INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FINANCIAL PERFORMANCE IN KENYA'S BANKING INDUSTRY.

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the Research Project contains no material previously published or written by another person except where due reference is made in the Research Project itself.

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ABSTRACT

The adoption of IFRS has shaped the landscape of financial reporting around the globe in a way that ensures uniformity, transparency, and comparability of financial statements. This study looks at how IFRS adoption impacted the financial performance of the banking industry in Kenya, with a keen interest in financial disclosure, transparency, and timeliness of reporting. A longitudinal study was conducted from the year 2019 to 2023 with a focus on publicly listed banks in Kenya.

The analysis method employed simple and multiple regression and correlation analyses to find the possible relationship between IFRS adherence and financial performance, with the financial performance being measured by Return on Assets (ROA). From the findings, transparency had the biggest positive influence on financial performance, followed by financial disclosure, whereas timeliness had a minor effect. Further, the study demonstrates that while adoption aids investor confidence and corporate governance, high compliance costs and varied regulations continue to provide a challenge to the banks. This paper posits that there is a strong need for policymakers together with the financial institutions involved to strengthen IFRS strategy with respect to implementation so as to achieve sustainable financial stability on the Kenyan banking sector and its improved reporting practices.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The globalization of financial markets increases the demand for homogeneous financial reporting, which ensures consistency and transparency of financial data. International Financial Reporting Standards are accounting standards and guidelines applied by over 140 publicly traded companies for their financial statements (IFRS Foundation, 2023). These standards are set up to ensure the consistency, transparency, and efficiency of financial statements all over the world. IFRS were developed by International Accounting Standards Board (IASB), formerly known as International Accounting Standards Committee (IASC). In terms of uses for stakeholders and investors, IFRS standards make financial statements easily understandable and comparable amongst different countries, hence making financial information easier to analyze across borders (Ball, 2006).

The global adoption of IFRS regulations began as an attempt to harmonize accounting procedures around the world aspiring to improve the transparency of financial statements globally. Over 160 countries have adopted the use of IFRS regulations, becoming the most widely acknowledged accounting framework globally. The shift towards IFRS sped up early 2000s whereby most countries discovered the pros of having a standardized accounting framework. There were a few global trends in adopting the IFRS standards. Some of which are: several countries that have not yet fully adopted the IFRS are striving towards unifying their domestic standards with the IFRS to the best possible extent without completely substituting their frameworks, such as the United States that still uses the Generally Accepted Accounting Principles (GAAP), (IFRS Foundation, 2023). Several emerging economies are implementing IFRS regulations to attract foreign investments.

Kenya, an emerging market, adopted the IFRS standards in an effort to align with the international financial system. The main goal was to enhance the quality of financial reporting so as to attract foreign investors. Studies have been carried out to try and determine the effect of IFRS adoption on the financial market performance. Research has been conducted in countries that have adopted IFRS where developing countries have been compared to the developed ones; (Christopher Armstrong, 2010). There have been several studies done to establish whether changes in financial reporting quality occurred because of IFRS adoption where it was concluded that generally there was an improvement in the comparability and reliability of financial statements, (Barth, Landsman, & Lang, 2008)

Representing an emerging market, Kenya adopted IFRS in 2005 for financial statements of publicly accountable entities such as banks with the most important aim of improving the quality of financial reporting so as to attract foreign investment and incorporate the country into the global financial system. The Institute of Certified Public Accountants of Kenya (ICPAK) has been at the forefront in promoting the adoption of IFRS and ensuring compliance by Kenyan companies, (ICPAK, 2019). ICPAK has done a significant job in promotion of IFRS compliance in the Kenyan banking sector. These developments have all brought improvement in the financial transparency and credibility of the Kenyan banking systems in accord with international standards. While the adoption of IFRS in Kenya has greatly improved financial reporting, challenges remain in high compliance costs, extensive training required for accountants and auditors, and full alignment with international standards, which is very difficult due to the prevailing local economic conditions. Nevertheless, the adoption has been associated with benefits to the Kenyan financial market through increased foreign investment and enhanced transparency.

The banking industry in Kenya, being one of the essential and meaningful drivers of the economy, has exceptionally benefited from this IFRS adoption. Enhanced financial disclosures, transparent reporting has increased the confidence of the investor, resulting in the spur for foreign direct investment (FDI), (ICPAK, 2019). However, this implementation brought forth challenges associated with the specific sector such as compliance costs, where smaller banks are faced with financial hardships in terms of training and system upgrades to meet the requirements of IFRS. Another challenge is associated with technical expertise. The shortage of competent accountants and auditors with IFRS skills has also decelerated the smooth implementation. The regulatory gaps that come up as a result of inconsistent enforcement of IFRS compliance within the banking sector has denied its full utilization.

The adoption of IFRS in Kenya's banking sector has continued to enhance its financial statements comparability and credibility, but yet again continues to expose certain gaps in the transparency and efficiency of the system. Much gain has been achieved, but there is still a need for improvement, especially in making local economic conditions comply with global practices. Improvement in the financial dissemination from the banking sector has raised the level of capital access while substantially lowering the cost of borrowing by reducing information asymmetry with investors. An example is the adoption of IFRS 9 where expected credit loss (ECL) models are utilized to improve the accuracy of how a bank's financial health is reflected in the accounts while providing avenues for prudent management of credit risks. On the other hand, many challenges like earnings management and inconsistencies of disclosures must be contended by the Kenyan banks. However, it emphasizes the adequacy of financial governance and prudential conformity of Kenyan banks, thus eligible to become a credible player in the global financial market. Policymakers, regulators, and stakeholders should work hand in hand to ensure continued compliance to leverage the entire benefits of IFRS adoption towards the long-term financial stability of the banking sector.

1.2 Problem Statement

The demands for global adoption of International Financial Reporting Standards were pressed by the need to harmonize financial reporting among different jurisdictions, enhancing transparency, comparability, and reliability in a set of financial statements (IFRS Foundation, 2020). However, few studies have been conducted on the impact of IFRS adoption on the financial performance of the banking industry in Kenya. Although a number of studies have found that IFRS adoption is associated with increased market efficiency and foreign investment because of the enhanced transparency in the financial statements (Ball, 2006), others like (Luzi Hail, 2009)argue that the difficulties encountered during the implementation process, such as high compliance costs, lack of technical expertise, and stakeholder resistance, can offset these probable advantages.

This study has addressed the effects of quality disclosures and transparency of financial information on the financial performance of Kenya's banking industry. The goal of IFRS is to ensure financial transparency and high-quality disclosures, which in turn reduce asymmetry in the financial information between companies and investors. The study used return on assets(ROA) as an indicator of financial performance. It examined how IFRS impacts the indicators of financial performance. This study aims to conduct an analysis of the impacts of IFRS on the financial performance in Kenya, particularly the banking sector, with a focus on financial disclosures, transparency of financial statements as well as the timeliness of financial reporting. This study will analyze the effects of IFRS on the financial performance of banks in a developing market setting.

1.3 Objectives of the study

1. To analyze the effects of financial disclosures on financial performance of Kenya's banking industry.
2. To analyze the effects of timeliness on financial performance of Kenya's banking industry.
3. To analyze the effects of financial transparency on financial performance of Kenya's banking industry.

1.4 Research Questions

1. What are the effects of financial disclosures on financial performance of Kenya's banking industry?
2. What are the effects of timeliness on financial performance of Kenya's banking industry?
3. What are the effects of financial transparency on financial performance of Kenya's banking industry?

1.5 Significance of the Study

This study is important in a number of ways. First, by adopting a comparative approach, this study not only enriches the body of literature devoted to the impacts of IFRS adoption in a developing economy but going forwards it also sharpens the analysis on the Kenyan banking sector. In the context of Kenya's economic and regulatory environment, insights of the real impact of the IFRS on financial reporting and bank performance are hence very much made available for researchers and policymakers to look more forward to the global accounting frameworks that our local financial accounting framework should support.

