THE EFFECT OF FINANCIAL RESTRUCTURING ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

OSORO PETER MASENO

D63/60677/2013

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE IN MASTER OF SCIENCE IN FINANCE, UNIVERSITY OF NAIROBI

NOVEMBER 2014
DECLARATION

This research proposal is my own work, and has never been submitted by anyone to any institution for any award. Any other author’s work has been clearly acknowledged.

Signed………………………………… Date……………………………

Osoro Peter Maseno
D63/60677/2013

This research project has been submitted for examination with my approval as the university supervisor.

Signed………………………………… Date……………………………

DR. Josiah Aduda,
Dean, School of Business, University of Nairobi
DEDICATION

To my family, friends and lecturers, may this work be a living proof that hard work, patience, persistence, and prayers can make you actualize your dreams.
ACKNOWLEDGEMENT

I thank God for giving me the wisdom and guidance throughout my life for without Him I would not have come this far. I also would like to acknowledge the following for their selfless contributions which facilitated the completion of this project.

Special thanks go to my supervisor Dr. Josiah Aduda, for providing invaluable and active guidance throughout the study. His immense command and knowledge of the subject matter enabled me to shape this research project to the product that it is now.

I also thank my family for their financial and moral support towards the achievement of this requirement. It is my hope that their sacrifice has finally paid off.

Finally, I wish to thank a number of people who in own way contributed towards completion of this project especially Jackie Watuka, Bade Kwanya and Patience Njue for their time and support.
ABSTRACT

The objective of this study was to determine the effect of financial restructuring on the financial performance of commercial banks in Kenya. Generally, the expectation is that financial restructuring when employed by the management of a firm; it should have some effects on the performance of the firm, in this case the performance of the commercial banks.

The study was conducted on 11 commercial banks in Kenya, all of which are listed in the Nairobi Securities Exchange and which were in operation in Kenya during the six-year period of the study that is from 2008 to 2013. The various ratios that make the variables under consideration, namely debt ratio, dividend payout ratio and equity ratio of these commercial banks were computed from the various data collected and extracted from the annual financial statements of the said listed commercial banks for the period of study. The data was then analyzed using a multiple linear regression model using SPSS version 20, to establish if there was any effect of financial restructuring on the financial performance of these commercial banks and if existent; how significant the said effect would be.

The finding of the analysis concluded that there exists a positive effect of financial restructuring of the financial performance of commercial banks in Kenya. However, the analysis further showed that the effect was very minimal and could only explain 26.7% of financial performance leaving the other more than 70% unexplained, at least not in the findings of the analysis of this study. The commercial banks in Kenya therefore, need to consider other factors even as they employ financial restructuring to enhance financial performance of their firms with a view to ensure survival in a competitive market while meeting their social objective.
### Table Of contents

DECLARATION .......................................................................................................................... ii
DEDICATION .......................................................................................................................... iii
ACKNOWLEDGEMENT .......................................................................................................... iv
ABSTRACT ............................................................................................................................. v
LIST OF TABLES ....................................................................................................................... viii
LIST OF ABBREVIATIONS .................................................................................................... ix

CHAPTER ONE .......................................................................................................................1

INTRODUCTION ................................................................................................................... 1
  1.1 Background to the Study ............................................................................................... 1
  1.1.1 Financial restructuring ......................................................................................... 5
  1.1.2 Financial Performance of Commercial Banks ...................................................... 6
  1.1.3 Financial Restructuring and Financial Performance ............................................ 8
  1.1.4 Commercial banks in Kenya ................................................................................ 9
  1.2 Research Problem ....................................................................................................... 10
  1.3 Objectives of the study ............................................................................................... 12
  1.4 Value of the Study ...................................................................................................... 12

CHAPTER TWO .................................................................................................................... 14

LITERATURE REVIEW ......................................................................................................... 14
  2.1 Introduction ................................................................................................................ 14
  2.2 Review of theories ..................................................................................................... 14
    2.2.1 Agency Theory .................................................................................................... 15
    2.2.2 Lifecycle Theory ............................................................................................... 17
    2.2.3 The Trade-Off Theory ....................................................................................... 18
    2.2.4 The Static trade-off theory ............................................................................... 19
  2.3 Determinants of Financial Performance of Commercial banks ............................... 20
    2.3.1 Bank Specific Factors ....................................................................................... 21
    2.3.2 External Factors ............................................................................................... 22
  2.4 Review of Empirical studies ....................................................................................... 22
  2.5 Chapter Summary ...................................................................................................... 25

CHAPTER THREE ............................................................................................................... 27
LIST OF TABLES

4.1 Descriptive statistics
4.2 Bivariate Pearson’s correlation
4.3 Independent variables coefficients table
4.4 Model summary
4.5 ANOVA table
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMEL</td>
<td>Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital adequacy ratio</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per Share</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Securities Exchange</td>
</tr>
<tr>
<td>PWC</td>
<td>PricewaterhouseCoopers</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Developed and developing countries have had restructuring being widely used. While in most cases restructuring is employed when a given structure becomes dysfunctional, companies and economies restructure to also achieve a higher level of performance or to survive.

Growing competition and globalization along with tightened fiscal policies are causing both private and public sector organizations to strive for greater efficiency and higher cost effectiveness. In many cases the desired results cannot be achieved without subjecting the corporate strategy and structure to some transformation. In this context, restructuring is no longer just an option; it is a necessity for survival and growth (Rogovsky, Ozoux, Esser, Marpe, & Broughton, 2005).

Restructuring takes place at different levels. At the level of the whole economy, it is a long-term response to market trends, technological change, and macroeconomic policies. At the sector level, restructuring causes change in the production structure and new arrangements across enterprises. At the enterprise level, firms restructure through new business strategies and internal reorganisation in order to adapt to new market requirements.
Restructuring is usually perceived as a change of a certain organism structure. We can therefore distinguish changes at macro and micro levels, as informed by the definition of restructuring as the change of a particular economic area structure, change of production programmes and enterprising activities. When dealing with a structural change of a national economy particular field we then use the term of a macroeconomic restructuring. If a change is being witnessed in an enterprise structure, we then use the term microeconomic restructuring.

Restructuring involves diverse activities such as divestiture of underperforming business, spin-offs, acquisitions, stock repurchases and debt swaps, which are all a one-time transaction, but also structural changes introduced in day-to-day management of the business. Rappaport (1986) classified the above listed one time transactions as Phase I restructuring and those changes that bring continuous value improvement through day-to-day management of the business as Phase II restructuring.

Rappaport (1986) argues that companies need to move from Phase I restructuring to Phase II because in Phase II, the shareholder value approach is employed not only when buying and selling a business or changing the company’s capital structure, but also in the planning and performance monitoring of all business strategies on an on-going basis.

A successful implementation of Phase II restructuring not only ensures that management has met its responsibilities to develop corporate performance evaluation systems consistent with the parameters investors use to value the company, but also minimises the Phase I concern of managers that a hostile takeover is imminent.
In recent decades, a large number of countries have experienced financial distress of varying degrees of severity, and some have suffered repeated bouts of distress (Hardy, 1998). Pazarbaciouglu, (1999) believes that the best warning signs of financial crises are proxies for the vulnerability of the banking and corporate sector. He showed that full-blown banking crises are associated more with external developments, and domestic variables are the main leading indicators of severe but contained banking distress. He adds that the most obvious indicators that can be used to predict banking crises are those that relate directly to the soundness of the banking system.

Restructuring, reengineering, transformation, renewal, and reorientation are words that describe the same general phenomenon - a change in how business is conducted. Only the firms which are ready and able to realize continuous changes - the firms which approach actively to a process of restructuring and (or) reengineering can be successful in the present world. Financial Restructuring involves re-organisation of capital, buy-back, corporate debt restructuring, acquisitions, mergers, joint ventures and strategic alliances.

Financial restructuring therefore involves effecting change in capital structure to achieve balanced operative results. The financial reorganization is resorted to bring balance in debts and equity funds, short term and long term financing, to achieve reduction in finance charges, to reduce loss of capital, to increase EPS, to improve market value of shares, to reduce the control of financiers on the management of company etc.

The first objective of financial restructuring is to take measures that avert the impending insolvency and that ensure the short-term survival of the business. This is the prerequisite for a sustainable restructuring process. The medium and long-term goal of financial
Restructuring is reestablishment of a healthy and solid capital structure. Financial restructuring, which often goes hand in hand with active recapitalization, puts the final prerequisites in place for adequate equity capital and cash flow to fund future profitable growth.

