THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This research project is my original work and has not been presented to any academic institution for any award.

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DEDICATION

To my mother Miss Ruth Alusa Musoga who has been an invaluable mentor in my life.

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ABSTRACT

The ownership structure of Commercial Banks is of much importance owing to it as an internal mechanism of Corporate Governance. The different ownership identities over the past findings have shown difference in the monitoring capability and practices of the banks they own eventually showing disparities in their financial performance. Therefore, this study addressed this with an objective of finding the relationship between the different ownership identity structures and financial performance of commercial banks licensed by the Central Bank of Kenya.

The study used descriptive research design. It sampled 20 commercial banks drawn from the different ownership identities. Data was collected from secondary sources such as the annual reports of the Central Bank of Kenya, the Kenya Banking Survey 2013 and annual reports of the individual commercial banks. The data was then analyzed using the SPSS and the correlation regression and multicollinearity of the data together with their tests of significance presented.

Findings of the study showed a positive relationship between foreign ownership and the different parameters of financial performance. This finding, consistent with earlier findings showed the high monitoring capabilities of foreign owners and efficiency. Government ownership had a negative relationship with asset quality, earnings quality and management efficiency indicating laxity in prudent credit management practices and also inefficiency of operations and poor returns. Institutional ownership on the other hand showed a positive relationship with most of the parameters with an exception of some commercial banks. This brought out the negative relationship of block holders with very high shareholding to financial performance. Such blockholders were characterized by unopposed unfavourable decisions by management. Individual Ownership on the other hand showed a negative relationship with earnings quality indicating the laxity among individual owners to monitor since their interest is mainly on diversification of risk. The study clearly brought out the importance of monitoring capabilities of ownership structures of commercial banks to their performance. The importance placed to monitoring translated to better credit management policies, efficiency and quality in earnings. Based on the findings of the study, it is recommended that government and individual owners need to increase their monitoring capability. Individual owners need to make qualified decisions in their investments and government should step up to improve their credit management and ensure higher returns in their investments by working on the quality of their earnings and efficiency.

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LIST OF ABBREVIATIONS

CAMEL	Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality and Liquidity
CBK	Central Bank of Kenya
DTB	Diamond Trust Bank
GOVT	Government
INSTL	Institutional
KCB	Kenya Commercial Bank
NPL	Non performing Loans
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Jensen and Meckling (1976) recognize the diversion of the modern view of the firm from the traditional theoretical thinking drawn from economics that conceptualized firms as a 'black box' without focus on the organizational structure inside the firm. Modern thinking on corporate governance and in particular relationship between ownership structure and firm performance has seen much development from the pioneering models of (Berle & Means, 1932; Coase, 1937).

Lee (2008) views ownership structure as an internal mechanism for corporate governance. The equity ownership structure is the foundation because essentially equity structure decides the company's decision making mechanism and incentive mechanism, thus affecting the company behavior and business performance (Lele & Jun, 2011). Evaluating the financial conditions and the performance of banks has been an issue of considerable importance in recent years, particularly in the developing countries. This phenomenon is attributed to the crucial role of commercial banks in the economy, which is a result of the generally-accepted fact that commercial banks are the dominant financial institutions and represent the foremost source of financial intermediation in these countries (Nazir & Alam, 2010).

The financial reforms in the Kenyan Banking System have seen dynamic changes in the ownership structure. The sector has seen the government reducing its shareholding in

once fully owned state owned banks. The reforms have also encouraged foreign ownership in banks to enter and expand banking operations in the country (Mang'uyi, 2011) and also other institutions.

1.1.1 Ownership Structure

The pioneering scholars (Berle & Means, 1932; Jensen & Meckling, 1976) looked at ownership basically from management- owner structure. With the developments in corporate governance and the liberization of most economies, ownership structure as an internal mechanism of corporate governance has also developed to accommodate different ownership.

Lee (2008) categorizes ownership structure into ownership concentration and ownership identity. He defines ownership concentration as the distribution of shares owned by majority shareholders. Ownership identity is mainly categorized into foreign versus domestic investors and institutional investors. Other scholars such as Gorriz and Fumias (1996) look also at family owned firms versus non family owned firms. Ongore (2011) also widened the ownership identity in his study to incorporate diverse ownership and ownership by managers. Government ownership has been of much interest by many scholars looking at comparative performance between state versus non state ownership (Clarke et al., 2003; Young & Kang, 2008). This has even been theorized in the public choice theory.

1.1.2 Financial Performance

European Central Bank (2010) looks at financial performance of banks from the perspective of analyzing the main drivers of profitability; earnings, efficiency, risk-taking

and leverage. The report goes on to note that the performance however needs to incorporate the views of various stakeholders (e.g. depositors, debt or equity holders and managers).

The CAMELS model, a recent tool of financial analysis also provides a framework for measuring financial performance of banks. According to the parameters bank financial performance is looked at in the perspective of the internal strength of the bank, loan portfolio quality, management efficiency, liquidity management and the banks sensitivity to risk.

1.1.3 Relationship between Ownership Structure and Financial Performance

There are mixed reactions on how the several ownership structures affect firm performance hence making it inconclusive. The public choice theories postulate government ownership as political bureaucratic whose motivation is to use state ownership to secure political office, accumulate power, or seek rents. Clarke et al. (2003) find a positive relationship between bank privatization and performance. They look at the relationship in three major areas; Competition, political intervention and Corporate Governance. State ownership of banks is deemed inefficient in operations. The corporate governance structure has no clear objective hence there is less responsibility for bank monitoring as opposed to privatized banks. There are also high information asymmetries and political interventions. However, Sun et al. (2002) findings indicate the government has positive impact on firm performance by sending a positive signal to markets, by being effectively involved in monitoring the management. Odipo (2010) carried out a

comparative study on performance of pre and post performance of firms listed at the NSE that had been privatized over a period of seven years (three years before privatization and three years after privatization). The findings showed some firms performed better after privatization for a short time and slumped two years after privatization. Others continued to perform badly after privatization.

Concentrated ownership has incentives to monitor management which leads to increase in value since it covers monitoring costs with the large shareholder's return on his shares (Young & Kang, 2008). As the ownership stake of large blockholders increases, the blockholders might have the greater incentive to increase firm performance and to monitor management than do dispersed shareholders (Lee, 2008). The negative relationship between dispersed ownership and performance dates back to pioneering works by Berle & Means (1932) who noted that shareholders of public companies in the 1920s had become so many and dispersed that they could not effectively monitor firms. However, opponents of the positive relationship feel that large blockholders tend to be risk averse and may discourage investment in costly projects with a high return. Large shareholders may also use their controlling power to make decisions which may not favour what small shareholders want causing an agency problem.

Douma et al. (2006) study the relationship between foreign ownership and firm performance by separating foreign corporate shareholders from foreign institutional shareholders. They suggest that foreign corporate ownership stakes are larger and less fragmented than stakes held by foreign institutional shareholders hence the incentives of

these larger share holders are more aligned to perform an effective monitoring role. Foreign corporations holding an ownership stake in a domestic company also tend to invest in firms related to their core business.

Fazlzadeh (2011) noted both a positive and negative relationship between institutional ownership and firm performance. Institutional investors are effective owners, because they have the resource and ability to properly monitor management's decisions hence the positive relationship. However, a negative relationship may emanate when an institutional investor owns a large block of share of a company, the management would be impressed by its power and instead of pursuing the benefits of all shareholders, management would only try to gratify specific institutional shareholder which owns the majority of share of company and leading to failure in firm performance.

1.1.4 Commercial Banks in Kenya

The Banking industry has 44 banks one of which is under statutory management. Among these 31 are locally owned and 13 are foreign owned. Among the locally owned banks, three have a significant shareholding by the government and State Corporations. Among these, 11 are listed in the NSE while the rest are non-listed. Out of the 11 listed companies, 4 are foreign owned while the rest are locally owned. The banking industry is governed by the Central Bank Act and Banking Act. The banking Act sets out some policies on share ownership of a financial institution. Individuals (other than another institutions, the Government of Kenya or the Government of a foreign sovereign state, state corporation within the meaning of the State Corporations Act or a foreign company

which is licensed to carry on the business of an institution in its country of incorporation) are restricted from holding directly or indirectly, or having a beneficial interest in, more than twenty-five per cent of the share capital of any institution (Banking Act, 2009). Financial institutions or mortgage finance company are also not allowed to acquire or hold, directly or indirectly, any part of the share capital of, or otherwise have beneficial interest in, any bank.