Moreover, findings from the research will serve as inputs for informed decisions about the implementation of IFRS and of financial regulations by policymakers in both the Local-Kenya and global-arena. The study discusses clear-cut advantages of IFRS adoption, making it easier for policymakers to design financial oversight to forestall malicious behavior. As regards investors, increased transparency about the actual effects the rules can have on financial transparency and the efficiency of the market appeals to investors, hence attracting FDI. The study offers a lot of potential financial analysts, auditors, and other market participants, to help them come to hasty, better decisions. Through the Kenyan banking sector specific experience, the lessons drawn from this research are combined to present a more practical look at better practices and pitfalls to be mindful of while adapting to IFRS. With such a relative approach, stakeholders will have a better hand in understanding the complexities between financial reporting, thus allowing fortification of their financial and marketplace power.

1.6 Scope of The Study

It estimated the effects of the adoption of IFRS on the financial performance of Kenya's banking sector, covering the period from 2019 to 2023. Targeted herein are publicly listed banks on the Nairobi Securities Exchange as well as those under the Central Bank of Kenya, guided by some key indicators for stock market indices, market liquidity, and investor confidence. In this regard, the study evaluates the contribution to economic growth in Kenya by looking at GDP growth rates, foreign investment inflows, and financial stability indicators.

The methodology of the study focuses on the quantitative analysis of the data through statistical tools. Data will be obtained from financial statements, records from stock exchanges, central banks, and international financial institutions. The theoretical framework incorporates Efficient Market Hypothesis, Agency Theory and Signaling Theory.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the existing literature on the effect of adopting IFRS on financial performance of banks as related to Kenya. Specifically, it would cover some theories and the empirical findings of IFRS, financial transparency, financial disclosure, and market efficiency. The background will portray a foundation to be able to understand how adoption has influenced different dimensions of financial markets through a critical review of available studies and theoretical frameworks.

2.2THEORETICAL LITERATURE REVIEW

2.2.1Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) theory was developed by Eugene Fama in 1970. The theory was elaborated in Fama's research as detailed in his book. The theory posits that a financial market is informationally efficient, signifying that market prices fully reflect all available information, (Fama, 1970). The EMH upholds that it is impossible to earn returns higher than the market, either by selection of stocks or by timing the market, because whatever new information that is expected to affect the price of a security is already reflected in its current price. The theory classifies market efficiency into three categories: weak, semi-strong and strong form efficiency, showing how various types of information get incorporated into the stock prices.

The EMH has contributed significantly to the field of finance: In (Malkiel, 2003), the theory provides an intellectual underpinning for the investment strategy of index funds, which relies on the belief that it is impossible to consistently beat the market. The theory also forms a foundation for the Capital Asset Pricing Model that is used to assess an asset's risk and expected return. Moreover, it is used as a reference for researches that analyze the challenges to EMH which has spurred the growth of behavioral finance, investigating psychological factors that influence market outcomes, (Thaler, 2015). (Khamis & Abdulkadir, 2022), studied market anomalies by applying the Efficient Market Hypothesis as a benchmark to test the efficiency of markets.

The EMH is advocated for by Fama in his research (Fama, 1970) and by (Malkiel, 2003). Both researchers argue that financial markets are highly efficient and that prices reflect all available information. Critics have come up with substantial arguments that bring into question the validity of EMH. According to (Shiller, 2003) markets frequently reflect speculative bubbles while (Thaler, 2015) identified how behavioral biases and cognitive errors can lead to deviations from market efficiency, thus building on the evidence that sometimes investors do not behave rationally and markets are not always perfectly efficient.

The implementation of the IFRS standards for Kenya is geared toward facilitating the efficiency of markets through better quality of financial reporting and comparability of financial information, thus reducing the disparities of information and becoming an attractive host for foreign investment. Carrying out a case analysis of Kenya, which represents emerging markets, is pertinent to understanding how IFRS affects performance in the market and investor confidence in the banking sector. Empirical evidence in the research by (Christopher Armstrong, 2010) suggests that capital markets are more efficient after the adoption of IFRS, with reduced risks and increased liquidity.

2.2.2 Signaling Theory

The signaling theory, proposed by Michael Spence in 1973, (Spence, 1973). The primary focus of this theory is the sender efficiently transmits information to the receiver in circumstances where an information asymmetry is present. Signaling theory identifies the problem of asymmetric information flow—a situation where one party, the sender, possesses more or better information than the other party, the receiver. This usually has to do with how companies showcase their quality to creditors, stakeholders and other investors their competence and values in the fields of finance. Signaling theory and the IFRS regulation merge in the context of financial reporting and communication between entities and their stakeholders.

Signaling theory becomes vital in the Kenyan banking sector in that financial institutions are expected to be trusted and credible to entice investors and thereby comply with regulatory schemes. The IFRS regulations attempt to minimize information gaps in the presentation of financial information by setting up standardized guidelines which ensure uniformity and comparability of financial statements. The adoption of IFRS should thus serve as signals for transparency and ideal financial practice. Disclosure of non-performing loans under IFRS 9 serves to demonstrate that risks are prudently managed and that the bank is financially stable. Therefore, this transparency becomes an attractor of foreign direct investment and lessens the asymmetries of information in new-age markets like that of Kenya, (ICPAK, 2019). Reports in compliance with international financial reporting standards thus drive banks' competitiveness by signifying rating credibility to regulators and investors. The Signaling Theory then helps developing an understanding of information asymmetry and its contribution to corporate governance and market efficiency, (Healy P, 2001). It indicates the crucial role that disclosures and compliance will play in establishing market trust, risk management, and capital market development in developing economies such as Kenya, (Leuz, 2000).

Michael Spence (Spence, 1973) and Healy and Palepu (Healy P, 2001) are some of the proponents of signaling theory. They promote the importance of the theory in narrowing the gaps of asymmetric information through credible signals. This viewpoint is also supported by Leuz's work, (Leuz, 2000)showing how IFRS application increases credibility and transparency to financial statements, which increases investor confidence. Critics like (Stiglitz, 2002) reject such propositions and emphasize that signals are not always credible due to poor enforcement methods. The same (Donaldson, 1990) critiques the theory's assumption regarding rational behavior- market participants typically demonstrate biases that distort their signal interpretation.

Signaling theory, as put forward in this study, has been utilized in explaining how IFRS compliance has been deployed by Kenyan banks as a tool to ensure that information asymmetries get reduced while enhancing transparency in the use of IFRS compliance scores as proxies for the signal sent by banks. Stock returns have been used as an indicator of improved performance in the financial market. The hypothesis claims that banks with more IFRS compliance would be viewed as having a better market performance because it reflects higher investor confidence and lower asymmetry in information. The efficacy of IFRS would be tested as far as its signaling value in Kenya's banking sector is concerned using econometric methods.

2.2.3 Agency Theory

Agency theory, originally developed by Michael Jensen and William Meckling in 1976. The theory was elaborated in their paper on Theory of the Firm, (Michael C. Jensen, 1976). The theory examines the dynamic relationship between the principal (owner) and the agent (manager). This theory implies that the agents may not always act in the best interests of the principal or shareholder mainly as a result of information asymmetry. An agency problem occurs when the agent's best interest is not aligned with that of the principal. This could manifest in various ways, such as making decisions that are not geared towards shareholders' value maximization. There are costs incurred to have the agents act in the best interest of the principals. According to (Raymond Leung, 2013) agency theory concerns stem from the separation of ownership from management, which causes information asymmetry. Effective corporate governance reduces this problem.