Financial restructuring is the reorganizing of a business' assets and liabilities. The process is often associated with corporate restructuring where an organization's overall structure and its processes are revamped. Most businesses hold liabilities, which are debts or other obligations that arise as a result of past transactions. These economic factors will often have the most significant impact on the success or failure of that business, so financial restructuring is likely to focus on effectively managing assets and reducing liabilities. Financial restructuring involves the infusion of debt to either finance leveraged buyouts or to buy back stocks from equity investors, or to pay dividends. (Fox & Marcus, 1992) argue that changes in capital structure can be achieved by recapitalization, conversion of debt into equity and stock purchase.

According to Bowman, Singh, Useem & Badhury (1999), this type of restructuring is identified by changes are in the firm's capital structure. Changes can include debt for equity swaps, leverage buyouts, or some form of recapitalization. The largest returns in financial restructuring come from leveraged and management buyouts. Increased emphasis on cash flows and changes in managerial incentives can be the intermediate effects of financial restructuring.
1.1.1 Financial restructuring

The significance of the financial sector in the economic growth cannot be denied, and the banking sector, in its capacity of intermediation between the borrower and the lender, facilitates the economic activities as a part of the financial sector. Evaluating the financial conditions and the performance of banks has been an issue of considerable importance in recent years, particularly in the developing countries. To establish a better internal control, and thereby increase the performance of the banks, various financial restructuring reforms have been developed (Nazir & Alam, 2010).

Financial restructuring generally refers to changes in the firm’s capital structure in terms of leverage. This seeks to reduce payment pressures through equity-based and debt-based strategies. Where equity-based strategies may involve dividend cuts or issuance of shares as a means to retain or generate funds, debt-based strategies involve the adjustment of interest, maturity, or debt/equity ratio (Koh, Dai, & Chang, 2012).

Rapid advances in information technology and acute resources constraints across the globe, has made the business world to become more complex and fluid in recent times. To survive and compete the present day organizations should do away with their existing culture, policies, structure and start with a clean sheet. Restructuring starts with its very purpose. It began with the redefining or researching of the purpose of doing business.

Once the purpose is adequately redefined, scope for restructuring surfaces. Sometimes it also happens that realization of the scope for restructuring may bring you back to the purpose and you start rethinking about the purpose (Srivastava & Mushtaq, 2011).
Financial Restructuring is focused on the capital structure of the corporate entity, in this case a bank. In any of the capital structure whenever the proportion of equity is more than debt, then there will be lower EPS. In time of prosperity and when the debts are more than equity then it will be very difficult to maintain an optimal capital due to high cost of debt. Therefore in order to maintain a proper balance in the capital structure, financial reorganization is introduced.

According to Srivastava & Mushtaq (2011), financial restructuring of the debt ratio can be achieved by reduction of fixed charge burden, by the introduction of new equity and preference share capital. When equity is more, the cost of servicing to equity will also be more which can be reduced by relying on debt whenever further funds are raised for expansion and diversification proposals. The company has to strengthen its financial position.

1.1.2 Financial Performance of Commercial Banks

According to Nimalathasan (2009), Performance measurement and reporting is now widespread across the private sector as well as public sector of many industrialized and industrializing countries. The common tool that is used for this process, key performance indicators (KPIs), have been argued to provide intelligence in the form of useful information about a public and private agency’s performance (Williams, 2003).

KPIs are viewed as a good management device and a socially constructed tool that makes sense (DeKool, 2004). The fact that KPIs tend to be quantitative has helped to promote their image of objectiveness and rationality. The image of KPIs is further enhanced by
their widespread application across the many sectors of many countries. The importance of performance measurement is that it is important to expect that citizens see and understand the results of organisational programs.

Cicea & Hincu (2009) state that commercial banks represent the core of the credit for any national economy. In turn, the credit is the engine that put in motion the financial flows that determine growth and economic development of a nation. As a result, any efficiency in the activities of commercial banks has special implications on the entire economy. The management of every commercial bank must establish a system for assessing investment performance which suits its circumstances and needs and this evaluation must be done at consecutive intervals to ensure the achievement of the Bank's investment objectives and to know the general direction of the behavior of investment activity in the past and therefore predict the future.

Profitability offers clues about the ability of the bank to undertake risks and to expand its activity. The main indicators used in the appreciation of the bank profitability are: Return on equity, ROE (Net income / Average Equity), Return on Asset, ROA (Net income /Total assets) and the indicator of financial leverage or (Equity / Total Assets). The indicators are submitted to observation along a period of time in order to detect the tendencies of profitability. The analysis of the modification of the various indicators in time shows the changes of the policies and strategies of banks and/or of its business environment (Greuning & Bratanovic, 2004)

A commonly used measure of bank performance is the level of bank profits (Ceylan, Emre & Asl, 2008). Bank profitability can be measured by the return on a bank’s assets
(ROA), a ratio of a bank’s profits to its total assets. The income statements of commercial banks report profits before and after taxes. Another good measure on bank performance is the ratio of pre-tax profits to equity (ROE) rather than total assets since banks with higher equity ratio should also have a higher return on assets (Ceylan, Emre & Asl, 2008).

1.1.3 Financial Restructuring and Financial Performance

The effects of financial restructuring can be positive but sometimes negative too. In the case of financial restructuring, these intermediate effects could be an emphasis on cash flows and changes in managerial incentives (Bowman, Singh, Useem & Badhury, 1999). Further the restructuring effects could last for a long time or just a short stint.

Bowman, Singh, Useem & Badhury (1999) posit that the question as to when restructuring works is therefore composed of many intermediate effects, but the total or derivative economic effect is captured by the operating profit changes and/or stock market changes. The said market performance are evident in the abnormal movements in the firm’s stock price in the days following a restructuring announcement. On the other hand, accounting performance is evident in the changes in financial measures of the company’s performance including return on equity and return on investment as calculated over a several-year window surrounding the restructuring event, allowing comparison of post-restructuring accounting performance with the pre-restructuring record (Bowman, Singh, Useem & Badhury, 1999).

Smart & Waldfogel (1994) hold that post-buyout corporations have increases in operating income. After the leveraged buyout, long-term operating performance improves not only
as compared to pre-buyout records but also in comparison to those of other firms in the industry. Further, shareholder wealth increases to the extent that according to Kaplan (1989) both pre-buyout shareholders and post-buyout investors gain.

1.1.4 Commercial banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The financial performances of banks have been increasing and this is attributed to proper management, formulation and implementation of strategies.

According to (CBK Bank Supervision Report, 2013) there were 43 commercial banks and 1 Mortgage finance Company. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC Report, 2012). The banking industry in Kenya has also involved
itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. Some key challenges for the banking industry in Kenya include; New regulations; for instance, the Finance Act 2008, which took effect on 1 January 2009 requiring banks and mortgage firms to build a minimum core capital of KSh 1 billion by December 2012.

1.2 Research Problem

Modigliani & Miller (1958) assert in their capital structure irrelevance proposition that the leverage of the firm has no effect on the market value of the firm. They assume that the firm has a particular set of expected cash flows such that when it chooses a certain proportion of debt and equity to finance its assets, all that it does is to divide up the cash flows among investors. The investor can therefore create any leverage that was wanted but not offered, or the investor can get rid of any leverage that the firm took on but was not wanted.

In contrast Myers & Majluf (1984), hold that outside investors rationally discount the firm's stock price when managers issue equity instead of riskless debt. To avoid this discount, managers avoid equity whenever possible. This therefore points to the restructuring option adopted by managers as having an impact on the firm’s value.

Roe (2004) noted due to liberalization, globalization, and technological advancement and more enlightened customers; the banking industry in Kenya has been faced with huge non-performing loans, high overhead costs, and difficult operating environment. Banks have therefore had to restructure their business operations by downsizing, focusing on
customer care, through tailored products and restructuring of non-performing loans in order to improve their financial performance and shareholder value (Kithinji, 2000).

Most Local studies on restructuring focused on mergers and acquisition strategy. Ireri (2011) in his study in case of the oil industry found that mergers improved performance of listed companies. His findings are in tandem to those by Kiplangat (2006). Both authors however, recommend further studies into other industries on the real effect of restructuring while considering industry-specific factors. In his study, Airo (2009) found restructuring to be resulting into improved performance. He however warns that improvement was not sustainable and therefore recommended more studies. Wanguru (2011) found that returns in some firms were positive while some firms showed negative returns. Rono (2011) focused on outsourcing as a restructuring strategy and recommended longer studies to establish the impact of outsourcing on performance.

In all the mentioned studies, none considered the role and implication of financial restructuring strategies adopted by Kenyan organizations more so in the banking industry. Most studies focused on general restructuring modes yet some firms might just have undertaken a single restructuring strategy, say financial restructuring. Also, the studies recommended further studies given the mixed and inconclusive results gathered.