With the liberization of the financial market, the government has been significantly changing its ownership of formerly fully state owned banks. Consolidated Bank of Kenya remains the only fully owned commercial bank. Development Bank of Kenya and National Bank of Kenya have a government shareholding of 89.33% and 70.99% respectively. For KCB, the Government has over the years reduced its shareholding to 35% then to 26.2% following the rights issue exercise in 2004. In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1%. The bank conducted the third Rights Issue exercise in 2010, in which the Government further reduced its shareholding to 17.74% (KCB, 2012). On the other hand, in 1994, the Government reuced its shareholding in National Bank by 32% (40 Million Shares) to members of the public. Again in May 1996, it further reduced its Shareholding by 40 million Shares to the public. The current Shareholding now stands at: National Social Security Fund (NSSF) 48.06%, General Public - 29.44%, Kenya Government 22.5% (National Bank, 2013).

The sector has also been very dynamic and resilient in its operations by posting high profits despite of the high volatility experienced in the industry in the recent times. Key among the volatile times includes the global financial crisis, post election violence in 2008, high inflation and a depreciating shilling.

1.2 Research Problem

The importance of the internal structure of a firm and eventually performance has seen various researches being done on the relationship between ownership structure and performance. Lee (2008) attributes ownership structure to be an internal mechanism of corporate governance. Lele & Jun (2011) also recognize that ownership structure determines the decision making, incentives, behavior of firm and eventually the performance.

The Kenyan banking sector has had significant advances in technology, the growing trend toward the institutionalization of savings and the unprecedented innovation of financial products and services has forced banks to be very dynamic since they have eroded the traditional thinking of banks as the only providers of intermediation and transaction services. The liberization of the financial market has also seen the banking sector attracting foreign ownership, institutional ownership and also reforms such as privatization. The government has also been keen in ensuring the industry thrives since it is a high determinant of stability of the country. This has been seen in its efforts in reduction of its ownership in some banks it fully controlled and opening up to potential investors.

Studies on ownership structure date back to the 1920s with the pioneering works of (Berle & Means, 1932; Coarse, 1937).They provided insight into further study on the effects of dispersed ownership on performance. However, Jensen and Meckling (1976) in developing the agency theory opposed the earlier views of the pioneers who mainly looked at firm as a 'black box' and failed to look at the ownership structure of the firm which is of much importance to the performance of the firm. Buchanan & Tullock (1962) pioneers of the Public Choice theory negatively portrayed government as poor owners who are bureaucrats with self interests that were politically motivated. Such earlier works have solicited different views in researches leaving the study inconclusive.

In Kenya research in the area has solicited different views as recognized by Kiruri (2013). Researchers have also inclined themselves to assessing bank performance using the ROE which has been perceived to be the best measure of financial performance. However, European Bank (2010) recognizes the limitation of the RoE to well assess financial performance during periods of higher volatility which the banking industry in Kenya has been prone to. Therefore, the study used a better financial analysis tool (CAMEL model) to measure the financial performance of commercial banks in Kenya which have experienced volatility in the banking industry in the recent years. The research question was, what is the relationship between ownership structure of commercial banks in Kenya and the financial performance using the CAMEL model?

1.3 Research Objective

The objective of the study was to determine the relationship between ownership structure and the financial performance of commercial banks in Kenya.

1.4 Value of the Study

The scrutiny of the overall performance of the banking sector is important to depositors, owners, potential investors, and of course, to the policy makers, as banks are the effective executors of the monetary policy of the government.

Ownership structure as an internal mechanism of corporate governance is an area of study that has elicited different views on the same operational variables affecting performance. This study therefore is an important empirical reference for the finance literature in the area of corporate governance.

The study is also important in giving insight on the corporate governance of the commercial banks in Kenya and will help those set policies that would ensure that their ownership structures create value for their institutions. It also shows the different owners the importance of their monitoring capability on the financial performance of the commercial banks they own.

CHAPTER TWO

LITERATURE REVIEW

2.1Introduction

This chapter presents a review of literature in the study including a theoretical framework that supports it. It also presents the measures of ownership structure and financial performance and an empirical review of the research.

2.2 Theoretical Framework

The theoretical framework presents the different theories that explain the expected relationship between the ownership structures and financial performance.

2.2.1Agency Theory

The theory emanates from the fact that ownership and control of most modern firms is different. Jensen and Meckling (1976) drawn by the progress in property theory, agency and finance were motivated to come up with a theory on ownership of firms. They recognized the failure by literature on Economics to look at the organization structure of the firm. It basically looked at the firm as a 'black box' operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits. They defined the agency relationship as where the principal engages the agent to act on his behalf. They noted that if the agent and principal are all utility maximizers, the agent would act on his own self interest. The principal needs to put in appropriate incentives and incur monitoring costs to ensure the agent serves his interest. Such a relationship best fit the relationship between shareholders and the managers, since

modern firms have the roles of ownership and management to be different. Managers in both private and state owned firms are assumed to maximize their own utility rather than that of the. In private firms this divergence is reduced through external mechanisms such as markets for managers, capital and corporate controls including internal mechanisms such as managerial participation in ownerships, reward systems and the board of directors. In state owned firms these mechanisms are virtually absent.

The agency problem as operationalized in the agency theory dates back in the 1920s where Berle & Means (1932) observed that ownership structure in public companies became one in which shareholders had become so numerous and dispersed that they were no longer able to manage the companies they owned and needed to monitor management. This pioneering work suggests that dispersed ownership causes an agency problem in corporations because shareholders' incentive and ability to monitor management will be weakened. Lee (2008) conceptualized most shareholders as those who are interested in the future dividend stream rather than the future of the firm hence, and they would rather sell the shares rather than exercise their rights. Most of them do not have knowledge to make informed decisions about their investments. Therefore, the agency problem is high in dispersed ownership since shareholders tend to free ride hence reducing their incentive to monitor. He also noted that foreign owners and institutions have the resource capability to properly monitor compared to the other ownership identities. Douma et al. (2006) also suggest that foreign financial institutions' investment decisions are made by fund managers hence lesser agency problems because they have better monitoring capabilities.

This theory brings out an understanding to the relationship between ownership concentration, foreign ownership and performance. Agency problems are seen to be more in dispersed ownership as shareholders tend to free ride and hence are less effective in their monitoring leading to ineffectiveness in performance. On the other hand, foreign owners are depicted to have more capacity and resources hence increasing their monitoring capabilities. Their investment decisions also tend to be more informed since they seek the services of professional managers. Foreign ownership therefore, would lead to better performance.

2.2.2 Public Choice Theory

Although not a Finance Theory it provides insight in explaining the relationship between government ownership and firm performance. Buchanan & Tullock (1962) pioneered the Public choice theory postulating that government actors are politicians and bureaucrats who may be motivated to use state ownership to secure political office, accumulate power, or seek rents. They further predict that state actors will be most likely to act in self-interested ways in weak institutional settings where voters have less information and capacity to require good performance. Government is composed of perfectly informed agents whose principal goal is to maximize social welfare. Alchian (1965) expresses that government may have less reason to monitor well than a profit motivated private owner. The theory depicts a negative relationship between government ownership and performance.

Pioneers of this theory depict government as bureaucrats who are poor owners with self interests that are politically motivated. Alchian (1965) depicts less developed countries as where voters are less informed. Therefore, government owners are most likely to act in self interested ways because of the weak institutional settings. Clarke et al. (2003) brings out the ineffectiveness of government ownership by pointing it as less competitive, highly politically motivated with no clear objective and responsibility for bank monitoring. This theory therefore brings out a negative relationship between government ownership and performance.

2.2.3 Property Rights Theory

Alchian and Demsetz (1972) pioneers of property rights theory, suggest that a solution to the problem of shirking and free riding in a team production setting is for a residual claimant of the team to monitor the other members and to have the authority to direct members of the team. They propose that when residual claimants act as monitors they will pursue their own interests to maximize residual returns, which leads to maximizing the total value received by all the parties. In a firm, shareholders receive residual free cash flow in a form of dividends, which is the profits remaining once other stakeholders, such as lenders and employees, have been paid. Thus, residual rights of control should be allocated to shareholders. However, Lee (2008) opposes the theory because allocating residual rights of control to shareholders will lead to an agency problem due to the separation of ownership and control.

This theory suggests that shareholders who are the residual claimants need to be given the mandate to also monitor. Their argument was that since they are the residual claimants they will be motivated to be good monitors. Lee (2008) a strong opposer of this theory depicts shareholders as legal owners. Although they own a corporation, they do not feel any sense of ownership or control over the firms because their stake is small.

