

Effect Of Debt Securities On Financial Performance Of Commercial Banks Listed In Nairobi Securities Exchange

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ABSTRACT: *Financial instruments are used on a wider scale mainly due to the global financial crisis. These tools have played a central role in averting financial risks in many countries for a long time. The banking sector's earnings fell drastically in 2020. ROA was 2.0% in year 2020 while in 2019 it was 3.2%. Such decline was contributed by an increase in loan loss provisions as asset quality of the banking sector reduced, an increase in impairment losses and the impact of the monetary policy rate cut on interest margins (SBI, 2021). The study's general objective was to assess the effects of debt securities on financial performance of Commercial banks listed in Nairobi Securities Exchange as moderated by inflation rates. The study's specific objectives were; to determine the effect of debt securities on financial performance of Commercial banks listed in Nairobi Securities Exchange. The study was supported by preferred habitat theory. The study utilized a descriptive design. The study's target population comprised 11 Commercial banks listed on the Nairobi Security Exchange. This study also embraced simple random sampling technique to pick a sample size of 10 listed commercial banks. The study used secondary data, which was collected by a data collection sheet. Data was obtained from financial reports for 10 years from 2011-2020. Descriptive statistical methods such as standard deviation, maximum, minimum and mean and were used to analyse the data. In addition, inferential statistical methods such as correlation and panel data regression analysis were utilised to determine the effect of the financial instruments on the financial performance of commercial banks listed in NSE. The findings of the study were presented in figures and tables. The study established that debt securities had a weak but direct and significant linkage with financial performance of listed commercial banks in NSE. Similarly, the study established that debt securities had a positive and significant correlation with financial performance of listed commercial banks at NSE. The study concluded that debt securities had a weak, positive and significant effect on financial performance of listed commercial banks in NSE. Similarly, the study concluded that debt securities had a positive and significant effect on financial performance of listed commercial banks at NSE. The study recommends that listed commercial banks at NSE should increase the amount of debt securities more, especially long-term debt in their financial structure.*

Key words: Financial Instruments, debt securities, Financial Performance, Nairobi Securities Exchange, commercial banks.

Introduction

Financial instruments' origin dates to 700 B.C in Asia Minor. Financial tools have gained prominence due to shortfalls of other forms of money like paper currencies and coins recognized as legal tenders. The development of virtual currency which is used as legal tender as is anchored on technology however, it can be influenced by unauthorised duplication therefore, for them to meet demands and expectations of consumers like normal currencies, there must be a steady technology (McKinney, Shao, Shao & Rosenlieb, 2018).

Financial instruments like public loans, public equity or venture capital, or credit guarantees are being used on a wider scale mainly due to the global financial crisis, increasing endemic problems for some firms, plummeted lending together with increased automated lending technologies and centralization of organisational structures. These tools played a central role in averting credit crunch, which limited access to finances in many countries for a long time (Brown & Lee, 2017).

1.1.1 Financial Performance

Financial performance indicators help top brass and interest parties to quantitatively transform a firm's activities and thus, evaluate the firm's objectives and strategies. PM, asset turnover, leverage and cash flows are mostly utilized. Improved firm performance leads to growth contributed by an increase in tangible assets (Wahyudi, Sulistiani & Muhajat, 2019).

Firm performance measurement uses various measures like (ROS) and operating margin return. However, (ROE), ROA are mostly used in measuring a firm's profitability because they represent the ratios between EBIT with total assets or total equity. Return on asset deals with investor's income from commercial trading of the business while ROE deals with the amount of return that stockholders earn on investment (Napitupulu, Primiana, Nidar, Effendy & Puspitasari, 2020).

Low financial performance is a big challenge to many commercial banks. This is due to factors such as, fraud, uncontrolled mobile lenders, NPL, credit risks, weak asset quality and growth in private industry and failures to implement new ideas like financial innovations swiftly (Kenya Bankers Association KBA, 2019). This has made banks in Kenya, to use other innovations such as, E-banking and M-Pesa products to enhance profitability and performance (Anebo & Lantera, 2019).

Financial performance of most commercial banks in Africa countries such as Egypt, Algeria, Nigeria and Malawi recorded a reduction in profitability due to loan-loss, increased expenses and indirect corporate growth ambitions. Moreover, less liquidity and poor quality of credit available in Rwanda and Uganda have led to declining of financial performance (Businge, 2017).

Financial performance is affected by the poor quality of assets that lose value continuously, defaults on loans, higher interest rates and unfriendly policies. To increase profitability, banks have resorted to other means of generating long-term capital, like trading of derivatives, asset securitization, credit card banking, mobile and E banking. These are some of the means applied to generate income (Obong'o, Mutea & Rintari, 2020).