The agency theory is most applicable in Kenya's banking sector whereby the essence of transparency and governance within financial lines is very eminent in assuring investors and stable market performance. The theory considers the insights that IFRS has in impacting the performance of banks in the Kenyan financial markets because of its focus on transparency, governance, and asymmetry of information. The adoption of IFRS enhances transparency through standardized forms of financial statements, hence bridging the information gap between management and shareholders, thus reducing agency costs, (Ball, 2006). This enhances transparency, and hence, it boosts investor confidence, which might lead to improved market performance in terms of stock return and liquidity, (Christopher Armstrong, 2010). The theory further underlines the role of good corporate governance in ensuring IFRS reporting that truthfully reflects company performance and further aligns managerial actions in the interest of shareholders. In this regard, through standardizing financial reporting across the globe, IFRS reduces agency costs across countries and ensures efficient capital markets. Agency Theory thus becomes very instrumental in describing how IFRS adoption can affect the financial markets, focusing on transparency, governance, and reducing agency costs.

Some proponents of this theory include Michael Jensen who was one of the key developers of Agency Theory; particularly in his influential 1976 paper with William Meckling, which laid the foundation for the theory. Jensen's work has examined the manner in which the costs of agency have impacted corporate governance and firm performance, emphasizing the need for mechanisms that align the interests of managers with those of shareholders, (Michael C. Jensen, 1976). Another proponent is (Eisenhardt, 1989). Kara Eisenhardt provides an extensive review of core concepts of agency theory and its applications. There are also critics to this theory which include (Donaldson, 1990), posits that the theory is based upon the notion that agents are, at all times, self-interested and opportunistic, a position that ignores the motivations of ethics and loyalty.

Agency theory emphasizes that IFRS application in Kenya may remedy governance challenges faced in her banking industry. For example, thorough disclosures and mainly on non-performing loans reporting under IFRS 9 are IFRS-compliant disclosures added that can influence stakeholders' appreciation of the financial status and risk management practices of a bank. IFRS adoption enhances transparency in financial information therefore reducing information asymmetry between the managers and the shareholders. The alignment of interests boosts investor confidence. (Horton, Serafeim , & Serafeim , 2013), shows that there has been an increase in quality of financial information and a decrease in earnings management. According to several studies, (Healy P, 2001) the need for accurate financial disclosure is as a result of information asymmetry and agency problems within an organization. Investors are able to understand the company’s situation and managers can act in the best interests of the shareholders by adhering to IFRS regulations for consistent financial reporting. According to (Raymond Leung, 2013) agency theory concerns stem from the separation of ownership from management, which causes information asymmetry. Effective corporate governance reduces this problem.

2.3EMPIRICAL LITERATURE REVIEW

(Ball, 2006), investigates the benefits and drawbacks of the International Financial Reporting Standards for investors. This research explores the global application of these reporting standards, that have been adopted by roughly 100 nations, and underlines how reduced information processing costs have assisted this global integration. It also examines the variations in how countries implement IFRS standards and as well reflects the possible significance and drawbacks this might hold for investors.

(Zahid, 2024) paper analyzes the significance of consistent accounting regulations in encouraging worldwide capital markets integration through the reduction of information disparity or asymmetry. The staggered implementation dates and price indicators are used to construct the measures of IFRS events in the analysis of their impacts on market integration. In testing the effects of IFRS adoption on capital market integration across countries that have benchmark indices and price data, the result is that adoption does not significantly affect market integration.

(Gwen Yu, 2014), investigates how differences in countries' accounting standards, referred to as "accounting distance," influence global investment decisions, particularly the asset allocation of mutual funds. The findings of this research are that investors usually underweight investments in countries with greater accounting distance. It examines how portfolio allocation changes with a decrease in accounting distance, either due to the investee country or the investor country adopting IFRS. Investors reduce underinvestment when accounting distance is reduced, which is shown in the results.

(Ryu, 2018) estimates the effect of mandatory IFRS adoption on cost of equity capital in Korea, where individual financial statements used to take priority over consolidated ones. The study uses as dependent variables the average estimates from several implied cost of capital models and assesses the period from the year 2000 to 2013 based on listed Korean companies. The findings indicate that the cost of equity capital has fallen significantly with the mandatory adoption of IFRS in 2011, even after controlling for several market variables.

(Dalla, 2011) reviews the economic and financial reporting consequences of IFRS adoption. The gap highlighted in this paper concerns the absence of a mechanism for globally implementing accounting standards. The paper analyses the industrial sector and the stock market index. The study shows that IFRS implementation has enhanced the profitability for most industrial sectors and has as well reduced the liquidity for several industrial sectors and stock market participants.

(Susana Callao Gastón, 2010), examines the quantitative effect of IFRS implementation on the significance of financial reporting by entities adopting IFRS for the first time. This paper addresses the lack of comprehensive analysis on how mandatory IFRS adoption affects the relevance of financial information in different countries.

(Christopher Armstrong, 2010) The objective of this study was to observe the reactions of European stock markets to the events related to IFRS adoption. It documents that firms with lower pre-adoption information quality, especially banks, and those with higher information asymmetry, faced positive market reactions, suggesting that investors are upbeat about improved information quality. For firms in code law countries, reactions were negative, reflecting concerns regarding IFRS enforcement. High pre-adoption quality firms also benefited positively from IFRS adoption.

(Hans B. Christensen, 2013) focuses on the capital market effects of mandatory IFRS reporting, particularly the effect on market liquidity. It finds that mandatory IFRS adoption had little overall effect on liquidity, with notable benefits being limited to five EU countries that simultaneously made significant changes in reporting enforcement.

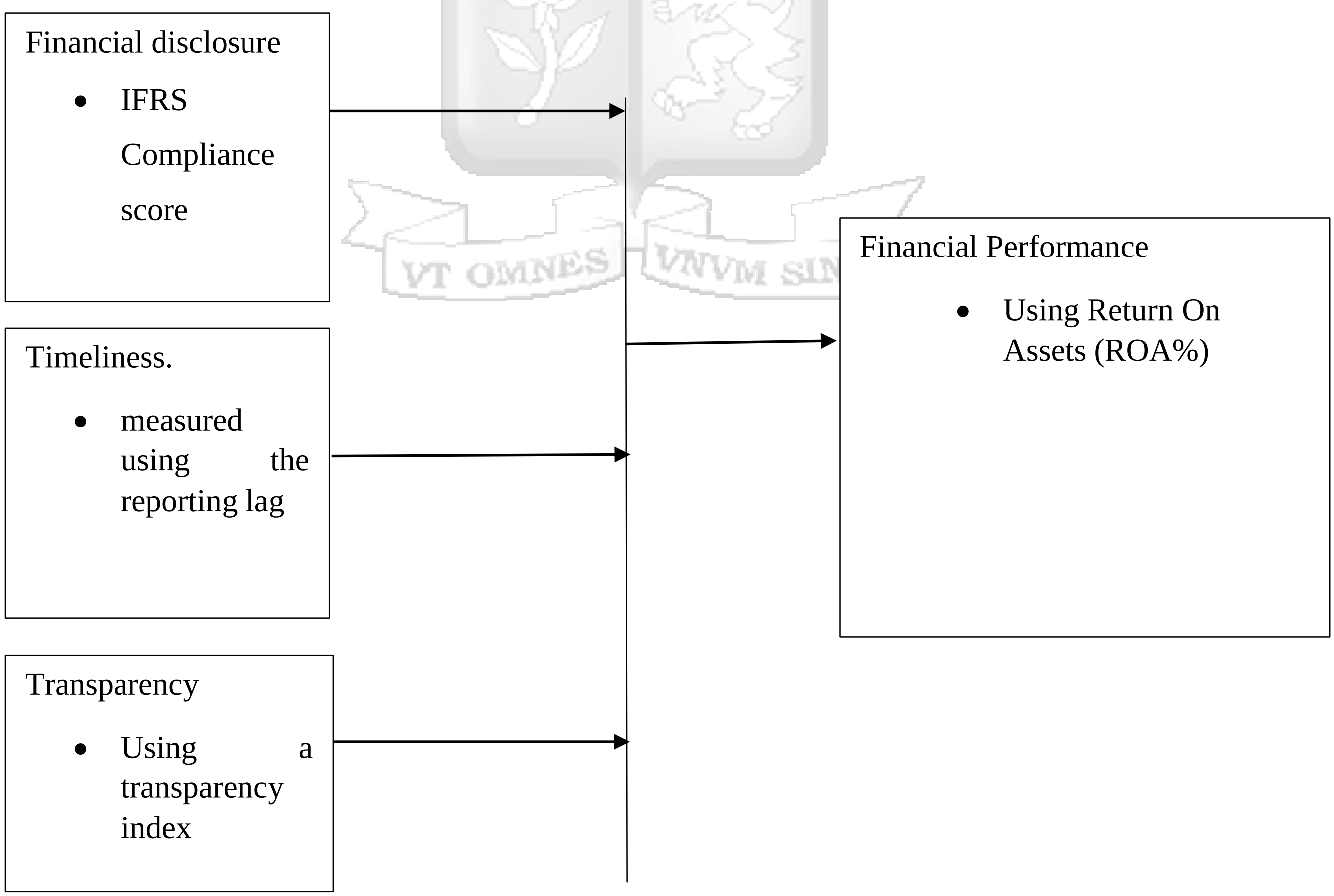
(Horton, Serafeim , & Serafeim , 2013) examines the effect of mandatory IFRS adoption on the information environment of firms. It establishes that mandatory IFRS adoption is more significantly associated with reduced consensus forecast errors compared to non-adopting firms. For those who adopted on a voluntary basis, forecast errors were also reduced, although to a lesser extent. By combining the data of individual analysts with settings in which investors have a better comparison or higher-quality information, this study found that improvements in the information environment are informational and comparability effects. These results were then shown to be invariant across alternative measures of information quality, forecast horizons, sample compositions, and tests for earnings management.