2.2.4 Shareholder and Stakeholder Theories

Shareholder wealth maximization is seen as the desirable goal not only from the shareholders' perspective, but also as for the society. This theory is built upon the traditional finance paradigm which puts the shareholder wealth maximization as the primary goal of corporate management (Krishnan, 2008). The shareholder theory was pioneered by Milton Friedman (1970). This theory posits that managers have a primary duty to maximize shareholder interests. Therefore, corporations should be controlled to maximize shareholders' wealth and the shareholders should be allocated decision rights (Lee, 2008). The proponents of this theory, Alchian and Demsetz (1972) who pioneered the property rights theory; also suggest that a solution to the problem of shirking and free riding in a team production setting noted in the 1920s by Berle & Means (1932), is for a residual claimant of the team to monitor the other members and to have the authority to direct members of the team.

The Stakeholder theory pioneered by Freeman is based on the idea that that a company should have an expanded role and responsibilities to other stakeholders and that economic value is created by people who voluntarily come together, cooperate and hence

improve everyone's circumstances. Stakeholders are any group or individual that can affect or be affected by the realization of a company's objectives (Freeman, 1984). Stakeholder theory aims at striking a balance between the interests of a corporation's stakeholders and their satisfaction (Freeman et al., 2004). By highlighting the firm's responsibility to its stakeholders, with the purpose of the firm being the driving force of the firm, the theory posits that this pushes the management to design and employ appropriate methodologies to determine the nature of the relationship between interested parties and the management in order to deliver on their purpose (Mang'unyi, 2011). Jensen (2001) while critiquing Freeman's theory came up with what he called Enlightened value maximization stakeholder theory.

This theory posits that a firm cannot maximize value if it ignores or mistreats any important stakeholder group implying that firm value is the goal, but the processes and the audits suggested by the stakeholder theorists should form the basis of action towards motivating all the key stakeholders (Krishnan, 2008).

2.3 Measurement of Bank financial Performance and Ownership Structure

This shows how financial performance and ownership structures of commercial banks can be operationalized.

2.3.1 Financial Performance

The financial performance of banks can be looked at from the accounting approach or the econometric approach (Kumbirai & Webb, 2010). The econometric approaches are non-parametric DEA and parametric Stochastic Frontier Approach (SFA).

To understand how well a bank is doing, you can start by looking at a bank's income statement, the description of the sources of income and expenses that affect the bank's profitability. Operating income is the income that comes from a bank's ongoing operations. Most of a bank's operating income is generated by interest on its assets, particularly loans. Noninterest income is generated partly by service charges on deposit accounts, but the bulk of it comes from the off-balance-sheet activities, which generate fees or trading profits for the bank .Operating expenses are the expenses incurred in conducting the bank's ongoing operations. An important component of a bank's operating expenses is the interest payments that it must make on its liabilities, particularly on its deposits. Just as interest income varies with the level of interest rates, so do interest expenses. Noninterest expenses include the costs of running a banking business: salaries for tellers and officers, rent on bank buildings, purchases of equipment such as desks and vaults, and servicing costs of equipment such as computers. The net interest margin is calculated as a proxy for the income generation capacity of the intermediation function of banks. Anticipation of bad debt on loans are also operating expenses stated as provision for loan losses. The difference between the operating income and the operating expenses is the Net operating income which is closely watched by bank managers, bank shareholders, and bank regulators because it indicates how well the bank is doing on an ongoing basis. From this, the cost-to-income ratio is calculated to show the ability of the institution to generate profits from a given revenue stream.

Although net income gives us an idea of how well a bank is doing, it suffers from a major drawback of not adjusting for the bank's size, thus making it hard to compare how well one bank is doing relative to another. A basic measure of bank profitability that corrects for the size of the bank is the return on assets. Although ROA provides useful information about bank profitability, bank's owners (equity holders) are more concerned about how much the bank is earning on their equity investment, an amount that is measured by the return on equity, the net income per dollar of equity capital. Recent events have shown that ROE is the most common measure for a bank's performance. Opponents of ROE however, dispute that the level of ROE may either reflect a good level of profitability or more limited equity capital. In addition, although the traditional decomposition of the ROE measure (looking at banks' operational performance, risk profile and leverage) may have been useful to assess banks' performance during benign times, this approach has clearly not proven adequate in an environment of much higher volatility such as during the global financial crisis, where ROE fluctuations have been caused entirely by operational performance. Therefore, it may not aid in the understanding of the potential tradeoff between risk and return in performance. This may actually explain why some of the high ROE firms have performed particularly poorly over the crisis, dragged down by a rapid leverage adjustment (EU Banking Structures, 2010).

A more dynamic financial analysis tool for measuring financial performance of banks is the CAMELS model. The model looks at performance from the angle of Capital Adequacy, Asset Quality, Management Efficiency, Liquidity Management and

Sensitivity. Banks capital is very essential to help the bank withstand any internal or external crisis. Dang (2011) expresses that the Capital adequacy ratio helps analyze the internal strength of the bank to withstand such crisis (Ongore & Kusa, 2013). Another critical aspect of banks is the asset quality. The loans issued by banks are a major asset therefore; their quality has a major impact on their performance. According to Ongore and Kusa (2013) Non performing loan ratios are the best proxies for asset quality. Management efficiency will be analyzed using the ratio of operating expenses to total assets since management quality determines the level of operating expenses (Athanasoglou et al., 2005). The banks also need to be able to meet their obligations. This is measured using liquidity ratios like customer deposit to total asset and cash to deposit ratio.

2.3.2 Ownership Structure

Lee (2008) measurement of ownership structure involved the use of the percentage of shares held by a controlling shareholder as a proxy for ownership concentration. While foreign ownership was measured by the percentage of shares held by foreign investors, institutional ownership was measured by the percentage of shares held by institutional investors, such as banks, insurance companies, pension funds, and mutual funds. Ongore (2011) also operationalized ownership concentration and ownership identity by; percentage of shares owned by the top five shareholders and actual identity of shareholders respectively.

Douma et al. (2006) in his study of foreign and domestic ownership, business groups, and firm performance conceptualized ownership structure by use of the percentage of common shares of the ownership identities such as foreign institutional and corporate investors, domestic ownership and also family and directors.

2.4 Empirical Evidence

Chaganti and Damanpour (1991) sought out to determine the relationships between outside institutional shareholdings and a firm's capital structure and performance and also whether the size of stockholdings by corporate executives, family owners, and insider-institutions modify those relationships. Their study went further than the normal owner versus management controlled firms' analysis to distinguishing between high and low institutional ownership management-controlled firms. In a population of 40 industries, they sampled data from 40 pairs of manufacturing firms over a 3-year period. Their findings showed that the size of outside institutional stockholdings has a significant effect on the firm's capital structure. Other findings were that family and inside institutional owners' shareholdings moderate the relationship between outside institutional shareholdings and capital structure. Corporate executives' shareholdings also supplement the relationship between outside institutional shareholdings and firms' performance. These findings suggest that internal and external coalitions interact with each other to influence the firm's conduct.

Lauterbach and Vaninsky (1999) examine the effect of ownership structure on firm performance in Israel. They distinguish between family firms, firms controlled by

partnerships of individuals, concern controlled firms, and firms where block holders have less than 50% of the vote. Their sample covered 280 Israeli firms and analysis employed the technique of Data Envelopment Analysis. Their findings were that owner manager firms are less efficient in generating net income than firms managed by a professional(non-owner) manager, and that family firms run by their owners perform (relatively) the worst. This evidence suggests that the modern form of business organization, namely the open corporation with disperse ownership and non-owner managers, promotes firm performance.

Lee (2008) in a period from 2000-2006, examined the effect of equity ownership structure on firm financial performance in South Korea. He focused on two dimensions of ownership structure; Ownership concentration (the distribution of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). With secondary data obtained from Korea Information Service, he sampled 539 firms from the 630firms listed on the Korea Stock Exchange. His analysis used Multivariate regression analysis on panel data. Lee's findings were that firm performance improves as ownership concentration increases; however, as ownership concentration increases; the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders. Contrary to previous empirical findings, he found the effects of foreign ownership and institutional ownership on firm performance to be insignificant.

Young and Kang (2008) used the new classification scheme on the ownership identity suggested by Delios et al. (2006) by analyzing the data of public companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange during the period 1994-2002. Their objective was to investigate the performance implications of the ownership structures of listed companies in China. The study compared performances across three ownership identities: government shareholding marketized corporate shareholding, and private shareholding. It also examined how equity ownership by the controlling shareholder and the minority shareholders (from top 2 to top 10 shareholders) affected firm value, in order to explore the role of the controlling shareholder and minority shareholders in the ownership structure in China. Their findings were that the argument that the state deteriorates firm value by pursuing policy goals rather than profits. Other findings are that marketized SOEs are not outperformed by private firms, higher equity ownership by the controlling shareholder leads to higher valuation of firms by intensifying incentives to monitor management or by reducing incentives to expropriate minor shareholders and also they find evidence of higher valuation of firms which have minority shareholders with large shareholding.