Much research effort has been targeted particularly on corporate restructuring. To date however, there is no comprehensive theory to explain how firms in Kenya ensure survival especially in relation to capital structure. This study seeks to address the inherent gap on what are the implications of Financial restructuring on firm performance? And what impact does this restructuring strategy have on the Kenyan commercial banking industry?
1.3 Objectives of the study

The objective of this study is to determine to what extent financial restructuring impacts on the financial performance of commercial banks in Kenya.

1.4 Value of the Study

The research findings will contribute to a better understanding of financial restructuring in Kenya. This will enable the formulation of focused intervention strategies and coordinate efforts aimed at facilitating performance and growth in banks. The performance and growth of the sector will go a long way in helping solve problems of inflation and unstable financial markets. The study will be useful to the following groups:

The government can use the research findings to understand the extent to which the policies affect financial restructuring in the banking industry. The rules and regulations set by the Central Bank of Kenya affect the sustainable growth and development of the nation and the role that banks play in achieving Vision 2030 cannot be overemphasized.

The findings of this study can also be invaluable to the banking industry as they will be able to understand vividly financial restructuring on banks performance. It is notable that like any other firms, banks in Kenya and indeed worldwide find themselves in a position that a change in the capital structure for instance may be key to its continued positive growth and business survival.

The development partners who are usually interested at stability of the banks can have an understanding of a variety of the impact of financial restructuring on the performance of
banks and the extent to which the identified impact affect banks performance. This will therefore serve to guide such partners into making informed decisions.

The scholars and researchers who would like to debate or carry out more studies on financial restructuring and its impact on the performance of banks in Kenya will find this study useful as a basis of carrying out more studies in Kenya.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Several theories exist that explain the concept of financial restructuring and how it affects the performance of firms and by extension the value of the said firms. This chapter provides a general review of literature that is based on the theories of Financial Restructuring and how it impacts on the performance of firms generally, and more specifically on that of Kenyan banks. The review will include theoretical review of previous studies on the impact of financial restructuring on the performance of banks and eventually a chapter summary on the same.

2.2 Review of theories

This section discusses general theories that guided the topic of study. The theories reviewed here have been tested extensively by a various researchers in the financial fields, indicating that corporate restructuring and indeed financial restructuring, offers an opportunity for companies to improve their performance and increase shareholder value. For instance, Bowman, Singh, Useem & Badhury (1999) give a summary of studies which find positive effects of financial restructuring based management buyouts and Leveraged buyouts as employed by different corporations.
2.2.1 Agency Theory

Don Goldstein (2010) argues that there is a variety of basically neoclassical theories of the firm, in that they utilize a well-defined production function, and envisage decision-makers’ maximizing choices leading firms to equilibrium in key variables. In Financial restructuring, Agency theory features greatly, and was widely accepted in the 1980s. The agency theory focuses on the firm as a profit-maximizing one. Separation of ownership and control in the corporation is therefore key.

The Fathers of Agency theory Jensen & Meckling (1976) posit the agency-theoretic firm as a 'nexus of contracts'. The agency relationships are achieved through internal and external market transactions that are governed by either explicit contracts or implicit ones. It is through these contracts that providers of managerial expertise, employees, intermediate goods and risk capital are interlinked. The Shareholders are therefore thought of as principals by virtue of their role as residual risk-bearers, and their contracts convey ownership. Agency contracts are however likely to be imperfect due to informational problems, but an optimal balance between accuracy and contracting costs is achieved designed to base each provider’s compensation on its marginal product.

The company’s stock is an effective contractual payment in this model because its price is seen as reflecting not only the (prospective) performance of the firm, but also the manager’s marginal contribution to that performance (Fama, 1980). The managerial contracts are therefore key under Agency theory as they seek to align the interests of the managers (agents) to those of the firm and by extension to those of the shareholders (the
principals). Of importance is therefore a focus on the incentives provided in the managerial contracts. This is because the firm’s profit opportunities and how they are to be achieved, for instance through technological intervention is assumed to be known. To maximize shareholders’ value therefore remains a question of how well the managers motivated to make the right choices to that respect.

The basic framework employed by 1980s financial restructuring participants is very much a Principal-agent one, in which asymmetric information and managerial opportunism figure strongly (Don Goldstein, 2010). To them; resolving the agency problem was in itself financial restructuring especially when faced with contractual breakdowns resulting from slowing growth and stress from competition. To achieve this, changes in the capital structure, plus managerial replacement coupled in some instances with new forms of organization, are seen to bring about efficiency by effecting changes in the terms of agents’ contracts throughout the organization. It is notable that the said changes in the contracts need to be both explicit and implicit.

Michael Jensen (1989) states that the key result in these scenarios, with the pressures of debt servicing being the chief instrument, is reduced agent discretion. No longer will free cash flow be diverted to empire-building and waste, and hence effort and efficiency will rise. Profitability and market value will rise because the new incentive environment causes managers to do the right thing.
2.2.2 Lifecycle Theory

A firm grows and eventually matures while moving through different stages of the corporate lifecycle (Miller & Friesen, 1984). Each of the stages differs from the other in terms of characteristics and firm structure. Lifecycle theory suggests the unique firm lifecycle characteristics of birth, growth, maturity, and decline and how these characteristics affect the decisions a firm makes, especially in situations such as financial distress and the threat of bankruptcy (Koh, Dai, & Chang, 2012).

At birth phase a firm is in the initial stage of starting up business operations. The firm is therefore more geared towards expansion and is mostly action oriented. As it progresses into growth stage, the firm is more or less successful and experiencing growth in terms of strong business and cash flows. The firm then enters maturity. Here, the firm is cash rich, financially oriented, and focuses more on low risk projects. Eventually, at decline stage a firm has limited investment opportunities and generally are incapable of generating sufficient resources. Given that at different lifecycle stage a firm is faced with different challenges, management must have adjusted decisions that account for these differences.

According to Koh, Dai, & Chang, (2012), Lifecycle characteristics present limited options for restructuring to managers, this especially when firms are faced with distress. Depending on the stage in the Lifecycle in which the firm is, the specific lifecycle characteristics will affect the restructuring strategies that the firm may employ if in financial distress, namely; managerial, operational, asset and financial strategies. For
example, mature firms replace top level management while growth, mature and decline firms reduce dividend payments and raise funds from external sources.

Corporate finance theory, on the other hand, argues that states of financial distress, default and bankruptcy present a fundamental stage in the lifecycle of firms (Wruck, 1990). The survival of a firm is therefore not only dependent on its ability to remain profitable, to maximise shareholder wealth and to avoid financial distress but also on its ability to make decisions which take into consideration its stage in the lifecycle, (Koh, Dai, & Chang 2012). There is therefore a need to effectively deal with financial distress and immediately so, especially given that it precedes bankruptcy. How effectively a firm responds when it is in financial distress is crucial when it comes to recovery.

Restructuring strategies available to a firm when in distress is limited by the lifecycle stage it is in. For instance, it is more likely for mature firms in distress to replace their managers if incompetent. Firms at birth while open to this option my not choose to do so. Distress firms at decline stage are also more likely to employ operational and asset restructuring strategies as compared to birth firms. Growth, mature and decline firms are more likely to reduce dividend payments to preserve investments and resources due to increased creditor pressure. Consistent with the pecking order hypothesis, distress firms will raise external funding through the issuance of common shares.

2.2.3 The Trade-Off Theory

The term trade-off theory is used by different authors to describe a family of related theories. In all of these theories, a decision maker running a firm evaluates the various
costs and benefits of alternative leverage plans. Often it is assumed that an interior solution is obtained so that marginal costs and marginal benefits are balanced (Luigi & Visinescu, 2009).

The trade-off theory is progressed over the Modigliani-Miller theorem which holds that when the firm chooses a certain proportion of debt and equity to finance its assets, all that it does is to divide up the cash flows among investors. Investors and firms are then assumed to have equal access to financial markets, which allows for homemade leverage. To them, investors can create any leverage that was wanted but not offered, or the investor can get rid of any leverage that the firm took on but was not wanted. As a result, the leverage of the firm has no effect on the market value of the firm, (Luigi & Visinescu, 2009).

When corporate income tax was added to the original irrelevance, this created a benefit for debt in that it served to shield earnings from taxes.

2.2.4 The Static trade-off theory

The static trade-off theory affirms that firms have optimal capital structures, which they determine by trading off the costs against the benefits of the use of debt and equity. One of the benefits of the use of debt is the advantage of a debt tax shield. One of the disadvantages of debt is the cost of potential financial distress, especially when the firm relies on too much debt.