(HOLGER DASKE, 2008) reviewed the literature on the economic consequences of mandatory IFRS adoption across the globe, particularly with respect to market liquidity, the cost of capital, and Tobin's q, in 26 countries. This paper examines a large sample of firms that are mandated to use IFRS; measures changes in market liquidity, the cost of capital, and equity valuation; and compares results across high- versus low-enforcement countries and across firms with high versus low transparency incentives.

(Thony, 2023), assessed the impact of the adoption of International Financial Reporting Standards (IFRS) on the quality of accounting information in South Sudan using a study case of a commercial bank from Kenya and a cooperative bank. Apart from that, the study objectives involved measurement of the effect that IFRS has on the financial statements quality, openness, accountability, and foreign direct investment. This study was descriptive as it made use of a cross-sectional survey in collecting data from 70 respondents, and analysis was done using SPSS. The findings established that IFRS adoption improved financial information quality, increased transparency and accountability, reduced suspicious transaction reporting failures, solved corporate agency problems, and increased investor protections.

2.4Conceptual Framework

Independent Variables **Dependent Variable**



2.5 Existing gaps

While there have been significant strides in examining the impact of IFRS on the performance of financial markets, several gaps still exist, particularly in discussing the narrow context of the Kenyan banking sector. Lack of longitudinal studies that analyze the long-term effects of IFRS implementation over lengthy time-frames. Most researches focus on the short-term implications that immediately follow the adoption of IFRS. This may not fully reflect the complete range of outcomes as banks react to the new reporting standards. This study aims to bridge this gap by analyzing the impacts of IFRS on financial performance in Kenya's banking industry.

The other significant gap has to do with the limited attention developing economies like Kenya receive. The bulk of research focuses on developed markets with sophisticated regulatory structures and prevailing economic conditions, ignoring the challenges to emerging markets like regulatory inconsistencies, resource constraints, and different levels of compliance. By focusing single-mindedly on the banking sector in Kenya, therefore, the study contributes to clarifying exactly how IFRS adoption has a bearing on transparency, financial performance, and even investor confidence in a developing market context and, thus, addresses the profound gap in literature.

CHAPTER 3: METHODOLOGY

3.1 INTRODUCTION

The purpose of this study is to analyze in what way IFRS adoption has affected performance within the banking industry in Kenya, with regard to quality financial disclosure, timeliness of financial reports and level of transparency of financial information. The research elaborated on the methodologies employed including the research design, target population within Kenya's banking industry and sampling techniques applied for selection of participants. It also included how the data was collected, cleaned and prepared, data analysis methods used and how results were disseminated. Further, it addressed the issue of ethics as far as data collection, analysis, and reporting was concerned under maintaining transparency and confidentiality through the study.

3.2 RESEARCH DESIGN

The study adopted a longitudinal research design to investigate the effects of IFRS adoption on the performance of Kenya's banking sector over five years. The design has examined how IFRS adoption influences financial transparency, the quality of financial disclosures, and the timeliness of financial reporting within the Kenyan banking industry. The study focused exclusively on Kenya, just so as to provide a view of what would be seen on the long term effects of IFRS adoption in a developing market context that is likely to capture changes that may not be observable in the short term.

This research recognized that Kenya's economic development, market maturity, and regulatory environment materially shape the degree of effectiveness in the adoption of IFRS. These factors affect financial transparency, corporate governance, and market liquidity within the banking sector. This design provided an opportunity to understand how IFRS adoption influences financial performance in Kenya's unique economic and regulatory setting, addressing the specific challenges and opportunities faced by the country's banking industry.

3.3 POPULATION

The target population includes firms in the banking sector that are listed on Nairobi Securities Exchange (NSE), Kenya. These may be commercial banks along with other financial institutions under the definition of the banking sector by Central Bank of Kenya as well as the NSE. There are

14 banks as the sample for this research. This research examines the banking sector in Kenya in terms of its operation, financial performance, and the impact of market conditions in a developing economy.

3.4 SAMPLE AND SAMPLING TECHNIQUE

The sample included fifteen banks on the Nairobi Securities Exchange, Kenya. The population had banks that maintained their listing throughout the 5-year study period and banks that had fully signed unto IFRS at all the years under consideration. The sampling technique employed is stratified sampling. This involved dividing the population into various subgroups such as size of bank and other relevant characteristics and carrying out a random sampling of each subgroup. Application of such sampling technique gave the advantage of adequately representing sampled categories of banks from large commercial to smaller institutions. Stratification of the population was by bank size, and other relevant factors, and randomly drawn sample from each stratum. This most effectively captured the impacts of IFRS varied across the sectors' different segments, as it accounted for challenges and benefits that these banks faced in a unique way.

3.5 DATA COLLECTION

There are two types of data, primary and secondary data. Secondary data, is data that has already been collected, processed, and printed by other researchers, organizations, or institutions. The study used secondary data. Data was collected from existing records such as annual financial reports, stock exchange websites, official bank websites and financial information databases, ensuring reliability and minimizing bias. The research focused on Return On Assets as a principal indicator of financial performance. Data for this will be captured from the Nairobi Securities Exchange, the Central Bank of Kenya website as well as the annual reports of the banks in question.

Data cleaning process was conducted to ensure the accuracy and reliability of the data. The process involved the systematic discovery of missing values, outliers, and inconsistencies. Depending on their impact, missing data was either imputed or removed, while outliers were investigated for legitimacy. Inconsistencies, such as date or measurement formats, are to be streamlined. Duplicate entries of data were eliminated. Moreover, data validation techniques should be applied either by cross-checking the data with the source documents or through logical checking to ensure accuracy.

It was a meticulous process of data collection that began with the identification of sources expected to yield quality financial statements and market data related to the baking sector in Kenya. Such sources primarily included official websites of banks, stock exchanges, and other financial databases. The relevant financial data was systematically extracted for every bank within the sample from the secured sources. This was done uniformly in order to allow complete analysis for a period of 5 years. The extracted data was checked at this stage for accuracy and completeness, and version differences were resolved to minimize errors. This was accompanied by detailed documentation, capturing every source and method used in the extraction and verification of data. Such thorough documentation not only added to the transparency of the research but also makes the findings verifiable.