Fazlzadeh et al. (2011) determined the role of ownership structure on firm performance by sampling 137 listed firms of Tehran stock exchange within the period 2001 to 2006.They used balanced panel data in the regression analysis with their design concentrating on three ownership variables; ownership concentration, institutional ownership, and institutional ownership concentration. Their findings were that ownership concentration doesn't have any significant effect on firm performance with the

interpretation that since there are both advantages and disadvantages on ownership concentration, the integration of both positive and negative effects of ownership. On the other hand, there was a positive effect of institutional ownership on firm performance because institutional investors are effective owners, since they have the resource and ability to properly monitor management's decisions and lead to better performance of the firm. However, Ownership concentration had a negative impact on performance because when an institutional investor owns a large block of share of a company, the management would be impressed by its power and instead of pursuing the benefits of all shareholders, management would only try to gratify specific institutional shareholder which owns the majority of share of company which would finally lead to failure in firm performance. The type Industry is viewed as a moderating variable which could describe the different results for the effect of ownership structure on firm performance.

Ongore et al. (2011) used a census approach in their research design with an objective of determining the relationship between shareholder types and firm performance. Their findings indicate a significant negative relationship between state ownership of firms and financial performance. On the other hand, foreign, insider, diverse and institutional ownership gave significant positive relationships with financial performance. Their results however fail to establish the critical level of shareholding, beyond which there would be accelerated firm performance arising from commitment of managers.

A survey of partially privatized firms listed at the Nairobi Securities Exchange sought to assess the effect of government ownership/ control on financial performance of partially

privatized listed companies. It sampled 16 firms, 7% of whom had government control. The others were considered government investments. With the aid of SPSS version 19, a descriptive, univariate and multivariate analysis of data was performed. The findings were that financial performance of firms listed on the NSE is not affected by government shareholding or control since financial performance of partially privatized but listed firms is indifferent to the government control.

Ongore (2011) investigated the relationship between ownership structure and performance of listed firms in Kenya. From the different segments of the listed firms at the NSE, he sampled two firms from the Agricultural sector, seven from Commercial Services, ten from Finance and Investment, fourteen from Industrial and Allied and seven from Alternative Investment Market. He analyzed the data using Pearson's Product Moment Correlation and Logistic Regression. His finding was that in Kenya, ownership concentration is inimical to manager creativity and innovation, and curtails firm performance. He also found out that when managers, double up as shareholders, they are motivated to work towards realization of the wealth creation objective of the shareholders of whom they are part. On the other hand, managers who are not shareholders are more likely to engage in insider dealings as a way of enhancing their personal wealth and prestige. Government ownership was found to have a negative impact on firm performance. In the ownership by corporations his findings suggested a positive relationship with firm performance since most of the holding companies are usually large corporations who translate their investment practices and risk taking behavior to those

firms. He however found a positive relationship between diverse ownership and firm performance.

Kiruri (2013) sought to determine the relationship between ownership structure and bank profitability in Kenya. Using a descriptive study design, data was drawn from all the 43 registered banks by the Central Bank of Kenya. The study used annual reports that are available from the websites of the banks and also in the Central bank of Kenya website. Primary data was also collected through questionnaires. He obtained data for a five year period from 2007 to 2011. His findings were that ownership concentration is negatively correlated with bank profitability implying that higher ownership concentration leads to lower profitability of commercial banks in Kenya. The study also found that state ownership is negatively correlated with bank profitability. However, his study was a little bit contradictory after findings of both positive correlation between foreign ownership and domestic ownership with bank profitability.

2.5 Summary of Literature

The literature theories above help explain ownership concentration and ownership identities. Public theory portrays government ownership as bureaucrats and political motivated to use state ownership to secure political office, accumulate power, or seek rents. The property theory advocates residual rights of control to be left to shareholders since they are the residual recipients of free cash flow (dividends). Agency theory on the other hand found less agency problems in foreign and institutional ownership due to their huge resource capabilities to effectively monitor. Dispersed ownership on the other hand, was found to negatively impact firm performance since shareholders tend to free ride and hence they don't effectively monitor the firm.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter presents the design of the research project and its procedure. The target population under study is given including its design. The instruments for data collection and procedures for the data collection are also presented and the data analysis methods.

3.2 Research Design

The study adopted the descriptive design since it intended to determine the relationship that exists between the ownership structures and bank financial performance. Mugenda & Muganda (2003) describe descriptive design as a process of collecting data in order to answer questions regarding the current status of the subjects in the study. The research design therefore was suitable in conducting the study.

3.3 Target Population

The target population of the project comprised the forty three banks licensed by the Central bank of Kenya (See List in Appendix 1).

3.4 Sampling Design

The research used the non probability sampling design. According to Kothari (2004), in determining the sample design, one must consider the question of the specific population parameters which are of interest. Therefore, the sampling technique used was purposive to ensure that the sample chosen effectively meets the objectives of the study.

The sample size comprised 20 banks chosen from the different ownership identities from the periods 2008-2012. This sample size fulfilled the requirements of efficiency, representativeness, reliability and flexibility hence considered an optimum size (Kothari, 2004).

3.5 Data Collection Methods

The study used secondary data since they were well able to provide the information needed to meet the objectives of the study. Data was mainly collected from the Central Bank of Kenya and the Banking Survey 2013. For the listed commercial banks, data collection sources also encompassed publicly available information such as the published annual reports of the commercial banks. Data was collected from the period 2008-2011. These were the periods following reforms and restructurings in the sector and banks also showed stability in their performance hence it was a suitable period for data collection.

3.6 Data Analysis

The study employed the linear regression model. Analysis focused on the dependent and independent variable. To better analyze and further interpret the data, SPSS Package was used. The t-test was also used as a statistical measure of significance.

The analysis was pegged upon the model below

$$y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4++\in$$

Bank Financial Performance=f (Ownership Identity)

CAMEL= f (Institutional Ownership, Foreign Ownership, Government Ownership, Individual Ownership)

CAMEL = f (GOVO, FORO, INSTO, INDIVO)

$$CAMEL=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

Where

CAMEL is financial performance. It is measured by:

C - Capital Adequacy ratio

A – Non Performing Loan to Total Loan ratio

M- Cost to Income ratio

E - Return on Average Assets

L - Quick Assets to Total Loan Ratio

The five parameters of the dependent variable were each regressed differently with the ownership identities. This was presented in the models

$$C=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

$$A=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

$$M=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

$$E=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

$$L=\alpha+ \beta_1 GOVO +\beta_2 FORO + \beta_3 INSTO +\beta_4 INDIVO + €$$

Ownership Identity is measured by:

INSTO -percentage of common shares held by institutions

FORO- percentage of common shares held by foreigners

GOVO - percentage of common shares held by government

INDIVO - percentage of common shares held by individuals

€- Error term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, results and discussion of the study. The data has been analyzed using the SPSS package and presented in form of graphs, percentages, means and standard deviations. Findings in this chapter are geared towards fulfilling the objective of the study.

4.2 General Information

4.2.1Ownership Structure of Banks

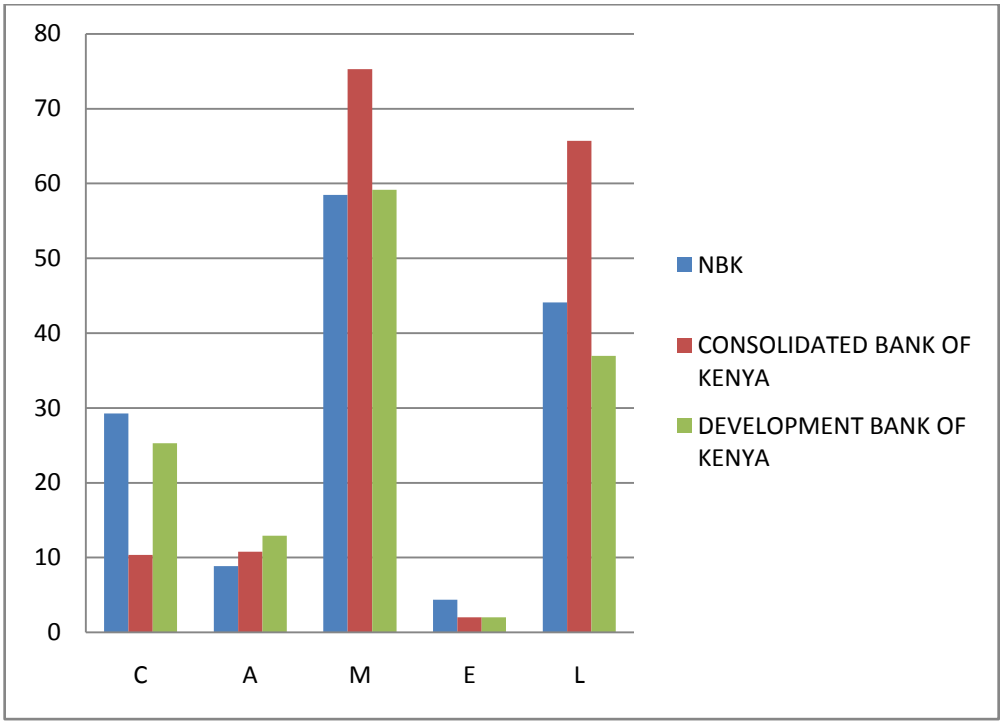
Out of the sampled commercial banks of 20, 3 were government owned, 6 were foreign owned, 7 were institutional owned and 4 were individually owned (See Appendix C)

4.2.2. Financial Performance of Commercial Banks

This shows the analysis, presentation and discussion of the different ownership structures based on the CAMEL Model.