This leads to a trade-off between the tax benefit and the disadvantage of higher risk of financial distress. But there are more cost and benefits involved with the use of debt and
equity. One other major cost factor consists of agency costs. Agency costs stem from conflicts of interest between the different stakeholders of the firm and because of ex post asymmetric information (Jensen & Meckling, 1976) and (Jensen, 1986)).

Incorporating agency costs into the static trade-off theory means that a firm determines its capital structure by trading off the tax advantage of debt against the costs of financial distress of too much debt and the agency costs of debt against the agency cost of equity. Many other cost factors have been suggested under the trade-off theory, an important prediction of the static trade-off theory is therefore that firms target their capital structures in a way that if the actual leverage ratio deviates from the optimal one, the firm will adapt its financing behaviour in a way that brings the leverage ratio back to the optimal level (Luigi & Visinescu, 2009).

2.3 Determinants of Financial Performance of Commercial banks

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). Internal factors are individual bank characteristics which affect the banks performance as influenced by internal decisions of management and the board. On the other hand, the external factors are sector-wide or country-wide factors and while they affect the profitability of banks the same are beyond the control of the company. Bank specific and macroeconomic factors affect the performance of commercial banks (Flamini, McDonald and Schumacher, 2009).
2.3.1 Bank Specific Factors

Bank specific variables are the internal factors which influence the profitability of a given bank. As such they are within the scope of the bank’s manipulation and differ from bank to bank. CAMEL (Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity) framework is often used by scholars to proxy the bank specific factors (Dang et al., 2011).

Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks. According to Dang et al., (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). This is the internal strength of the bank to withstand losses during crisis. As such it is directly proportional to the resilience of the bank in situations of crises. According to Diamond & Raghuram (2000), greater bank capital reduces the chance of distress. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi & Tabassum, 2010).

Loans are the major income generating asset of commercial banks. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang et al., 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. The lower the ratio the better the bank is performing (Sangmi & Tabassum, 2010).

Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. Adequate level of liquidity is positively related with bank profitability (Dang et al.,
Customer deposit to total asset and total loan to customer deposits are the most common financial ratios that reflect the liquidity position of a bank. Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia.

2.3.2 External Factors

These are macroeconomic variables such as Gross Domestic Product, Inflation, Interest Rate and Political instability; all which affect the performances of banks. The trend of GDP For instance affects the demand for banks asset. In a declining GDP; credit uptake falls hence affecting negatively the profitability of banks. The opposite is true for a positive GDP in which demand for credit is high as occasioned by the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2008).

2.4 Review of Empirical studies

Financial crises, either as a result of large shocks to foreign exchange and interest rates, and a general economic slowdown, leads the financial sector into experiencing a large number of defaults and difficulties to repay contracts on time and non-performing loans will increase sharply. Save for countries with longer-term financial distress and other structural problems, this situation is often accompanied by generally depressed asset prices, such as equity and real estate prices. This follows typical run ups before the crisis, sharp real interest rate increases, and a slowdown in capital flows. In Financial crisis, the financial sectors need restructuring with actions affecting both the liquidity and solvency situation of the bank.
Riany, Musa, Odera & Okaka (2012) in their study on the effects of restructuring on organization performance of mobile phone service providers in Kenya conclude that the three methods of restructuring have a favorable effect on the companies’ market share and market growth. Their results indicate that financial restructuring had the greatest impact on a company’s market share followed by portfolio restructuring and organization restructuring. It is distinct that organizational restructuring had the greatest impact on market growth rate.

Mbogo & Waweru (2014) in their study on the corporate turnaround response by financially distressed companies listed on the NSE, surveyed companies that were listed for the entire period of the study (2002-2008). The survey found out that employee layoff was the most preferred course of action being carried out by 63% by the companies. Asset restructuring was the second most preferred turnaround strategy being carried out by 50% of the companies. Debt restructuring and top management change were the least preferred turn around strategies each one of them being taken by one company each.

Dong, Putterman, & Unel (2004), the implications of restructuring on financial performance in Chinese context assert that performance improvements is realized upon restructuring. This is supported by inconclusive evidence from Wen (2002) study which shows restructuring results in better profitability. Bowman, Singh, Useem & Badhury (1999) comparative studies found contradictory results; positive change in performance for firms that adopted portfolio and financial restructuring and negative results for firms that adopted organization restructuring.
Similarly, Padilla and Raquejo (2000), in their study, ‘financial distress, bank restructuring, and layoffs’, developed a model of a financially distressed firm to analyze the implications of a bank restructuring when the operational characteristics of the firms project for the post-distress period are endogenously determined as part of the work out. The study establishes a formal link between the debt restructuring and operational actions such as employee layoffs. In this study however, the focus was only firms with simple capital structures, where a single bank provides the outside funds needed by the firm.

Ngige (2012) studied the implication of restructuring on the performance and long-term competitiveness within the Kenyan banking sector and further, the significance of different modes of restructuring adopted by the banks in influencing performance. Findings revealed that generally, restructuring resulted to improvement in performance in terms of market share growth, competitiveness, growth in quality of products, geographical spread and customer retention. Further findings revealed that banks used different strategies of restructuring which had different motives in influencing performance. The study found mixed and inconclusive results as performance in some cases improved after financial restructuring whereas in other cases it declined. In the case of organisational and portfolio restructuring the study showed an increase in the year of restructuring and the year after though it was at a greater magnitude in the organisation mode of restructuring.

Suka (2012) studied the impact of capital adequacy on the financial performance of commercial banks Quoted at the NSE. In his study he showed that capital adequacy has impact on the profitability of the banks and further that, capital adequacy contributes
positively to the profitability of commercial banks. Hence, banks must have a sound capital base in order to remain competitive and maintain the confidence of customers. In a similar study, Odinga (2003) found that a bank that is undercapitalized is not stable.

Omondi (1996) studied the relationship between debt ratios and firm specific variables that influence capital structure such as asset structure such as firm size, level of interest rates, profitability, cash flow variability, age of industry, industry class, growth and ownership for all companies listed at the NSE for the period 1987 to 1996. The findings were that asset structure and profitability were positively related to debt ratios. Firm’s growth was positively related to capital structure.

Siro (2013) in his study on effects of capital structure on the financial performance of firms listed on the NSE found that there was an inverse relationship between capital structure and financial performance of listed firms in securities exchange in Kenya. The finding indicate that the higher the debt ratio, the less the return on equity which therefore supports the need for more equity injection rather than borrowing, as the benefits of debt financing are less than its cost of funding.

2.5 Chapter Summary

Financial Restructuring is evidently therefore, key in any corporate firm especially in times of financial distress. Kenyan banks are consequently not an exception when in times of such financial crisis. The banks need to revisit their capital structure and review it with an interest to ensure it is in its optimal level. To achieve the optimal capital structure, financial restructuring may mean the bank issues new debt or equity. It may
also call for the total opposite in which the corporate institution buys back its shares from
the security markets or avoids debt in total.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used to carry out the study. It also gives an explanation of the research design that was applied. Further, the chapter explains the data collection methods that were applied and how the data collected was analyzed to produce the desired information for this study.

3.2 Research Design

A research design is defined as a set of guidelines and instructions to be followed in addressing the research problem. That is, a programme to guide the researcher in collecting, analyzing and interpreting observed facts (Orodho, 2003). The study was carried out through a cross sectional research aimed at establishing first, the financial restructuring strategies employed by banks in Kenya and secondly, how much the said financial restructuring strategies influence the performance of commercial banks in Kenya. The study adopted descriptive study for a research design. According to Sekaran (2003), a descriptive study is undertaken in order to ascertain and describe characteristics of the variables of interest in a situation.

This approach draws its credit from the fact that it allows analysis of the relations of variables under study using linear regression as long as the sampling units for the study are many. Further, it allows greater flexibility in terms of money and time while avoiding
the hardship of hunting for respondents. Quantitative research is as a formal, objective, systematic process to describe and test relationships and examine cause and effect relationships among variables.

Through cross-sectional studies, data is collected to make inferences about a population of interest at one point in time. Thus annual financial reports were used to determine the variables for three years before the restructuring and three years after the restructuring. As a result, the unaudited reports given in January of every year were the basis of the study. This design is appropriate because it has the ability of providing the critical success factors of restructuring that the various banks have adopted. It is also appropriate considering the sensitivity of the information being sought.

### 3.3 Population of the Study

Target population in a study is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined set of people, services, elements, events, group of things or households that are being investigated. The population of interest for this study comprised of 43 registered commercial banks operating in Kenya as per the Kenya Bankers Association records.