3.6 DATA ANALYSIS AND PRESENTATION

This study employed the use of descriptive statistics. Descriptive statistics are very critical in research since they enable the researcher to have an overview of the dataset, summary of the basic features of data and general structure of the dataset before any complex analysis is done. Descriptive statistics, in essence, gave an overview of the data in terms of central tendencies and dispersion, as well as patterns of distribution. In this respect, descriptive statistics formed the basis of this research into the effect of adopting IFRS on financial market performance by identifying trends, detecting outliers, and assessing the general shape of the data. This involved the computation of the mean, median, and standard deviation, among other descriptive statistics, using the SPSS software.

To measure for each variable, the financial disclosure was measured using an IFRS compliance score. This involved listing the specific relevant disclosure requirements under IFRS. Then reviewing the financial statements against the requirements of IFRS and giving scores based on the degree of compliance. These scores will then be added together to provide a compliance score for each bank, which can be used as a measure of financial disclosure in the regression analysis. For the timeliness variable, the number of days from the end of the financial reporting period up to the release of financial statements were obtained from the annual reports and the average reporting lag computed was then included in the regression model. For the transparency variable a transparency index or score was used as a variable.

In this study, a regression analysis method was used to understand how financial disclosures, transparency and timeliness impact financial performance over time. A simple linear regression between each independent variable and the dependent variable, financial performance, was conducted to test the effects of each variable on the financial performance. Then a multiple regression analysis was conducted to test the combined effects of all the variables on financial performance.

Model Specification:

$$Y_{it} = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_{it}$$

Where:

Y_{it} = Financial Performance Indicator (Return On Assets)

B_1 = Financial disclosure

B_2 = Timeliness

B_3 = Financial Transparency

A panel data analysis was needed to verify the banks' varying profitability from fixed assets over time. The fixed effects model and the random effects model were used, and compared to distinguish the best model most suitable for the study. For purposes of checking multicollinearity among the independent variables, correlation test will be conducted to measure the extent of their bond and the direction of association with financial disclosures, transparency, timeliness, and financial performance.

The study reported the descriptive statistics using summary tables. Regression results were also showed in tables to summarize major findings, incidentally to scatter plots relating to the relationship between financial performance and the independent variables. The robust methodology for the study includes SPSS to master statistical analysis and Python which guaranteed data processing exceptionally well in order to calculate the indices of the timeliness, transparency and compliance. The combination of these two sets of tools was expected to raise the required validity and precision of the findings.

3.7 ETHICAL CONSIDERATIONS

The research handled data available in the public domain in such a way that its contents were not misused or misrepresented at all. The research process was documented, and clear and full disclosure of the data sources, including how the data was obtained and utilized in the study was provided to ensure the validity and reliability of the findings. The integrity of the secondary data used was maintained. Information was presented exactly the way it was collected, without any alterations or modification that may affect its accuracy. Data manipulation or misrepresentation, in any form, to support the hypotheses did not take place. Data was honestly and objectively presented to make sure that all the findings reflect the real nature of data. Data manipulation to suit the desired results presents false conclusions and dims the credibility of the study was avoided at all costs.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter presented the findings and the interpretation of the data collected on analyzing the effects of the International Financial Reporting Standards (IFRS) adoption on the financial performance of Kenya's banking sector. The analysis focuses on three determinants of financial report: financial disclosures, transparency, and timeliness, on financial performance, measured using Return On Assets (ROA%). The main objective is evaluating the impact of IFRS compliance on financial performance using descriptive statistics, regression analysis, correlation analysis, and random-effect models, fixed effect models.

4.2 DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
ENTITY ID	70	1	14	7.50	4.060
ROA%	70	-4.60	4.00	2.1120	1.38383
IFRS compliance score	70	7.5	9.9	9.014	.4834
Transparency index	70	7.0	9.2	8.491	.4800
Timeliness Score	70	1.0	9.8	7.601	2.1050
Valid N (list wise)	70				

The table provides the descriptive statistics for the dataset with 70 observations with each entity assigned an ID ranging from 1 to 14. The mean ENTITY ID was 7.5. It suggested a balanced representation of banks. The range of the ROA which was a representation of the bank's profitability relative to its total assets varied between 4.60% and 4.00%, indicated that some banks incurred a loss but others experienced a moderate level of profitability. a mean ROA of 2.1120% confirmed that most experienced a positive return, but a relatively high standard deviation of 1.38383 indicates variation in profitability, a fact that indicates financial performance differed considerably between banks.

The IFRS compliance score, measuring adherence with international financial reporting requirements on a scale of 1-10, ranged between 7.5 and 9.9 and a mean value of 9.014 and a standard deviation of 0.4834. This is an indication that most of the banks in the sample had high IFRS compliance with negligible variation, an indication of strong compliance with regulators in the sector. In a similar view, the transparency index, a measure of transparency and openness in financial disclosures based on a scale of 1-10, ranged between 7.0 and 9.2 and a mean of 8.491 and a standard deviation of 0.4800. This is an indication of uniformly high transparency for the case of surveyed banks. The timeliness score, a financial reporting in a timely manner, varied greatly between 1.0 and 9.8 and a mean value of 7.601 and a standard deviation of 2.1050. Unlike IFRS compliance and transparency with little variation, financial reporting in a timely manner had a high range. This is an indication that financial statements for some of the banks are filed in a timely manner, but for others, reporting takes long.

4.2 ANALYSIS

4.2.1 REGRESSION ANALYSIS

Both simple and multiple linear regression (MLR) regression analyses have been performed to explore the relationship amongst ROA% as the dependent variable and the independent variables, Financial disclosure, Transparency and Timeliness. The simple linear regression has conducted to test out the effects of each variable on the dependent and then a multiple regression to analyze the effects of all the variables on the dependent variable. It will aid to analyze the extent of the influence of financial reporting dimensions on bank performance in Kenya.

4.2.1.1 FINANCIAL PERFOMANCE AND FINANCIAL DISCLOSURE

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.613[a]	.376	.367	1.10110

ANOVA TABLE

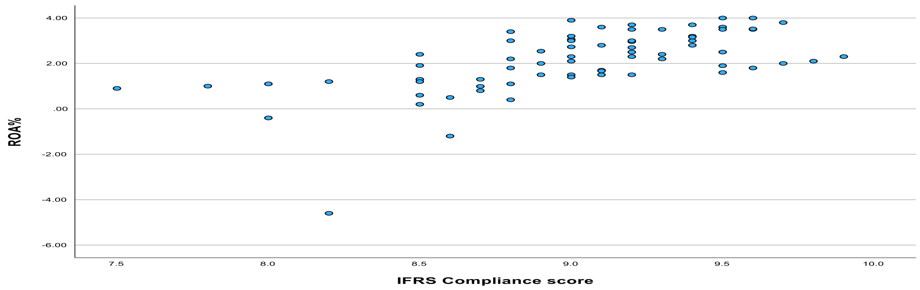
Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	49.690	1	49.690	40.984	<.001[b]
	Residual	82.445	68	1.212		
	Total	132.135	69			

COEFFICIENTS TABLE

		β	**Std. Error**	**Beta**		
1	(Constant)	-13.712	2.475		-5.540	<.001
	IFRS Compliance score	1.755	.274	.613	6.402	<.001

In the Model Summary, an R-value of 0.613 indicates a moderate positive correlation between financial disclosure and the ROA%. The R-square value (0.376) showed that 37.6% of the variation in ROA% is determined by financial disclosures, suggesting that financial disclosures does indeed have an influence on bank profitability. An ANOVA table confirmed if the regression model has statistical significance, ($F = 40.984$, $\rho < 0.001$), meaning the model results have very minimal chances of occurring by random, in this context statistical significance will maintained that financial disclosures has a significant, non-random effect on ROA%, thereby becoming a reliable predictor of financial performance. The Coefficients table further corroborates by proving that financial disclosures has a positive and significant impact on ROA% ($B = 1.755$, $\rho < 0.001$). That means that any increase in financial disclosures will increase ROA% by around 1.755%. Such a strong positive relationship shows how important adherence to IFRS can be to enhancing financial transparency, fostering more investor confidence, and substantially increasing bank profits in Kenya.