4.2.2.1 Government Ownership

Figure 4.1 Financial Performance of Government Owned Commercial Banks



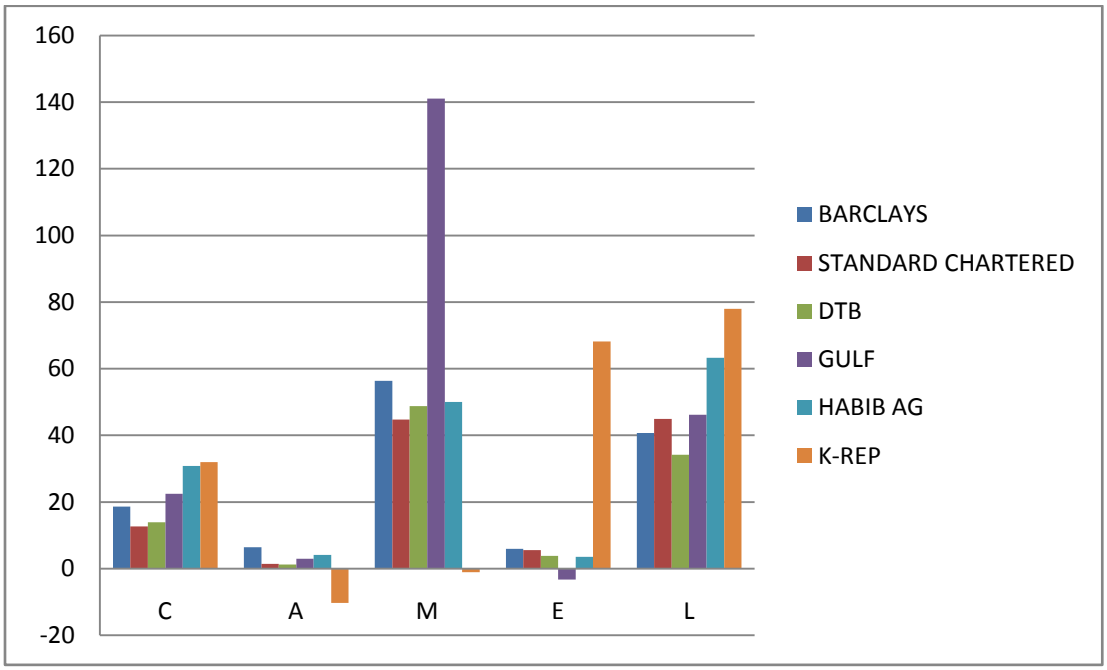
Source: Kenya Banking Survey (2013)

Government owned banks were generally of high capital adequacy apart from fully owned Consolidated bank of Kenya which had the very lowest Capital adequacy of 10.3575% below the CBK threshold of 12%. National Bank of Kenya and Development Bank of Kenya had very high ratios of 29.2725% and 25.295% respectively. Compared to the other ownership structures, their asset quality was very poor with the banks posting high NPL of 8.845%, 10.78% and 12.9275% for National Bank, Consolidated Bank of Kenya and Development Bank of Kenya respectively. Owing to the economic instability of the country over the years, they also experienced high cost income ratios of 58.47%, 75.295% and 59.18% respectively. Liquidity of the banks was favourable at 44.11%, 65.7175% and 36.975%. However the returns on average assets were very low.

Development Bank of Kenya had a very low ratio of 2% followed by Consolidated Bank of Kenya which had 2.015% and NBK with 4.375%. This shows very poor earnings quality for the government owned banks.

4.2.2.2 Foreign Ownership

Figure 4.2 Financial Performance of Foreign Owned Commercial Banks



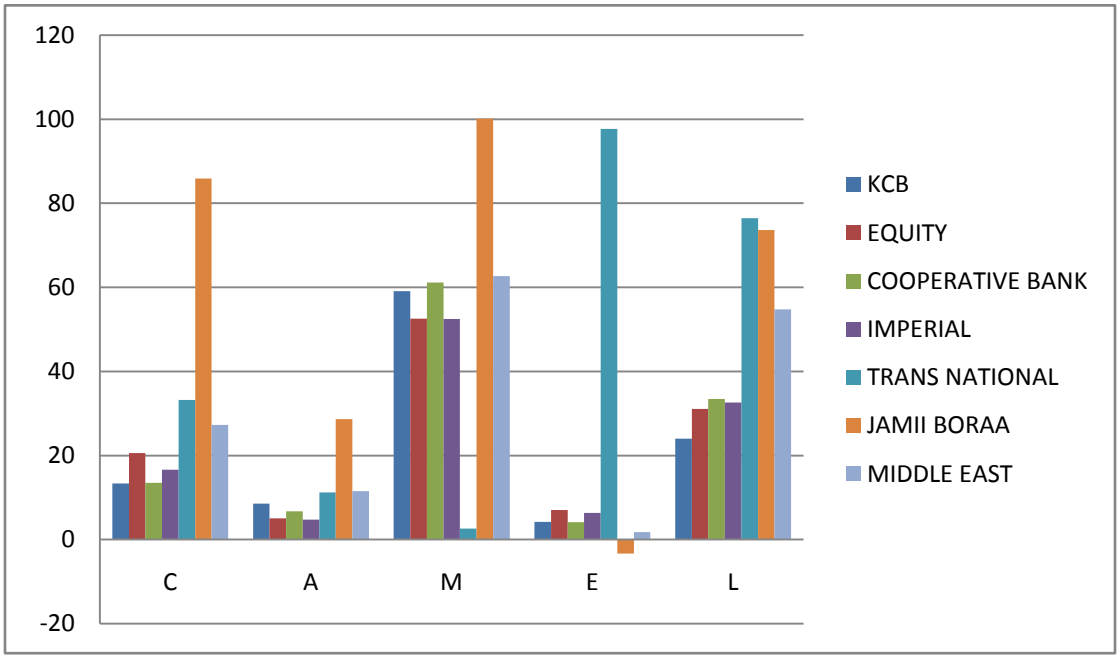
Source: Kenya Banking Survey (2013)

Foreign owned banks generally showed very high capital adequacy with K-rep and Habib Zurich AG having high ratios of 30.8475% and 31.945%. Standard Chartered bank and DTB had the lowest ratios of 12.61% and 13.9075%. Gulf African Bank and Barclays Bank of Kenya had ratios of 22.465% and 22.465%. They also showed the best asset quality of a low of 1.225% and 1.45% for Standard Chartered and DTB respectively. Gulf African Bank and Habib Zurich had lows of 2.9533% and 4.1525%. Barclays Bank of Kenya had the highest ratio of 6.4625%. Although K-Rep showed a very low ratio, it had inconsistencies in its performance over the years. The management efficiency of

foreign owned banks was poor just like the other commercial banks with Gulf African with a very high of 141.045%. However, most of the banks showed quality in their earnings. Barclays Bank of Kenya and Standard Chartered had ratios of 5.945% and 5.535% respectively. However, Gulf African bank showed poor earnings quality of -3.28%. Liquidity of most banks was high with over 40% apart from DTB which had the lowest ratio of 34.1475%.