### 3.4 Sample

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms were selected in order to make a sample. The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample
size for the study. The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). This study used secondary data for the 11 commercial banks listed in the Nairobi Securities Exchange (NSE). This was informed first because the said banks undertook restructuring during the six years under study; but also because of the readily availability of their data. The data was for the six-year period beginning 2008 to 2013.

3.5 Data Collection

The data for the study was collected from secondary sources. The secondary data was obtained from the yearly financial reports to derive the Net income, Earnings Per Share, Return on Assets (ROA), dividends per share and the shareholders’ equity also known as the shareholders’ funds for each of the intervals in the event window and which were analyzed to isolate trends in the variables. The secondary data were largely quantitative and descriptive in nature and were obtained from individual banks’ annual financial reports and the Central Bank of Kenya (CBK’s) banking sector outlook reports. These were extracted or computed where need be from the unaudited financial reports issued in January for the six-year period beginning 2008 to 2013.

3.6 Data Analysis

Data analysis is the process which starts immediately after data collection and ends at the point of interpretation and processing (Mugenda & Mugenda, 2003). Data analysis was carried out as regression and correlation analysis by use of Statistical Package for Social Sciences (SPSS) Version 20 and presented using descriptive statistics.
Regression analysis was used to come up with the model expressing the relationship between the dependent variable in the study (Financial Performance) and independent variables: Debt ratio, dividend payout ratio and Equity ratio. The listed independent variables have a huge effect in the capital structure of a corporation and which in turn is key in the process of financial restructuring. The Multiple Regression equation for this study was computed as follows:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

Whereby \( Y \) = Financial performance which was measured as ROA, \( \alpha \) = constant term, \( X_1 \)= Debt ratio (Debt/Total assets), \( X_2 \)= Dividend Payout which was measured as the dividend payout ratio (Annual Dividends per Share/Earnings per Share) and \( X_3 \)= Equity Ratio (Total Equity/Total Assets), while \( \beta_1, \beta_2, \) and \( \beta_3 \) are coefficients of determination, and \( \varepsilon \) is the error term.

The multiple regression function above was used to investigate the effect of each of the independent variable on the dependent variable at the same time and of the same set of analysis. The change in value of \( \beta \) was the degree of effects on \( Y \) (financial performance) and the positive (or negative) sign of the value was to imply the direction of effects. The higher the value \( \beta \) for a particular variable, the higher the effects of that variable on the dependent variable \( Y \).
CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter discusses the output of the analysis as carried out for the six-year period from the year 2008 to 2013. All the variables for the six years were taken and then analyzed using SPSS version 20. This chapter therefore, will discuss the findings of this analysis.

4.2 Descriptive Statistics

This section discusses the descriptive statistics of the data analyzed for the five year duration. This is summarized in the table below;

Table 4.1 Descriptive Statistics

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>Statistic</th>
<th>Bias</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Mean</td>
<td>0.030</td>
<td>0.000</td>
<td>0.001</td>
<td>0.010</td>
<td>0.014</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
<td>0.012</td>
<td>0.000</td>
<td>0.001</td>
<td>0.027</td>
<td>0.032</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>0</td>
<td>0</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>Mean</td>
<td>0.016</td>
<td>0.000</td>
<td>0.002</td>
<td>0.011</td>
<td>0.021</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
<td>0.019</td>
<td>0.000</td>
<td>0.002</td>
<td>0.015</td>
<td>0.022</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>0</td>
<td>0</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Dividend Payout</td>
<td>Mean</td>
<td>0.316</td>
<td>-0.001</td>
<td>0.028</td>
<td>0.259</td>
<td>0.372</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
<td>0.222</td>
<td>-0.004</td>
<td>0.021</td>
<td>0.181</td>
<td>0.262</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>0</td>
<td>0</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Equity Ratio</td>
<td>Mean</td>
<td>0.151</td>
<td>0.000</td>
<td>0.004</td>
<td>0.144</td>
<td>0.159</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
<td>0.031</td>
<td>0.000</td>
<td>0.004</td>
<td>0.024</td>
<td>0.039</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>0</td>
<td>0</td>
<td>65</td>
<td>65</td>
</tr>
</tbody>
</table>

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Source: Researcher 2014
The descriptive statistics in table 4.3.1 show that the total number of data analyzed (n) is 65. That is, the six-year data for the 11 listed commercial banks in Kenya for which each of the four variables was incorporated in the analysis. The standard deviation of the variables which is measure of the dispersion from the mean, that is, the volatility of the respective variables can also be observed from the descriptive statistics. The table further shows the maximum and minimum values for each of the variables. The mean of the data is also shown in the mean column. The mean for financial performance is 0.03 with a standard deviation of 0.012 and which being a small value, means that the data is clustered around the mean. The same applies for the other variables under analysis with the highest value of standard deviation being that of dividend payout ratio whose standard deviation is 0.222. This is also relatively small and indicates that the dividend payout ratio is closely clustered to the mean.

### 4.3 Pearson’s Correlation

Table 4.4.1 presents Pearson’s Bivariate Correlation which shows that debt ratio had a strong positive correlation of 0.134 and a probability value of 0.288. This shows that the debt ratio is statistically insignificant in its effect on the financial performance of commercial banks in Kenya. Dividend payout ratio had a weak positive correlation of 0.476 and a high statistically significant value of 0.000. This showed that the dividend payout determined the financial performance of commercial banks in Kenya. The equity ratio of the banks had a moderate correlation of 0.211 and a statistically insignificant probability value of 0.091. On a general perspective it can be concluded that each of the
variables under study had a positive correlation to the financial performance of commercial banks in Kenya, with the correlation ranging from weak to strong.

**Table 4.2: Bivariate Pearson’s Correlation**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Financial</th>
<th>Debt</th>
<th>Dividend</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Performance</strong></td>
<td>Pearson Correlation</td>
<td>1.000</td>
<td>0.134</td>
<td>.476**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.288</td>
<td>0.000</td>
<td>0.091</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Bootstrap Bias</td>
<td>0.000</td>
<td>-0.003</td>
<td>-0.004</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>0.000</td>
<td>0.142</td>
<td>0.085</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Lower</td>
<td>1.000</td>
<td>-0.162</td>
<td>0.293</td>
</tr>
<tr>
<td></td>
<td>Upper</td>
<td>1.000</td>
<td>0.413</td>
<td>0.624</td>
</tr>
<tr>
<td><strong>Debt Ratio</strong></td>
<td>Pearson Correlation</td>
<td>0.134</td>
<td>1.000</td>
<td>0.015</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.288</td>
<td>0.903</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Bootstrap Bias</td>
<td>-0.003</td>
<td>0.000</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>0.142</td>
<td>0.000</td>
<td>0.094</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Lower</td>
<td>-0.162</td>
<td>1.000</td>
<td>-0.166</td>
</tr>
<tr>
<td></td>
<td>Upper</td>
<td>0.413</td>
<td>1.000</td>
<td>0.204</td>
</tr>
<tr>
<td><strong>Dividend Payout</strong></td>
<td>Pearson Correlation</td>
<td>0.476**</td>
<td>0.015</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td>0.903</td>
<td>0.726</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Bootstrap Bias</td>
<td>-0.004</td>
<td>0.003</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>0.085</td>
<td>0.094</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Lower</td>
<td>0.293</td>
<td>-0.166</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Upper</td>
<td>0.624</td>
<td>0.204</td>
<td>1.000</td>
</tr>
<tr>
<td><strong>Equity Ratio</strong></td>
<td>Pearson Correlation</td>
<td>0.211</td>
<td>0.351**</td>
<td>0.044</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.091</td>
<td>0.004</td>
<td>0.726</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Bootstrap Bias</td>
<td>0.019</td>
<td>0.001</td>
<td>-0.001</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>0.162</td>
<td>0.137</td>
<td>0.109</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Lower</td>
<td>-0.102</td>
<td>0.063</td>
<td>-0.169</td>
</tr>
<tr>
<td></td>
<td>Upper</td>
<td>0.529</td>
<td>0.599</td>
<td>0.252</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.05 level (2-tailed).**

**. Correlation is significant at the 0.01 level (2-tailed).**

* c. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Source: Researcher 2014
4.4 Regression Model

4.4.1 Estimated Model Coefficients

The regression model coefficients derived from the analysis are shown in the below equation

\[ Y = 0.011 + 0.044X_1 + 0.026X_2 + 0.064X_3 \]

Where:

\( Y \) = Return on Assets

\( X_1 \) = Debt Ratio

\( X_2 \) = Dividend Payout Ratio

\( X_3 \) = Equity Ratio

From the regression model, it can be observed that there exists a positive relationship between the financial performance and the debt ratio. This means that as the ratio of debt increases, the ROA ratio will tend to increase by 0.044. Further, there is a positive relationship between the dividend payout ratio and the financial performance of commercial banks in Kenya as can be observed in the coefficient of the dividend payout ratio which is 0.026. This means that as the dividend payout ratio increases, the ROA ratio will tend to increase by 0.026. As regards the equity ratio, there is also a positive relationship between the equity ratio and the financial performance of commercial banks in Kenya as indicated by its coefficient which is 0.064. This means that when the equity ratio increases by 0.064 units, the ROA ratio will tend to increase by approximately 0.064. These coefficients can be summarized in the coefficients table 4.5.3.
Table 4.3 Independent Variables Coefficient Table

<table>
<thead>
<tr>
<th>Coefficients(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Debt Ratio</td>
</tr>
<tr>
<td>Dividend Payout</td>
</tr>
<tr>
<td>Equity Ratio</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

Source: Researcher 2014

It can further be observed that as is the case with the dependent variable Y, the independent variables save for the dividend payout ratio; are not significant. This can be seen as represented in the “sig” column in table 4.5.3. It is also notable that the standardized and the unstandardized coefficients are both not statistically significant as presented by their t and sig column. The unstandardized coefficients take into account other variables that are not under study, whereas the standardized coefficients do not. However, the difference in these coefficients is minimal.