The results of the regression were represented on the above scatter plot indicating a positive correlation between financial disclosures, represented by the IFRS compliance score and profitability, represented by the ROA. This means that increased financial disclosures led to increased profitability of banks.

4.2.1.2 FINANCIAL PERFORMANCE AND TRANSPARENCY

MODEL SUMMARY

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.682[a]	.465	.457	1.02008

ANOVA TABLE

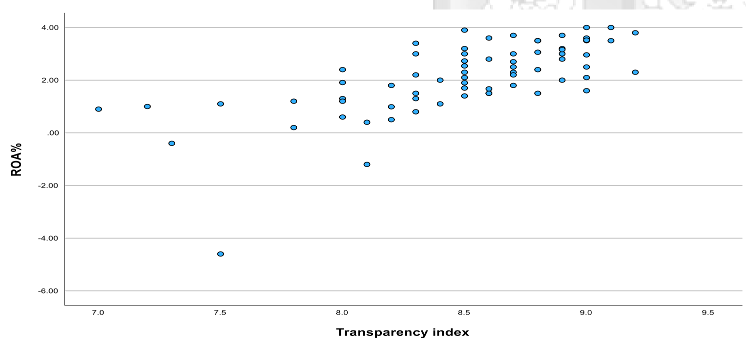
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	61.377	1	61.377	58.985	<.001[b]
	Residual	70.758	68	1.041		
	Total	132.135	69			

COEFFICIENTS TABLE

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		β	Std. Error	Beta		
1	(Constant)	-14.574	2.176		-6.698	<.001

	Transparency index	1.965	.256	.682	7.680	<.001

Regression analysis validates a strong positive correlation between transparency index and Financial Performance (ROA%), given that R = 0.682 and R-Squared = 0.465; this means transparency explains 46.5% of the variation in ROA%. As per ANOVA (F = 58.985, $\rho < 0.001$), the model is statistically significant, fully justifying that transparency has a strong impact on financial performance. In the Coefficients table, there is proof that an increase in transparency will increase ROA% by 1.965% for each unit, the particularly high value of t (7.680, $\rho < 0.001$) and the large value of Beta (0.682) indicate the importance of the predictive power of transparency. The intercept (-14.574) was not significant but it made explicit that as transparency starts deteriorating, profitability does, too. This suggests that financial report transparency could increase profitability, investor confidence, and the general fair value of money in the Kenyan banking sector.



From the plot, there is a positive correlation between transparency index and ROA%; that is, more transparent banking is optimal for financial performance. The data generally showed all banks with a transparency index rating of 8.5 or above technically had stable profitability. In line with the objective of this paper and with evidence in the regression transparency had a great impact on profitability.

4.2.1.3 FINANCIAL PERFORMANCE AND TIMELINESS

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.087[a]	.008	-.007	1.38869

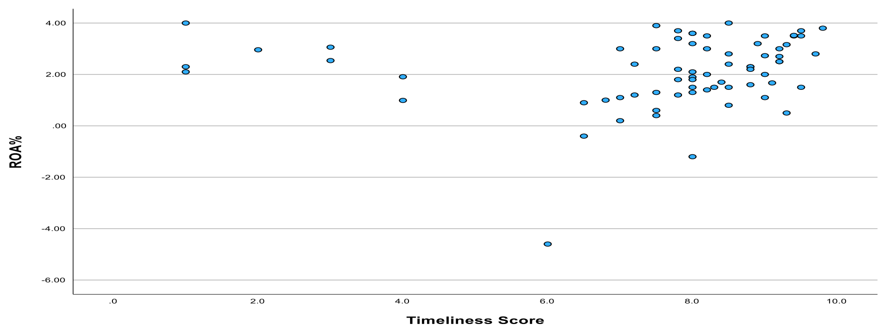
ANOVA TABLE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.999	1	.999	.518	.474[b]
	Residual	131.136	68	1.928		
	Total	132.135	69			

COEFFICIENTS TABLE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.677	.626		2.679	.009
	Timeliness Score	.057	.079	.087	.720	.474

According to the regression, timeliness has very little correlation with Financial Performance (ROA%) attributed to R=0.087, while R-Square=0.008. In other words, the variability by timeliness explained by ROA% is only 0.8%. ANOVA (F=0.518, p=0.474) justifies that the model constructed is not statistically significant, indicating that timeliness does not have a meaningful impact on profitability. Those outcomes were supported by the Coefficients Table where (B=0.057, p=0.474), meaning that for every one-unit increase in timeliness, profitability increased by an additional 0.057%. This amount is, however, insignificant. A very high p-value (0.474) and a low t-value (0.720) show that timeliness is weak as a factor of predictor in terms of financial performances. It is clear then that the speed in financial reporting does not have an impact on profitability within the banking sector. Unlike transparency or financial disclosure.



The scatter plot offers insights into how weak the relationship is among the timeliness and ROA, with the data points scattered so far apart and no clear trend. This agrees with the low correlation (R = 0.087) noted from regression analysis, pointing to an insignificance that suggests punctual financial reporting does not bear a significant harness. In addition, the ranges for ROA greatly differ for different timeliness scores, and the data fail to communicate any statistical significance either (p = 0.474).

4.2.1.4 MULTIPLE LINEAR REGRESSION

Multiple linear regression predicted how financial disclosures, transparency and timeliness have a combined effect on financial performance (ROA%). IFRS Compliance and Transparency are likely to have positive effects, while Timeliness is likely to have little effect. The R-Square value indicated the amount of variability in ROA% that could be explained by these factors. This model offered a broad understanding of financial reporting as it relates to profitability.

$$ROA\% = \beta_0 + \beta_1 IFRS\ compliance\ score + \beta_2 Transparency\ index + \beta_3 Timeliness\ score + \varepsilon$$

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.704[a]	.496	.473	1.00452

ANOVA TABLE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.536	3	21.845	21.649	<.001[b]
	Residual	66.598	66	1.009		
	Total	132.135	69			

COEFFICIENT TABLE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	β		
1	(Constant)	-13.182	2.276		-5.791	<.001
	IFRS compliance score	-1.950	.970	-.681	-2.009	.049
	Transparency index	3.856	.977	1.337	3.945	<.001
	Timeliness Score	.017	.058	.026	.293	.770

The multiple linear regression analysis shows that the model accounts for a significant percentage of variation in Financial Performance (ROA%), with an R-value of 0.704, indicating that a strong positive association is present between financial disclosure, transparency and timeliness with financial performance (ROA%) of the banking industry. R-Square value (0.496) means 49.6% of the variation in ROA is explained by these factors, with the Adjusted R-Square (0.473) further validating the model. ANOVA table (F = 21.649, $p<0.001$) tells us the model is statistically significant, implying that one predictor at least impacts financial performance in a meaningful manner. The table with Coefficients further shows that transparency (β = 3.856, $p<0.001$) pushes ROA upward, thus demonstrating this is the category with the strongest effect on financial performance. Conversely, IFRS compliance score (β = -1.950, p = 0.049) has a substantial negative impact on ROA. The timeliness index (β = 0.017, p = 0.770) adds up to nothing, underlining the lack of materiality of the speed of financial reporting on profitability. This study underscores transparency as the most important prerequisite in asset management and profitability while indicating that compliance requirements could cause significant hurdles in profitability.