4.2.2.3 Institutional Ownership

Figure 4.3 Financial Performance of Institutional Owned Commercial Banks



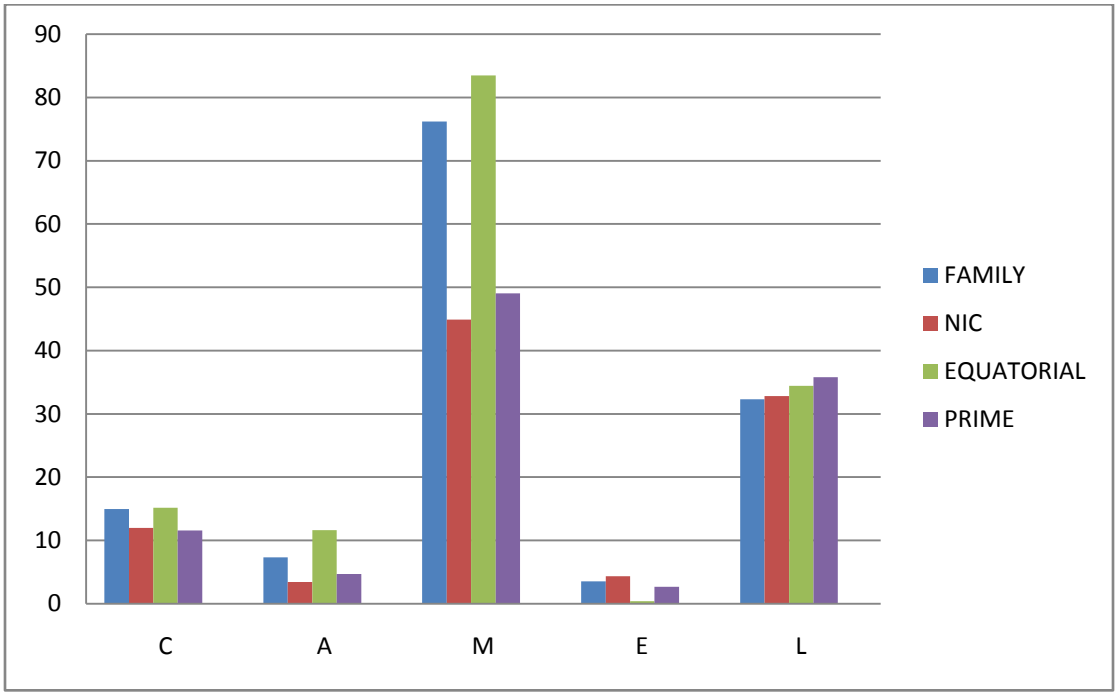
Source: Kenya Banking Survey (2013)

Institutional owned banks generally showed good performance on all the parameters of performance of the CAMEL Model. Jamii Bora Bank had a very high capital adequacy of 85.91% and a liquidity of 73.6675%. However it showed very poor performance in the

management efficiency and earnings quality posting ratios of 100.1125% and -3.32%. Its asset quality was also poor with a high NPL ratio of 28.6275% showing a lot of inefficiencies in the bank. The commercial banks in this ownership structure also had high liquidity ratios though not as high as foreign banks. Middle East Bank had a high ratio of 54.737% while other banks had ratios above 30% apart from KCB which had a ratio of 24.01%.

4.2.2.4 Individual Ownership

Figure 4.4 Financial Performance of Individual Owned Commercial Banks



Source: Kenya Banking Survey (2013)

Individual banks had a poor earnings quality. Equatorial Commercial Bank had a very low return on its average assets of 0.405%. Prime Bank, Family Bank and NIC also had low ratios of 2.6825%, 3.55% and 4.345% respectively. Their liquidities most fell at

30%. Family Bank, NIC, Equatorial Commercial Bank and Prime Bank had 32.295%, 32.79%, 34.43% and 35.78% respectively. The capital adequacies of the banks were 14.96%, 11.985%, 15.1575% and 11.5725% respectively.

4.3 Correlation Analysis

Table 4.1 Correlation of different ownership identities based on the CAMEL Parameters

	FINANCIAL PERFORMANCE				
OWNERSHIP IDENTITY	**C**	**A**	**M**	**E**	**L**
GOVT	-0.77	0.236	0.909	-0.150	0.70
FOREIGN	0.105	-0.386	0.173	-0.064	0.215
INSTITUTIONAL	0.225	-0.196	-0.327	0.424	0.105
INDIVIDUAL	-0.271	0.030	0.105	-0.2300.	-0.0469

Source: Research Findings (2013)

4.3.1 Capital Adequacy

Government ownership had a correlation of -0.77 showing a negative relationship with capital adequacy. The test significance was 0.747. Foreign ownership on the other hand had a correlation of 0.105 and a test of significance of 0.659. Institutional owners were highly correlated to capital adequacy compared to foreign owners with a correlation of 0.225 and a significance of 0.340. Individual owners had a correlation of -2.71 showing a negative correlation with a significance of 0.248.

4.3.2 Asset Quality

Findings showed a positive correlation between government ownership and asset quality. It had a correlation of 0.236. Foreign, Institutional ownership had negative correlations of -0.386 and -0.196 respectively indicating that they have lower ratios of NPLs indicating better asset quality. Individual ownership on the other hand had a correlation of 0.030.

4.3.3 Management Efficiency

Findings showed a negative correlation between the different ownership identities and management efficiency. Government ownership and individual ownership had a correlation of 0.909 and 0.105 respectively. This indicates high cost income ratios hence lower efficiency. Foreign and Institutional ownership had 0.173 and- 0.327 respectively. Institutional owned banks were the most efficient.

4.3.4 Earnings Quality

With a correlation of 0.424 at a significance of 0.62, Institutional ownership had the best returns of their investors. The government, foreign and individual owned banks had correlations of -0.150,-0.064 and -0.230 respectively.

4.3.5 Liquidity

Findings indicated positive correlation between government, foreign and institutional ownership and liquidity. Government had a lesser correlation of 0.070 with a significance of 0.771.Foreign Ownership had the highest correlation of 0.215 with a significance of

0.363.Institutional ownership followed with a correlation of 0.105 and a significance of 0.661.

4.4 Regression Analysis

Table 4.2 Regression Results for the effects of Predictor Variables on Firm Performance

	Parameter Estimates (β)	Parameter Estimates (β)	Parameter Estimates (β)	Parameter Estimates (β)	Parameter Estimates (β)
	C	**A**	**M**	**E**	**L**
GOVERNMENT	0.313	0.881	0.575	-0.020	0.130
FOREIGN	0.471	0.460	0.641	0.065	0.249
INSTITUTIONAL	0.548	0.825	0.252	0.417	0.187
INDIVIDUAL	0.078	0.608	0.520	-0.129	-0.317

Source: Research Findings (2013)

The regression results showed a positive relationship of all ownership identities with capital adequacy. Institutional investors were the most capital adequate displaying a β of 0.548 with a significance of 0.550. Foreign owned banks and Government owned banks had β of 0.471 and 0.313 respectively with significance of 0.626 and 0.737 respectively. Individual owned banks were the lowest with β of 0.078 and a significance of 0.921.

A Low ratio of asset quality is a good indicator of financial performance. Regression findings indicate government as one with poor asset quality as shown by a β of 0.881 followed by institutional owned banks that had a β of 0.825. Foreign ownership had the best asset quality with a β of 0.460 at a significance of 0.617.Individual owned banks had a β of 0.608.

Efficiency in operations of banks is shown by a low cost-income ratio. Institutional owned banks had a β of 0.252 emerging the most efficient with a significance of 0.781. Foreign owned bank were less efficient with a β of 0.641 followed by Government owned banks and Individual owned banks with β of 0.575 and 0.520 respectively.

The government and individual owned banks showed a negative relationship with Earnings Quality. Their β were -0.020 and -0.129 respectively with significance of 0.982 and 0.863 respectively showing that the banks had low returns to their investors. Foreign and Institutional owned banks had β of 0.065 and 0.417 at significance of 0.944 and 0.633 respectively showing institutional owned banks as one with the highest returns on their investment.

The findings of the regression results for the relationship between the ownership identities and liquidity indicate a β of 0.130, 0.249, 0.187 and -0.317 for the government, foreign, institutional and individual ownership structures respectively. These findings show a positive relationship between government, foreign and institutional ownership

with liquidity. However, individual owned banks have a negative relationship with liquidity.

4.5 Test for Multicollinearity

Table 4.3 Correlations of the Independent variables

	GOVT	FOREIGN	INSTL	INDIVIDUAL
GOVERNMENT	1	-0.370	-0.351	-0.306
FOREIGN	-0.370	1	-0.417	-0.291
INSTITUTIONAL	-0.351	-0.417	1	-0.211
INDIVIDUAL	-0.306	-0.291	-0.211	1

Source: Research Findings

Government owned banks negatively correlated with foreign, institutional and individual banks at -0.370, -0.351 and -0.306. Foreign owned institutions on the other hand had negative correlations of -0.417 and -0.291 with institutional and individual owned banks. Institutional owned banks had a correlation of -0.211 with individual owned banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents a summary of findings, conclusions and recommendations of the study both for policy and research.