4.4.2 Models Analysis

Having analyzed the data, the model summary below was established.

Table 4.4 Model Summary

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Equity Ratio, Dividend Payout, Debt Ratio

Source: Researcher 2014
Table 4.2.1 provides the summary of the regression model. In the model summary, the values of $R$, $R^2$, adjusted $R^2$ and the standard error are given. These values explain how well the regression model fits the analyzed data. The value of $R$ represents the multiple correlation coefficients which measure the quality of the prediction of the dependent variable. In this case the value of $R$ is 0.516 and which shows a weak level of prediction. However, the value of $R^2$ which is the coefficient of determination is 0.267 indicating that only 26.7% of the debt ratio, dividend payout ratio and the total equity ratio explain the variability of financial performance, the other 73.3% is not explained by the model. This indicates that the financial performance of commercial banks in Kenya is not affected much by said factors under consideration.

**4.5 Statistical significance of the model**

The significance of the estimated model can be summarized in the following ANOVA table.

**Table 4.5: ANOVA Table**

<table>
<thead>
<tr>
<th>Source: Researcher 2014</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.003</td>
<td>3</td>
<td>.001</td>
<td>7.392</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>.007</td>
<td>61</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.009</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance  
b. Predictors: (Constant), Equity Ratio, Dividend Payout, Debt Ratio
The analysis of variance table shows how the independent variables are highly statistically significant in predicting the dependent variable. The F-ratio tests whether the regression model is fit for the data. From the ANOVA table, it can be observed that the F-ratio can be stated as $F(3, 61) = 7.392, P<0.05$ meaning that there exists a highly significant effect of the total debt ratio, dividend payout ratio and the equity ratio to the financial performance of the commercial banks in Kenya. This can be shown by the statistically significant level of 0.000 which is less than 0.05.

4.6 Interpretation of Findings

From the analysis, it can be observed that debt ratio does have some effects on the financial performance of commercial banks in Kenya. The model equation shows that the debt ratio ($X_1$) affects the financial performance ($Y$) positively. In essence, if there is an increase in the debt ratio, the profitability of the bank is expectedly going to increase. The model also shows that if there is an increase in dividend payout ratio, the return on assets which represents the measure of financial performance will in turn increase at a rate of 0.026. The study also presents a similar effect of equity ratio on the commercial banks’ financial performance. A unit increase in the equity ratio will result in the ROA increasing with 0.064 units. This means that there exists a positive effect of equity ratio on the financial performance of commercial banks in Kenya. The outcome as represented in the model shows that those banks which choose to increase their debt ratio, for instance by borrowing more to finance their operations, will in turn have an increased financial performance since their ROA ratio will tend to rise. Further, those commercial
banks that on the other hand choose on dividend payout, will also tend to increase their ROA and consequently increase their profitability.

However, a further analysis of the various variables under consideration and their respective coefficients indicate that, the effects of financial restructuring on the financial performance of commercial banks is very significant. The summary model’s multiple correlation factor (R) is only 0.516 which is greater than 0.5 hence, indicating a strong level of prediction of the independent variables. Similarly, the coefficient of determination of the model which is only 26.7% indicates that financial restructuring variables used in the model can only explain 26.7% of the independent variable which is financial performance. The remaining 73.3% can only be explained by other variables not under consideration in this model. This therefore means that it cannot conclusively be said that financial restructuring does have a significant impact on the financial performance of commercial banks in Kenya.

An analysis into the coefficients of the independent variables namely debt ratio, dividend payout ratio and equity ratio; indicate that the coefficients of the three variables used save for that of dividend payout are not statistically significant in determining the rate of change of the financial performance of commercial banks in Kenya. This shows that they are not significant in affecting the financial performance of commercial banks. Consequently, there exists other major factors that affect the financial performance of commercial banks. Therefore, financial restructuring while affecting the financial performance of commercial banks in Kenya, plays a very minimal role.
These findings differ with those of Siro (2013) in his study on effects of capital structure on the financial performance of firms listed on the NSE in which he found that there was an inverse relationship between capital structure and financial performance of listed firms in securities exchange in Kenya. His finding indicate that the higher the debt ratio, the less the return on equity which he used to measure financial performance of commercial banks in Kenya. However, the findings tend to agree with Bowman, Singh, Useem & Badhury (1999) comparative studies which found positive change in performance for firms that adopted portfolio and financial restructuring and negative results for firms that adopted organization restructuring. Therefore it can be concluded that financial restructuring does affect the financial performance of commercial banks but not significantly. The performance of the commercial banks is influenced majorly by other factors other than financial restructuring. In other words, the effect of financial restructuring on the financial performance of commercial banks in Kenya cannot be rated as major since its significance is very low.
CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The world over, firms seek to enhance their financial performance and given their major role as the backbone of the economy, commercial banks in Kenya are not an exception. In so doing firms end up employing different strategies up to and including financial restructuring as a financial strategy aimed at enhancing the profitability of the firm and therefore the firm’s financial performance. If not keen in their financial performance, a firm or a bank in this case could enter into financial distress and could further suffer closure which is very detrimental to any given country as this could dent the economy of a country in turn.

This research therefore sought to establish the effect of financial restructuring on the performance of commercial banks in Kenya with the aim of ensuring that banks know how significant this strategy is in their financial performance both as a corrective measure or a preventive measure, especially but not limited to when faced by financial distress. A sample of 11 commercial banks was used, being the total number of all the listed commercial banks in Kenya. This sample was from a population of 43 commercial banks. Data was collected from the annual financial reports for a six-year period of 2008 to 2013. Linear regression was then conducted to establish the effect and significance of financial restructuring with the ROA being the measure of financial performance.
The analysis of the study found that there exists an effect of financial restructuring on the financial performance of commercial banks in Kenya but which is very insignificant. This is evident in the model in which the independent factors that have been considered in the analysis can only explain 26.7% of the financial performance of commercial banks in Kenya. However, it can also be observed that the model is a very strong predictor of financial performance since it is only 0.516 which is considered strong since it is more than 0.5.

5.2 Conclusion

The findings of this study indicate that financial restructuring as a strategy has been used adopted by generally all the commercial banks in Kenya. Different banks however, employed different ways of financial restructuring. While some resorted into more debt for instance by borrowing, others resorted into dividend payouts and others still into enhancing shareholders equity. All of these however, were geared towards enhancing the financial performance of the different commercial banks. This is what informed this study, namely, to establish how effective this financial strategy is in enhancing the financial performance.

The study concluded that, financial restructuring does have a positive relationship with financial performance of commercial banks in Kenya although the effect is very minimal. The said minimal significance of financial restructuring as found in this study consequently leads into the conclusion that there exists other major factors which affect the financial performance of commercial banks more than does financial restructuring as a strategy. These major factors and which may have equally major effects on the financial
performance of commercial banks in Kenya should therefore be included in the study. These factors may include but not limited to the level of marketing and marketing strategies being implemented by these commercial banks, the product offering by the banks but also, customer service and customer experience. These factors should be considered in other studies on the financial performance of commercial banks in Kenya.

It should however not be forgotten that depending on the situation at hand, for instance in the wake of financial distress, financial restructuring is still a positive strategy in enhancing financial performance but also one that could be adopted to avert financial distress itself. The positive effect of this strategy is as observed in the findings of this study which showed that financial restructuring has a positive effect on the financial performance of commercial banks albeit to a minimal extent.