4.2.2 CORRELATION ANALYSIS

VARIABLE	ROA%	FINANCIAL DISCLOSURE	TRANSPARENCY	TIMELINESS
ROA%	1.000	0.613	0.682	0.087
FINANCIAL DISCLOSURE	0.613	1.000	0.966	0.088
TRANSPARENCY	0.682	0.966	1.000	0.091
TIMELINESS	0.087	0.088	0.091	1.000

P – value table

VARIABLE	ROA%	FINANCIAL DISCLOSURE	TRANSPARENCY	TIMELINESS
ROA%	-	<0.001	<0.001	0.474
FINANCIAL DISCLOSURE	<0.001	-	<0.001	0.470
TRANSPARENCY	<0.001	<0.001	-	0.456
TIMELINESS	0.474	0.470	0.456	-

The analysis that was performed was Pearson's correlation coefficient (r), with financial performance (ROA%) and the financial statement reporting variables of financial disclosures (IFRS compliance score,) transparency (transparency index) and timeliness (timeliness score). The values of Pearson's r range from -1 to 1, with higher values having a positive correlation, values near 0 indicating no correlation, and values closer to -1 indicating a strong negative correlation.

As per the results, transparency index ($r=0.682$, $p<0.001$) showed the strongest positive correlation with ROA%, i.e., an increase in transparency results in an increased financial performance. Also, IFRS compliance score recorded a moderate positive correlation with ROA% ($r=0.613$, $p<0.001$), indicating that better compliance with IFRS leads to higher profitability. timeliness score ($r=0.087$, $p=0.474$) is weakly and non-significantly correlated, meaning the speed of financial reporting has little influence on profitability. A high positive correlation ($r=0.966$, $p<0.001$) found between transparency index and IFRS compliance score suggests that banks with highly transparent practices generally comply with IFRS standards. These results substantiate that transparency is the most profound determinant of financial performance, with timeliness hardly playing a role in determining profitability.

4.2.3 FIXED EFFECTS VS RANDOME EFFECTS

4.2.4.1 FIXED EFFECTS

FIXED EFFECTS (TYPE III TESTS OF FIXED EFFECTS)

Variable	F-value	p-value
Intercept	41.072	<0.001
IFRS compliance score	4.237	0.45
Transparency Index	18.111	<0.001
Timeliness score	0.073	0.789

The fixed-effect model revealed significant negative effects of financial disclosures (IFRS compliance score) ($F = 4.237$, $p = 0.045$) on financial performance (ROA), thus the low profitability of some banks may be due to higher compliance costs. The findings revealed a strong positive relationship of transparency with financial performance ($F = 18.111$, $p < 0.001$) implying that a higher level of transparency results in more potential for financial performance. Timeliness was insignificant ($F = 0.073$, $p = 0.789$), indicating that speedy presentation of financial statements has no effects on profitability. These results suggest that transparency is the most significant factor for achieving financial success, while compliance requirements impose significant financial burdens on banks in Kenya.

4.2.4.2 RANDOM EFFECTS

YEAR	VARIANCE ESTIMATE	STANDARD ERROR	p-value
2019	2.235	0.852	0.009
2020	1.133	0.435	0.009
2021	0.452	0.176	0.010

2022	0.505	0.196	0.010
2023	0.649	0.256	0.011

The random effect demonstrated that profitability varied from one year to the other among Kenyan banks, with the most significance seen in 2019 (2.235, $p = 0.009$) and the least in 2021 (0.452, $p = 0.010$), entailing that such year-specific factors as economic conditions, regulatory changes or trends in the industry as beneficial for the enhancement financial performance of banks. This points to the fact that the impact of financial disclosure, transparency, and compliance on bank performance for variable years must be considered along with other factors external to bank management or activities that may have an effect on shaping financial outcomes.

4.3 SUMMARY

This chapter analyzed the impacts of an implementation of International Financial Reporting Standards (IFRS) on the banking industry of Kenya in terms of financial disclosures, transparency, and timeliness. Descriptive statistics revealed high levels of compliance with IFRS and transparency among the banks but very high variability in timeliness. The regression model fit revealed that transparency has the most significant positive effect on bank profitability (ROA%), followed financial disclosures, with the importance of timeliness in this relationship considered less significant. The multiple regression model resolves that transparency has the most significant effect on financial performance, followed by financial disclosures but it could be influenced by the compliance costs, ultimately affecting the performance of banks. With confirmation from correlation indicators, performance and transparency have an established strong relationship ($r = 0.682$, 0.001), while timeliness factors are shown to have no relation with the level of reported profit.

Year-to-year analysis via fixed effects and random effects models underscores the major shifts in bank profitability with various years. As such, transparency has remained a consistent success factor to financial performance. Thus it can be argued that good corporate governance and conformity with IFRS standards will improve financial performance by assuring investors and market reputation. However, compliance cost has given distress to the banks, thus affecting their profitability. With this outcome, it is recommended that transparency and quality financial disclosures be prioritized by the banks.

CHAPTER 5: SUMMARY

5.1 SUMMARY OF THE STUDY

This research investigated the effect of the adoption of International Financial Reporting Standards (IFRS) on the financial performance of banks in Kenya. The objective of the study is the need for standardized financial reporting in establishing transparency, comparability, and confidence on the part of investors. Kenya adopted IFRS for the sole purpose of improving financial reporting and attracting foreign investment thereby integrating with the global financial market. However, there is very little research on IFRS and financial performance of banks, as determined by the mixed results of the existing studies. While some studies suggested that adopting IFRS comes with benefits such as better financial reporting and market efficiencies, others argue that the drawbacks are high compliance costs, technical challenges, and implementation issues. This research filled the gaps by examining the way IFRS influences financial disclosures, transparency, and timeliness; and how these combine to affect the financial performance of the banking sector in Kenya.

Problem statement was centered on whether the use of IFRS has enhanced the financial performance of the banking industry in Kenya. IFRS is expected to enhance financial disclosure and transparency and minimize information asymmetry between investors and banks. Technical challenges and compliance costs are likely to limit IFRS's intended advantages. The study aimed to probe into the effect of financial disclosures, transparency and timeliness on the financial performance of banks in Kenya. The research covered public listed banks on the Nairobi Securities Exchange (NSE) and those regulated by the Central Bank of Kenya (CBK), spanning 2019 to 2023. The study used secondary data collected through financial reports, stock exchange information, and regulatory bodies to measure the implementation of International Financial Reporting Standards (IFRS) and its impact on Return on Assets (ROA), a performance metric.

Literature reviewed in this study encompasses the Efficient Market Hypothesis (EMH) theory that theorizes that International Financial Reporting Standards (IFRS) make markets efficient due to increased financial disclosures; the Signaling Theory, which theorizes that IFRS adoption gives a signal that encourages investor confidence and the Agency Theory, which theorizes that financial information disclosure eliminates the conflict of interest between managers and shareholders. Empirical evidence is in support of this idea to some extent that the use of IFRS improves financial reporting and triggers investment, but the more difficult problems are still in its implementation, including excessive compliance cost, regulatory inconsistencies and poor enforcement, particularly in emerging economies such as Kenya.

The findings confirmed that transparency had the most profound positive effect on financial performance, followed by financial disclosures, whereas timeliness had no significant impact on profitability. As confirmed through regression analysis, increased transparency and IFRS compliance will boost confidence in investors, although compliance costs may decrease the financial performance of banks. The application of a correlation analysis confirmed the findings, with a high positive correlation between transparency and financial performance and little impact of timeliness. Fixed and random effects models also confirm that bank profitability varies over years, and in its determination, economic environments, regulatory shifts, and trends in an industry have an impact on the banks' performance.

The study found that IFRS adoption has led to greater transparency and better governance of the banking sector in Kenya. This leads to increased investor confidence and foreign investments. However, challenges such as high compliance costs and inconsistencies in the implementation still remain at large preventing full compliance. Key recommendations include the need for the banks to stress transparency and disclosure, while the regulator should consider smoothing out the IFRS training and enforcement education to maximize the global benefits. Therefore, while IFRS adoption has strengthened the financial reporting and essentially the credibility of the market, getting past these challenges would ensure the long run success of the banking industry of Kenya.