5.2 Summary of Findings

The study found out that the different ownership structures performed differently depending on the measure of CAMEL model. All banks in the different ownership structures performed poorly in the efficiency ratio probably due to the fluctuations in the industry over the recent years. Although a lower ratio was expected, the lowest consistent ratio posted was 49.065%.

Government owned banks showed high liquidity with the lowest having 37% and the highest having 66%. However, though its results showed its ability to pay off its liabilities from its quick assets, it extremely performed poorly on its asset quality by posting very high non performing ratios, with a high of 13% and a low of 9%. Fully owned government owned bank also posted the lowest ratio of 10% below even the CBK threshold showing capital inadequacy. At a significance of 0.982, the regression results showed a β of -0.020 for their relationship with earnings quality displaying less quality in their earnings hence shareholders didn't get high returns for their investments .

On the other hand, foreign Banks performed well in all the parameters of the CAMEL model though not as high as Institutional investors. Their shareholders got higher returns

from their investments as indicated by the Return on Average Assets. They had a β of 0.065 and a significance of 0.944. Most bank posted ratios above 4%. They also had low NPLs ratio of up to 1% with a high of 7%. Their assets were also liquid ranging from 63-35%. They had high capital adequacy though not as high as Institutional banks. One high disparity from earlier results was a β of 0.641 for its relationship indicating high cost-income ratios

Institutional banks are also ranked the best performers in the parameters. In terms of capital adequacy, they are the highest. Some of the banks though had very low asset quality indicated by very high NPLs. An extreme case of a poor institution owned bank which posted very high capital adequacy and liquidity but consistently failed to perform well in its asset quality, earnings quality and management efficiency was Jamii Boraa Bank. Institutional owned banks also had the highest returns on their assets with a β of 0.417 at a significance of 0.633.

Individually owned banks returns on the shareholders investments was very low with a high of 4 %and a low of 0.4% indicating less quality in their earnings. This was also shown by a β of -0.129 and a significance of 0.863.Management efficiency was also very low with a ratios ranging from 45-84% showing a high inefficiency. Their ratio of core capital to total risk weighted assets were slightly above the CBK threshold of 12% .The banks also showed a β of -0.317 indicating low liquidity for individual banks. A significance of 0.667 confirms the relationship.

5.3 Conclusion

Government ownership has a negative relationship with asset quality, management efficiency and earnings quality hence leading to an overall negative relationship with performance. A high asset quality depicted by this ownership indicates poor credit management and imprudent lending practices in such banks resulting to high non performing loans. Such results are consistent with earlier findings which have depicted government owners as selfish bureaucrats who are politically motivated and therefore poor monitors. Other findings also showed inefficiency in government owned banks indicating very high operating costs relative to their income. A part from the instability of the economy with a hard impact felt by banks across the board, most government owners are in the past known not to streamline their services by having high administrative costs and also mismanagement of funds .Such inefficiency can be seen in the low return of their investments.

Foreign Ownership on the other hand has a positive relationship with performance. Earlier findings have depicted foreign owners as those who make qualified decisions in their investments and are also very keen in monitoring of their banks. Foreign Investors employ fund managers to analyze an investment before they make a move. Unlike individual owners, their Investment decisions are not just to diversify risks. From the findings of the study, foreign owned banks had very low non performing loans indicating prudence in their credit management policies and practices. Being very good monitors, the study also found high returns on their investments. Their banks remained capital adequate with high liquidity. From the findings of this study, foreign banks seemed to

have been the hardest hit by the instability of the economy shown by high cost-income ratios.

The findings of the study also found a positive relationship between Institutional Ownership and performance of banks. The banks owned by them displayed high capital adequacy and Earnings Quality. Most institutional investors are depicted by earlier findings as one with huge resource capabilities who use them to effectively monitor their investments since they expect returns from the resources they have placed in the banks. From the findings of this study, most of the banks owned by them showed quality in their earnings as shown by high ratios in their return on average assets. Their huge resource capability is also seen in their high capital adequacy ratios. However, some banks displayed very high liquidity and capital adequacy but high non performing loan ratios and cost income ratios with low returns on their average assets showing some disparity from earlier findings. Such banks are noted to have high donor funding but poor management. This could be consistent with Fazlzadeh (2011) who noted a negative relationship between large blockholder institutional investors and performance. Such investors may enjoy unopposed decisions from management who want to gratify their needs which may be unfavorable for the financial performance of the bank.

The findings of this study showed a negative relationship between the Earnings quality of individually owners. This is very consistent with findings by Lee (2008) that depicted individual owners as one who were just legal owners who do not have a sense of control of their investments. In fact, their decisions are not qualified but meant to just diversify

their risks. Findings of this study showed very low returns on investments of such banks indicating poor monitoring by the owners. They just like the other banks, showed averagely high cost-income ratio accustomed by instability in the economy.

5.4 Recommendation for Policy and Practice

Individual ownership should not just be a matter of legal control and a need to diversify investments. Individual Investors need to be sensitized on the need to increase their monitoring capability of banks to ensure higher returns for their investments.

Government ownership seems to have failed on ensuring high asset quality for their investments. They need to step up and put high credit management measures and prudent lending measures to lower the magnitude of the non performing loans. Since they have the resources needed to monitor well their investments, they should also increase monitoring capabilities of banks they own and ensure the banks are motivated towards high returns on their assets and not bureaucratic, self and motivated intentions that lower performance.

Some of the banks with very high donor funding need to also increase the monitoring of these banks. From the data collected some of such banks, they display the best liquidity and highest capital adequacy yet they perform extremely poorly in their earning quality, management efficiency and asset quality.

5.5 Limitations of the Study

The study had a major challenge of getting the particular percentages of shareholding of certain commercial banks that chose to keep them structures private. Therefore, this necessitated sampling of the commercial banks. Another limitation was the Kenyan economic cycle which has been very unstable over the recent past spilling over to the banking industry. Such instability led to inconsistencies in the ratios of some banks over the years displaying high variations in performance and hence measurement. The scope of the study was also limited to the major ownership identities.

5.6 Suggestions for Further Research

This study had a limitation of inconsistencies in performance of banks over the four years. Future Studies carried out should address this by assessing performance over a much wider period. Sensitivity to risk is a very important performance measure of commercial banks. Further research should incorporate this in their measurement of bank financial performance. Future studies should also widen the scope of study of the ownership identities.

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APPENDIX A: LICENCED COMMERCIAL BANKS IN KENYA

1. Barclays Bank Ltd

2.CFC Stanbic Holdings Ltd

3. I&M Holdings Ltd

4. Diamond Trust Bank KenyaLtd

5. Kenya Commercial BankLtd

6. National Bank of KenyaLtd

7. NIC BankLtd

8.Standard Chartered Bank Ltd

9. Equity Bank Ltd

10.The Cooperative Bank of Kenya Ltd

11. Chase Bank (K) Ltd

12. African Banking Corporation

13.Bank of Africa Kenya

14. Bank of Baroda (K) Ltd

15. Bank of India

16.Citibank N.A Kenya

17. Commercial Bank of Africa Ltd

18. Consolidated Bank of Kenya Ltd

19.Credit Bank Ltd

20. Ecobank Kenya Ltd

21. Dubai Bank Kenya Ltd

22. Development Bank of Kenya Ltd

23. Equatorial Commercial Bank Ltd

24. Family Bank Ltd

25. Fidelity Commercial Bank Ltd

26.Fina Bank Ltd

27.First Community Bank Ltd

28.Giro Commercial Bank Ltd

29. Guardian Bank Ltd

30.Gulf African Bank Ltd

31. Habib Bank A.G Zurich

32. Habib Bank Ltd

33. Imperial Bank Ltd

34. I&M Bank Ltd

35. Jamii Bora Bank Ltd

36.K-rep Bank Ltd

37. Middle East Bank (K) Ltd

38. Oriental Commercial Bank Ltd

39. Paramount Universal Bank Limited

40. Prime Bank Ltd

41.Trans-National Bank Ltd

42. Victoria Commercial Bank Ltd

43. UBA Kenya Bank Ltd

44.Charterhouse Bank Ltd (Under Statutory Management)