5.3 Policy Recommendations

This study shows that financial restructuring has very minimal effect on the financial performance of commercial banks in Kenya. Stakeholders in this industry should therefore endeavor in researches into other areas or variables in order to identify those that could be major factors in presenting significant effect on the financial performance of this industry. Such studies and or findings will enable the stakeholders to control these factors and ensure maximum profitability is achieved and therefore see sustained growth of the industry.

Having observed however that all the variables under consideration in this study, namely the debt ratio, dividend payout ratio and the equity ratio all have a positive effect on the
financial performance of commercial banks in Kenya; it is recommended that managers of commercial banks should use either or all of the said variables to help them improve on the profitability of their firms. The managers should consider increasing any of the said ratios as doing so would result into increased financial performance. There is need however for the managers to ensure that they only do so as per the statutory requirements of capital by the regulator. Therefore, the managers of commercial banks should ensure that they meet the required capital regulations.

The study further shows that, the effect of financial restructuring on the financial performance of commercial banks is very minimal and therefore, it is recommended that concentration should be on other areas which have major effects on their performance. These areas may include new products offerings or increased marketing or better marketing strategies and customer service and or customer experience.

5.4 Limitations of the Study

This study saw various limitations being experienced and which limitations need to be mentioned and discussed to ensure that other researchers put them into consideration when planning and or conducting a similar research project.

The research suffers limitations based on the composition of the sample. While the banking industry in Kenya comprises of 43 commercial banks as documented in the CBK’s bank supervision report, the study used a sample of 11 banks all of which are
listed in the NSE. The findings of the study may therefore not be generalized for banks not listed in the NSE since they may have entirely different factors based on their size and the fact that they are not listed in the NSE.

The research was also limited to the period of the study. The researcher used a 6-year period from 2008 to 2013. Given the nature of competition in the banking industry and the growth that has been evident in the banking industry in Kenya over the years, it is possible that a research focused on a longer period would yield different findings from those observed by the researcher. A longer duration of study would also have captured various economic significances such as booms and recessions; hence a broader dimension to the problem.

The study used secondary data as collected from the commercial bank’s annual financial reports. The study was therefore limited to the degree of precision of the data obtained from the said secondary source. While the data was verifiable from the NSE’s publications, it however could still be prone to shortcomings such as falsification of the statements commonly referred to as cooking the books.

Time constraints were also experienced whereby the time required in both collection and analyzing of the data needs to be created to ensure that one is able to carry out an effective study yet most of the time official duties meant limited time for conducting the study and analysis of the collected data.
5.5 Suggestions for Further Studies

This study advocates for further studies to be carried out in other areas. Such studies may include identifying various other factors which have effects on the financial performance of commercial banks. Such studies may be carried out using various other measures of financial performance such as return on equity as opposed to return on assets which measure was used in this study.

Other areas for consideration into research studies may include researching on the effects of other factors such as marketing and new product offering on the financial performance of commercial banks. Such studies may enable various stakeholders in the banking industry to understand the existence of major factors which exhibit major effects on the financial performance of their firms given that the effects of financial restructuring are minimal.

The study period for this research was a six-year period from 2008 to 2013. Further studies on this topic could be carried out over a longer period of time than what was used in this study. Such a longer period could be helpful given that significant effects of financial restructuring on the financial performance of commercial banks could be taking longer to be realized than the six year period considered in this study.

The study used a sample size of 11 commercial banks all of which are listed in the Nairobi Securities Exchange. Further studies on this topic could therefore be carried out using a bigger sample size. Such a bigger sample size could mean inclusion of banks that are not listed in the NSE, and given that some of the banks not yet listed are those
considered to be small, it would be important to see how financial restructuring relates to the size of the firm.
REFERENCES


APPENDICES

Appendix I: List of Commercial Banks in Kenya as at 31st December 2013

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
13. Credit Bank Ltd.
15. Diamond Trust Bank (K) Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd
27. Habib Bank A.G Zurich
28. Habib Bank Ltd.
29. I & M Bank Ltd
30. Imperial Bank Ltd 55
31. Jamii Bora Bank Ltd.
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank Ltd.
43. Victoria Commercial Bank Ltd
Appendix II: NSE-Listed commercial Banks in Kenya as at 31st December 2013

1. Barclays Bank Ltd,
2. CFC-Stanbic Holdings Ltd,
3. Co-operative Bank of Kenya Ltd,
4. Diamond Trust Bank Kenya Ltd,
5. Equity Bank Ltd,
6. Housing Finance Ltd,
7. I & M Bank Ltd,
8. Kenya Commercial Bank Ltd,
9. National Bank of Kenya Ltd,
10. NIC Bank Ltd, and
11. Standard Chartered Bank Ltd.
### Appendix III: Data Collection