5.2 CONCLUSION BASED ON FINDINGS

Results of the study showed that the implementation of IFRS had a significant positive impact on financial performance in the banking sector of Kenya, especially through better financial disclosure and transparency. Banks with higher IFRS compliance scores are the ones with better financial performance, as well as increased investor confidence and enhanced governance. Transparency was declared as the most positively related factor with financial performance, suggesting that clear and accurate financial reporting helps to build a more efficient and reliable banking system. When information asymmetry is reduced by IFRS compliance, financial statements can be more comparable and hence more reliable-which benefits local and international investors alike.

Nonetheless, the study points out that with IFRS adoption come quite a few hurdles, some being the high costs as well as regulatory enforcement issues. Many of these challenges are equally felt in banks, but particularly smaller financial institutions that struggle with financial burdens related to upgrading systems, training staff, and ensuring compliance in detailed reporting. Conversely, IFRS improves transparency and proper financial disclosures in financial reporting, but does not have a significant impact on the timeliness of financial reporting as was showed by the weak correlation between timeliness and financial performance. This, in fact, implies that while timeliness is of substantial interest for decision-making, profitability is not its main concern in Kenya's banking sector.

The regression and correlation analyses models confirmed the direct influence of transparency and financial disclosures on the profitability of banks, where transparency has a greater impact than all other factors. But also, IFRS adoption is influenced by implementation costs that can erode profitability, even more, if banks are not equipped with sufficiently advanced resources in their setups to implement efficiently the IFRS standards. Disparities in financial performance across years from the fixed effects and random effects models strongly suggest that profitability was also influenced by prevailing economic, regulatory, and industry-specific conditions. These external influences become critical when evaluation of the overall impact of IFRS adoption is made. While IFRS enhances the transparency in financial reporting and the availability of financial disclosures, however, IFRS does not have a significant impact on timely financial reporting, this followed the weak correlation between timeliness and financial performance. This, then, means that timely reporting is essential for decision making but not so much in the financial performance of banks.

5.3 RECOMMENDATIONS

Some of the recommendations for the further research should look into the adoption of IFRS concerning the long-term effects upon the financial performance, extending the time frame beyond five years, as recommended by this study. A longer-term study, spread across multiple economic cycles, might yield a much more insightful look of the way in which financial stability is affected by IFRS compliance over the years. Further studies could contemplate the impact of IFRS on other financial metrics such as stock performance, management of credit risk, and efficiency of operation for a much deeper understanding of the impact in the banking sector. Additionally, researchers could undertake comparative studies involving Kenya and any other developing economies so as to gauge the congruence in effects of IFRS adoption across different regulatory and economic settings.

Future studies should consider the role of regulatory bodies and enforcement mechanisms in overseeing compliance with IFRS. Studies could be geared towards understanding the challenges that regulatory authorities have in enforcing IFRS standards, assessing the effectiveness of the current regulatory framework in Kenya, or analyzing stakeholders' perception and the difficulties of adopting the standards. Stakeholders can be more deeply involved in understanding how IFRS has affected decisions beyond financial institutions. In conclusion, more studies are needed so as to examine strategies for implementing IFRS that are reasonable in terms of costs and that can be applied in the context of smaller financial institutions towards achieving greater effectiveness as far as improved financial performance is concerned.

APPENDICES

ENTITY ID	Entity	Year	ROA%	IFRS Compliance score	Transparency index	Timeliness Score
1	ABSA	2019	1.91	8.5	8	4
1	ABSA	2020	0.99	8.7	8.2	4
1	ABSA	2021	2.54	8.9	8.5	3
1	ABSA	2022	3.06	9	8.8	3
1	ABSA	2023	2.96	9.2	9	2
2	Bank of Africa	2019	-4.6	8.2	7.5	6
2	Bank of Africa	2020	-0.4	8	7.3	6.5
2	Bank of Africa	2021	0.2	8.5	7.8	7
2	Bank of Africa	2022	0.4	8.8	8.1	7.5
2	Bank of Africa	2023	0.5	8.6	8.2	9.3
3	BK Group	2019	3.9	9	8.5	7.5
3	BK Group	2020	3.4	8.8	8.3	7.8
3	BK Group	2021	3.6	9.1	8.6	8
3	BK Group	2022	3.5	9.3	8.8	8.2
3	BK Group	2023	4	9.5	9	8.5
4	Cooperative Bank	2019	3	8.8	8.3	7
4	Cooperative Bank	2020	2.4	8.5	8	7.2
4	Cooperative Bank	2021	3	9	8.5	7.5
4	Cooperative Bank	2022	3.7	9.2	8.7	7.8
4	Cooperative Bank	2023	3.6	9.5	9	8
5	DTB	2019	1.9	9.5	8.5	8
5	DTB	2020	1.8	9.6	8.7	8
5	DTB	2021	2	9.7	8.9	9
5	DTB	2022	2.1	9.8	9	1
5	DTB	2023	2.3	9.9	9.2	1
6	Equity	2019	3.2	9	8.5	8

6	Equity	2020	2.8	9.1	8.6	8.5
6	Equity	2021	3.5	9.2	8.8	9
6	Equity	2022	3.7	9.4	8.9	9.5
6	Equity	2023	4	9.6	9.1	1
7	HF Group	2019	0.6	8.5	8	7.5
7	HF Group	2020	-1.2	8.6	8.1	8
7	HF Group	2021	0.8	8.7	8.3	8.5
7	HF Group	2022	1.1	8.8	8.4	9
7	HF Group	2023	1.5	9	8.6	9.5
8	I&M	2019	2.2	8.8	8.3	7.8
8	I&M	2020	2	8.9	8.4	8.2
8	I&M	2021	2.3	9	8.5	8.8
8	I&M	2022	2.5	9.2	8.7	9.2
8	I&M	2023	2.8	9.4	8.9	9.7
9	KCB	2019	3	9.2	8.7	8.2
9	KCB	2020	2.4	9.3	8.8	8.5
9	KCB	2021	3.2	9.4	8.9	8.9
9	KCB	2022	3.5	9.5	9	9.4
9	KCB	2023	3.8	9.7	9.2	9.8
10	NCBA	2019	2.1	9	8.5	8
10	NCBA	2020	1.5	9.1	8.6	8.3
10	NCBA	2021	2.3	9.2	8.7	8.8
10	NCBA	2022	3	9.4	8.9	9.2
10	NCBA	2023	3.5	9.6	9.1	9.5
11	Prime	2019	1.8	8.8	8.2	7.8
11	Prime	2020	1.5	8.9	8.3	8
11	Prime	2021	1.7	9.1	8.5	8.4
11	Prime	2022	2.2	9.3	8.7	8.8
11	Prime	2023	2.5	9.5	9	9.2
12	Paramount	2019	0.9	7.5	7	6.5

12	Paramount	2020	1	7.8	7.2	6.8
12	Paramount	2021	1.1	8	7.5	7
12	Paramount	2022	1.2	8.2	7.8	7.2
12	Paramount	2023	1.3	8.5	8	7.5
13	Stanbic Holdings	2019	1.2	8.5	8	7.8
13	Stanbic Holdings	2020	1.3	8.7	8.3	8
13	Stanbic Holdings	2021	1.4	9	8.5	8.2
13	Stanbic Holdings	2022	1.5	9.2	8.8	8.5
13	Stanbic Holdings	2023	1.6	9.5	9	8.8
14	Standard Chartered	2019	2.73	9	8.5	9
14	Standard Chartered	2020	1.67	9.1	8.6	9.1
14	Standard Chartered	2021	2.7	9.2	8.7	9.2
14	Standard Chartered	2022	3.16	9.4	8.9	9.3
14	Standard Chartered	2023	3.52	9.6	9	9.4

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