	0.059	11,433	0.472
2006	6,475	102,861	0.063	12,375	0.523
2008	8,018	148,047	0.054	24,940	0.321
2009	9002	164,875	0.055	31,465	0.286
2010	11,553	172,415	0.067	24,210	0.477
2011	12,071	167,029	0.072	40,236	0.300
2012	13,091	185,101	0.071	29,583	0.442

Table 5: HFCK Bank Ltd

Year	Net Income (shs m)	Total Assets (shs m)	Return on Assets (ROA)	Shareholder's Equity (shs m)	Return on Equity (ROE)
2001	(256)	11,714	(0.022)	898	(0.285)
2002	95	10,445	0.009	942	0.101
2003	98	10,765	0.009	970	0.101
2004	88	10,751	0.008	1,055	0.083
2005	90	9,861	0.009	1,146	0.079
2006	141	9,134	0.015	873	0.162
2008	203	14,294	0.014	3,055	0.066
2009	351	18,280	0.019	4,005	0.088
2010	561	29,325	0.019	4,269	0.131
2011	975	31,972	0.030	4,282	0.227
2012	2,222	40,695	0.054	5,145	0.432

Table 6: Citibank Ltd

Year	Net Income (shs m)	Total Assets (shs m)	Return on Equity (ROA)	Shareholders' Equity (shs m)	Return on Equity (ROE)
2001	699	27,710	0.025	3,691	0.189
2002	1,159	30,161	0.038	3,799	0.305
2003	826	28,333	0.029	3,938	0.210
2004	356	25,108	0.014	3,370	0.106
2005	1,285	30,928	0.042	5,285	0.234
2006	1,530	37,794	0.040	5,781	0.265
2008	3,353	47,555	0.071	9,149	0.366

Table 7: City Finance Bank Ltd.

Year	Net Income (shs m)	Total Assets (shs m)	Return on Assets (ROA)	Shareholders 'Equity (shs m)	Return on Equity (ROE)
2001	2	799	0.003	390	0.005
2002	15	814	0.018	396	0.038
2003	11	650	0.017	406	0.027
2004	11	543	0.020	417	0.026
2005	(47)	511	(0.092)	371	(0.127)
2006	(17)	527	(0.032)	354	(0.048)
2008	(3)	538	(0.006)	323	(0.009)