<table>
<thead>
<tr>
<th>BANK</th>
<th>YEAR</th>
<th>Y(ROA)</th>
<th>X1(DEBT RATIO)</th>
<th>X2(DIVIDEND PAYOUT RATIO)</th>
<th>X3(EQUITY RATIO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCB</td>
<td>2008</td>
<td>0.023986334</td>
<td>-</td>
<td>0.5076142</td>
<td>0.1206958</td>
</tr>
<tr>
<td>CFC</td>
<td>2008</td>
<td>0.007618124</td>
<td>-</td>
<td>-</td>
<td>0.173204184</td>
</tr>
<tr>
<td>COOP</td>
<td>2008</td>
<td>0.028435905</td>
<td>0.0018682</td>
<td>0.1250000</td>
<td>0.163009367</td>
</tr>
<tr>
<td>DTB</td>
<td>2008</td>
<td>0.018246973</td>
<td>0.0209263</td>
<td>0.2229299</td>
<td>0.105181952</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2008</td>
<td>0.049569594</td>
<td>0.0686621</td>
<td>0.2808989</td>
<td>0.248228299</td>
</tr>
<tr>
<td>HF</td>
<td>2008</td>
<td>0.009544109</td>
<td>0.0069332</td>
<td>0.3797468</td>
<td>0.25551434</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2008</td>
<td>0.032787372</td>
<td>0.0074239</td>
<td>0.4878049</td>
<td>0.12143493</td>
</tr>
<tr>
<td>NBK</td>
<td>2008</td>
<td>0.029057024</td>
<td>-</td>
<td>-</td>
<td>0.145397429</td>
</tr>
<tr>
<td>NIC</td>
<td>2008</td>
<td>0.024347782</td>
<td>-</td>
<td>0.1572327</td>
<td>0.130592798</td>
</tr>
<tr>
<td>STANCHART</td>
<td>2008</td>
<td>0.032830005</td>
<td>-</td>
<td>0.8818342</td>
<td>0.116126609</td>
</tr>
<tr>
<td>KCB</td>
<td>2009</td>
<td>0.020966816</td>
<td>-</td>
<td>0.5434783</td>
<td>0.115876696</td>
</tr>
<tr>
<td>CFC</td>
<td>2009</td>
<td>0.000281367</td>
<td>0.0263959</td>
<td>0.159303396</td>
<td>0.159303396</td>
</tr>
<tr>
<td>COOP</td>
<td>2009</td>
<td>0.026816531</td>
<td>0.0018429</td>
<td>0.2352941</td>
<td>0.141455393</td>
</tr>
<tr>
<td>DTB</td>
<td>2009</td>
<td>0.018750259</td>
<td>0.0170328</td>
<td>0.2020860</td>
<td>0.104952903</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2009</td>
<td>0.041998968</td>
<td>0.0530691</td>
<td>0.3508772</td>
<td>0.227234853</td>
</tr>
<tr>
<td>HF</td>
<td>2009</td>
<td>0.012839048</td>
<td>0.0089395</td>
<td>0.4901961</td>
<td>0.223328901</td>
</tr>
<tr>
<td>I&amp;M</td>
<td>2009</td>
<td>0.02220391</td>
<td>0.0110224</td>
<td>0.3511510</td>
<td>0.13709915</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2009</td>
<td>0.036942915</td>
<td>0.0073692</td>
<td>0.5555556</td>
<td>0.146837623</td>
</tr>
<tr>
<td>NBK</td>
<td>2009</td>
<td>0.028459719</td>
<td>-</td>
<td>0.153832955</td>
<td>0.13709915</td>
</tr>
<tr>
<td>NIC</td>
<td>2009</td>
<td>0.02282899</td>
<td>-</td>
<td>0.1510574</td>
<td>0.142818205</td>
</tr>
<tr>
<td>STANCHART</td>
<td>2009</td>
<td>0.038235525</td>
<td>-</td>
<td>0.7151371</td>
<td>0.112438848</td>
</tr>
<tr>
<td>KCB</td>
<td>2010</td>
<td>0.028556976</td>
<td>-</td>
<td>0.155674581</td>
<td>0.112438848</td>
</tr>
<tr>
<td>BANK</td>
<td>YEAR</td>
<td>Y(ROA)</td>
<td>X1(DEBT RATIO)</td>
<td>X2(DIVIDEND PAYOUT RATIO)</td>
<td>X3(EQUITY RATIO)</td>
</tr>
<tr>
<td>--------</td>
<td>------</td>
<td>---------</td>
<td>----------------</td>
<td>---------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>CFC</td>
<td>2010</td>
<td>0.012759605</td>
<td>0.0282533</td>
<td>0.1623277</td>
<td>0.176817385</td>
</tr>
<tr>
<td>COOP</td>
<td>2010</td>
<td>0.029674936</td>
<td>0.0008977</td>
<td>0.3053435</td>
<td>0.12945529</td>
</tr>
<tr>
<td>DTB</td>
<td>2010</td>
<td>0.027330373</td>
<td>0.0144998</td>
<td>0.1142041</td>
<td>0.106931628</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2010</td>
<td>0.049867849</td>
<td>0.0350166</td>
<td>0.4145078</td>
<td>0.190213819</td>
</tr>
<tr>
<td>HF</td>
<td>2010</td>
<td>0.012962834</td>
<td>0.0582501</td>
<td>0.4242424</td>
<td>0.14541121</td>
</tr>
<tr>
<td>I&amp;M</td>
<td>2010</td>
<td>0.024370943</td>
<td>0.0052658</td>
<td>0.2490040</td>
<td>0.159416353</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2010</td>
<td>0.06147377</td>
<td>0.0074993</td>
<td>0.6987179</td>
<td>0.182495723</td>
</tr>
<tr>
<td>NBK</td>
<td>2010</td>
<td>0.033683664</td>
<td>0.0008977</td>
<td>0.3053435</td>
<td>0.12945529</td>
</tr>
<tr>
<td>NIC</td>
<td>2010</td>
<td>0.031584378</td>
<td>0.0000000</td>
<td>0.1086957</td>
<td>0.141546752</td>
</tr>
<tr>
<td>STANCHART</td>
<td>2010</td>
<td>0.037662573</td>
<td>0.0000000</td>
<td>0.7265877</td>
<td>0.142428415</td>
</tr>
<tr>
<td>KCB</td>
<td>2011</td>
<td>0.033203839</td>
<td>0.0257774</td>
<td>0.4973118</td>
<td>0.13414835</td>
</tr>
<tr>
<td>CFC</td>
<td>2011</td>
<td>0.012245985</td>
<td>0.0338099</td>
<td>0.4145078</td>
<td>0.190213819</td>
</tr>
<tr>
<td>COOP</td>
<td>2011</td>
<td>0.031881268</td>
<td>0.0013520</td>
<td>0.2490040</td>
<td>0.159416353</td>
</tr>
<tr>
<td>DTB</td>
<td>2011</td>
<td>0.024653602</td>
<td>0.0013520</td>
<td>0.2490040</td>
<td>0.159416353</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2011</td>
<td>0.052599672</td>
<td>0.0388397</td>
<td>0.3584229</td>
<td>0.174661477</td>
</tr>
<tr>
<td>HF</td>
<td>2011</td>
<td>0.019524949</td>
<td>0.0619017</td>
<td>0.4444444</td>
<td>0.148014698</td>
</tr>
<tr>
<td>I&amp;M</td>
<td>2011</td>
<td>0.032135885</td>
<td>0.0031232</td>
<td>0.2208631</td>
<td>0.140349334</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2011</td>
<td>0.048332924</td>
<td>0.0081483</td>
<td>0.10067114</td>
<td>0.174957642</td>
</tr>
<tr>
<td>NBK</td>
<td>2011</td>
<td>0.022516914</td>
<td>0.0000000</td>
<td>0.1253918</td>
<td>0.152283517</td>
</tr>
<tr>
<td>NIC</td>
<td>2011</td>
<td>0.034274496</td>
<td>0.0000000</td>
<td>0.0744048</td>
<td>0.133228911</td>
</tr>
<tr>
<td>STANCHART</td>
<td>2011</td>
<td>0.035580257</td>
<td>0.0010372</td>
<td>0.5569620</td>
<td>0.126149844</td>
</tr>
<tr>
<td>KCB</td>
<td>2012</td>
<td>0.033217798</td>
<td>0.0242891</td>
<td>0.4622871</td>
<td>0.145189348</td>
</tr>
<tr>
<td>BANK</td>
<td>YEAR</td>
<td>Y(ROA)</td>
<td>X1(DEBT RATIO)</td>
<td>X2(DIVIDEND PAYOUT RATIO)</td>
<td>X3(EQUITY RATIO)</td>
</tr>
<tr>
<td>---------</td>
<td>------</td>
<td>--------------</td>
<td>----------------</td>
<td>---------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>CFC</td>
<td>2012</td>
<td>0.021017008</td>
<td>0.0370506</td>
<td>0.0737374</td>
<td>0.190213519</td>
</tr>
<tr>
<td>COOP</td>
<td>2012</td>
<td>0.03850679</td>
<td>0.0227930</td>
<td>0.2717391</td>
<td>0.146404571</td>
</tr>
<tr>
<td>DTB</td>
<td>2012</td>
<td>0.026780808</td>
<td>0.0095460</td>
<td>0.1089450</td>
<td>0.12196951</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2012</td>
<td>0.049677181</td>
<td>0.0607065</td>
<td>0.3834356</td>
<td>0.176485586</td>
</tr>
<tr>
<td>HF</td>
<td>2012</td>
<td>0.018149319</td>
<td>0.0467519</td>
<td>0.4347826</td>
<td>0.125431478</td>
</tr>
<tr>
<td>I&amp;M</td>
<td>2012</td>
<td>0.028464709</td>
<td>0.0015028</td>
<td>0.1939864</td>
<td>0.134158434</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2012</td>
<td>0.047293386</td>
<td>0.0074557</td>
<td>0.6211180</td>
<td>0.160075747</td>
</tr>
<tr>
<td>NBK</td>
<td>2012</td>
<td>0.010961317</td>
<td>-</td>
<td>0.1315789</td>
<td>0.15581115</td>
</tr>
<tr>
<td>NIC</td>
<td>2012</td>
<td>0.028027997</td>
<td>-</td>
<td>0.1658375</td>
<td>0.142887153</td>
</tr>
<tr>
<td>STANChart</td>
<td>2012</td>
<td>0.041307495</td>
<td>0.0088103</td>
<td>0.4699248</td>
<td>0.157421961</td>
</tr>
<tr>
<td>KCB</td>
<td>2013</td>
<td>0.036692655</td>
<td>0.0197508</td>
<td>0.4149378</td>
<td>0.162094694</td>
</tr>
<tr>
<td>CFC</td>
<td>2013</td>
<td>0.02840344</td>
<td>0.0308690</td>
<td>0.0485736</td>
<td>0.179632531</td>
</tr>
<tr>
<td>COOP</td>
<td>2013</td>
<td>0.039391908</td>
<td>0.0443414</td>
<td>0.2272727</td>
<td>0.158225029</td>
</tr>
<tr>
<td>DTB</td>
<td>2013</td>
<td>0.028564887</td>
<td>0.0173045</td>
<td>0.0971772</td>
<td>0.125815583</td>
</tr>
<tr>
<td>EQUITY</td>
<td>2013</td>
<td>0.047809195</td>
<td>0.0317360</td>
<td>0.4178273</td>
<td>0.185630597</td>
</tr>
<tr>
<td>HF</td>
<td>2013</td>
<td>0.021000403</td>
<td>0.0401244</td>
<td>0.4069767</td>
<td>0.123646002</td>
</tr>
<tr>
<td>I&amp;M</td>
<td>2013</td>
<td>0.035237772</td>
<td>0.0265449</td>
<td>0.2183134</td>
<td>0.168756916</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>2013</td>
<td>0.036872578</td>
<td>0.0019348</td>
<td>0.5000000</td>
<td>0.156583905</td>
</tr>
<tr>
<td>NBK</td>
<td>2013</td>
<td>0.012023061</td>
<td>-</td>
<td>0.1422414</td>
<td>0.128445864</td>
</tr>
<tr>
<td>NIC</td>
<td>2013</td>
<td>0.026740689</td>
<td>-</td>
<td>0.1633987</td>
<td>0.145122324</td>
</tr>
<tr>
<td>STANChart</td>
<td>2013</td>
<td>0.042029454</td>
<td>0.0156726</td>
<td>0.4928620</td>
<td>0.164282441</td>
</tr>
</tbody>
</table>