Source: Central Bank of Kenya, 2011

APPENDIX B: COMMERCIAL BANKS FINANCIAL PERFORMANCE

		C	A	M	E	L
Kenya Commercial Bank	**2011**	18.58	5.03	52.72	5.27	15.76
	2010	11.6	8.14	61.05	4.39	37.35
	2009	13.58	12.5	66.86	3.26	24.92
	2008	9.59	8.49	55.76	3.85	18.01
	AVG	**13.3375**	**8.54**	**59.0975**	**4.1925**	**24.01**
Equity Bank Ltd	**2011**	15.63	2.36	46.67	7.47	35.3
	2010	18.58	4.9	51	7.34	23.43
	2009	19.98	7.38	60.16	5.79	28.04
	2008	27.99	5.61	52.34	7.56	37.61
	AVG	**20.545**	**5.0625**	**52.5425**	**7.04**	**31.095**
Cooperative Bank of Kenya Ltd	**2011**	13.04	3.62	62.01	3.82	26.66
	2010	13.33	4.24	58.92	4.25	38.21
	2009	17.3	8.05	62.8	3.83	41.9
	2008	10.26	10.93	61.02	4.49	26.9
	AVG	**13.4825**	**6.71**	**61.1875**	**4.0975**	**33.4175**
Barclays Bank of Kenya Ltd	**2011**	23.61	5.27	51.63	7.07	52.01
	2010	20.75	7.06	53.99	6.39	49.11
	2009	17.24	7.61	59.33	5.4	38.26
	2008	12.79	5.91	60.65	4.92	23.55
	AVG	**18.5975**	**6.4625**	**56.4**	**5.945**	**40.7325**
Standard Chartered Bank Kenya Ltd	**2011**	9.93	0.7	45.59	5.38	26.75
	2010	13.01	1.29	42.55	5.76	51.31
	2009	12.37	1.42	41.48	6.04	50.08
	2008	15.13	2.39	49.38	4.96	51.6
	AVG	**12.61**	**1.45**	**44.75**	**5.535**	**44.935**
NIC Bank Ltd	**2011**	11.35	3.03	39.11	5.07	52.73
	2010	11.46	3.23	44.48	4.9	25.43
	2009	13.75	4.13	48.64	3.39	27.44
	2008	11.38	3.34	47.4	4.02	25.56
	AVG	**11.985**	**3.4325**	**44.9075**	**4.345**	**32.79**
Diamond Trust Bank Ltd	**2011**	11.46	1.07	41.99	4.01	51.88
	2010	15.38	1.31	47.65	4.61	32.01
	2009	13.79	1.38	54.48	3.27	23.69
	2008	15	1.14	50.82	3.5	29.01
	AVG	**13.9075**	**1.225**	**48.735**	**3.8475**	**34.1475**
National Bank of Kenya Ltd	**2011**	26.49	3.99	59.76	3.8	21.18
	2010	27.74	4.21	56.89	4.84	50.05
	2009	32.64	9.01	59.86	4.59	81.97
	2008	30.22	18.17	57.37	4.27	23.24
	AVG	**29.2725**	**8.845**	**58.47**	**4.375**	**44.11**

	2010	18.24	4.36	50.16	7.11	42.78
	2009	17.21	5.27	54.42	5.57	38.67
	2008	15.97	5.17	55.92	5.35	23.88
	AVG	**16.5975**	**4.7725**	**52.4675**	**6.3075**	**32.585**
Consolidated Bank of Kenya	**2011**	10	10.81	77.45	1.06	84.74
	2010	9.53	8.29	77.92	1.91	107.77
	2009	9.02	10.98	69.95	2.97	33.29
	2008	12.88	13.04	75.86	2.12	37.07
	AVG	**10.3575**	**10.78**	**75.295**	**2.015**	**65.7175**
Trans-National Bank Ltd	**2011**	35	16.79	3.18	165.59	72.21
	2010	26.18	10.02	3.55	88.32	68.99
	2009	28.73	8.08	1.99	89.03	70.8
	2008	42.96	9.81	1.8	47.99	93.84
	AVG	**33.2175**	**11.175**	**2.63**	**97.7325**	**76.46**
Gulf African Bank(K) Ltd	**2011**	12.44	6.33	81.97	1.38	5.04
	2010	14.63	2.26	104.41	-0.65	95.89
	2009	18.87	0.27	131.24	-2.55	27.67
	2008	43.92		246.56	-11.3	56.07
	AVG	**22.465**	**2.953333**	**141.045**	**-3.28**	**46.1675**
Habib AG Zurich	**2011**	31.32	2.73	53.61	3.01	35.26
	2010	35.17	3.33	51.25	3.2	77.32
	2009	28.3	5.34	46.04	4.12	72.44
	2008	**28.6**	**5.21**	**49.35**	**3.79**	**67.9**
	AVG	30.8475	4.1525	50.0625	3.53	63.23
K-Rep BANK Ltd	**2011**	72	19.23	-4.05	58.44	76.86
	2010	19.17	9.55	-6.04	74.23	77.78
	2009	17.02	-26.13	2.7	134.08	86.99
	2008	19.59	-43.78	2.91	6.11	70.35
	AVG	**31.945**	**-10.2825**	**-1.12**	**68.215**	**77.995**
Development Bankof Kenya	**2011**	23.44	16.86	59.72	1.33	37.61
	2010	25.49	12.38	47.66	2.43	51.66
	2009	23.76	11.92	77.99	1.27	45.59
	2008	28.49	10.55	51.35	2.97	13.04
	AVG	**25.295**	**12.9275**	**59.18**	**2**	**36.975**
Jamii Boraa Bank Ltd	**2011**	32.42	40.6	138.7	-4.01	107.7
	2010	136.24	29.44	124.6	-7.53	21.91
	2009	96.13	21.8	80.23	-1.27	96.39
	2008	78.85	22.67	56.92	-0.47	68.67
	AVG	**85.91**	**28.6275**	**100.1125**	**-3.32**	**73.6675**

Development Bank of Kenya Ltd	**2011**	23.44	16.86	59.72	1.33	37.61
	2010	25.49	12.38	47.66	2.43	51.66
	2009	23.76	11.92	77.99	1.27	45.59
	2008	28.49	10.55	51.35	2.97	13.04
	AVG	**25.295**	**12.9275**	**59.18**	**2**	**36.975**
Jamii Boraa Bank Ltd	**2011**	32.42	40.6	138.7	-4.01	107.7
	2010	136.24	29.44	124.6	-7.53	21.91
	2009	96.13	21.8	80.23	-1.27	96.39
	2008	78.85	22.67	56.92	-0.47	68.67
	AVG	**85.91**	**28.6275**	**100.1125**	**-3.32**	**73.6675**
Middle East Bank (K) Ltd	**2011**	27.93	9.95	78.67	1.02	83.1
	2010	28.83	16.87	46.32	1.34	32.27
	2009	29.81	8.32	62.29	2.53	56.74
	2008	22.58	10.77	63.44	2.26	46.83
	AVG	**27.2875**	**11.4775**	**62.68**	**1.7875**	**54.735**
Equatorial Commercial Bank Ltd	**2011**	10.03	6.8	90.67	0.59	30.37
	2010	11.25	19.42	93.64	-0.47	31.42
	2009	18.45	12.65	76.5	1.67	39.07
	2008	20.9	7.74	73.02	-0.17	36.86
	AVG	**15.1575**	**11.6525**	**83.4575**	**0.405**	**34.43**

APPENDIX C: OWNERSHIP STRUCTURE OF COMMERCIAL BANKS

NAME OF BANK	GOVT	FOREIGN	INSTIT	INDIV
Kenya Commercial Bank	17.64	14.3	38.99	29.07
Equity Bank Ltd	0	24.45	55.55	20
Cooperative Bank of Kenya Ltd	0	0	67.56	32.44
Barclays Bank of Kenya Ltd	0	68.5	2	29.5
Standard Chartered Bank Kenya Ltd	0	74	2.5	23.5
NIC Bank Ltd	0	0	22.4	39.9
Diamond Trust Bank Ltd	0	58.06	26.32	15.62
National bank of Kenya	70.55	0	5	24.45
Family Bank Ltd	0	22.4	17.6	60
Prime Bank Ltd	0	3.1	18.2	78.7
Imperial Bank Ltd	0	5	87.5	7.5
Consolidated Bank of Kenya Ltd	100	0	0	0
Trans-National Bank Ltd	0	0	94.28	5.72
Gulf African Bank(K) Ltd	0	95	0	5
Habib AG Zurich	0	93.5	2	4.5
K-Rep BANK Ltd	0	56	28.8	10
Development Bank of Kenya Ltd	89.3	0	10.7	0
Jamii Boraa Bank Ltd	0	30	51	19
Middle East Bank (K) Ltd	0	15	70	5
Equatorial Commercial Bank Ltd	0	0	10	90