1.1.3 Debt Securities

The use of debt financing allows a firm to obtain additional cash for investment in the business by way of borrowing. Debt involves borrowed money that which would be repaid with interest. Interest charged on loans indicates the risk the lenders take while funding the borrowers (Yosia, 2017).

Debt instruments as a component of external funding for companies play a great role in raising more money for investment, which enhances financial performance. It has both a favourable and unfavourable impact on the growth of firms and investment prospects. The favourable impact is the tax shield and reduction of free cashflow hence encouraging management behaviour. While the Costs of obtaining debt are agency and insolvency which comes from disagreements between borrowers and debtors (Ibhagui & Olokoyo, 2018).

Debt is central to the profitability of outfits. Funds from debt directly influences performance of firms in Nigeria. Large firms use more debt in the financing so that they can enhance financial performance. Debt capital is tax deducted by firms; they use it in financing their investments and projects hence it enhances financial performance of the firms. Additionally, interest payments can be easily traded off between growth and tax savings. This leads to improved financial performance (Ohaka, Edori & Ekweozor, 2020).

Debt financing affects performance of firms in Pakistan's non-financial sector to a greater extent. Debt is a key component in funding investments undertaken by firms. However, because of the interest paid, it tends to upscale the cost of obtaining funds. Thus, debt financing negatively affects financial performance in Pakistan to a greater extent (Aziz & Abbas, 2019).

Many listed firms in Kenya rely too much on immediate financing over the long-term. This is due to the uncertainty of bank rates. These rates make debt costlier and makes higher rate of return on equity. The overdependence on short-term debt is further attributed to the limited bond market, which encourages growth of non-securities markets. Thus, banks give cheaper immediate loans as opposed to long-period loans, hence, short-term debt is more popular amongst and thus, it enhances the financial performance of quoted outfits in Kenya (Omollo, Muturi & Wanjare, 2018).

Debt funds allow firms to benefit from tax deducted on interest paid to creditors. This makes it preferable as it directly contributes to the growth of financial performance than equity as the main means of funds for profitable investments (Okoth, 2017).

1.2 Statement of the Problem

Use of financial securities like debt and bonds leads to the growth and better financial performance of listed Commercial Banks.

These instruments provide cheap funds that are used in investment of projects that enhance financial result of business banks.

The banking sector' earnings fell drastically in 2020. In 2020, ROA was 2.0% while in 2019 was 3.2%. Similarly, the average return on equity (ROE), declined from 21.1% in 2019 to 13.3 % in 2020. Such decline was contributed by an increase in loan loss provisions as asset quality of the banking sector reduced and an increase in impairment losses and the impact of the monetary policy rate cut on interest margins (SBI, 2021).

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to assess the effects of debt securities on performance of financial institutions listed in Nairobi securities exchange.

1.3.2 Specific Objective

- i. To examine the effect of debt securities on financial performance of Commercial Banks listed in Nairobi Securities Exchange.

1.4 Hypotheses of the study

H0₁: Debt securities has no statistically significant effect on performance of financial institutions listed in Nairobi Securities Exchange.

LITERATURE REVIEW

2.1 Theoretical review

2.1.2 Preferred Habitat Theory

Franco Modigliani and Richard Sutch championed it and it was introduced in 1966. It states that investors can abandon expected maturity sectors if comparatively, there are higher rates elsewhere. The theory further argues that investors can abandon their uninterrupted bond timeline if the level of supply and demand are different in other bond markets. Thus, they can shift their investment appropriately (Delcey & Sergi, 2019).

It presumes that: all investors are rational; hence they invest in projects that yield higher returns in the short term. For instance, investors put their money in short-term convertible bonds so that they can earn more returns. Additionally, it believes that investors avoid risks by investing in areas where risks are low because they don't want to incur a lot of losses in case returns are poor. For instance, if commercial banks need more capital for a longer period project it leads to excess supply of long-term bonds thus, the need for short-term bonds will decline (Businge, 2017).

The theory is limited by the existence of taxes on income earned from their investment. Thus, shifting investment from one firm to another may not fully maximise income. Additionally, investing in short-term bonds possess a greater risk due to additional costs

incurred such as legal fees, change of accounts, allotment and bank fees which ultimately reduce profitability (Chang, Kam Chien & Su, 2019).

The application of this theory supports the link between debt, bonds and financial performance of institutions. Investors may wish to shift their investment from one bank to another so that they can earn more income. This leads to equilibrium of demand and supply of bonds in the market. Although such movements may benefit the bank in the long term, investors look forward to growing their investment in the short-term.

2.2 Empirical Review

2.2.1 Debt security and Financial Performance

Pham, and Nguyen (2020), did a study on debt financing and firm performance: Moderated by board independence. The sample size was 300 listed firms from whom data was derived and processed via descriptive techniques and a correlation matrix. It was demonstrated that debt and profitability had reasonable and inverse linkage. Further, it was revealed that board independence minimized the adverse impact of debt financing on profitability. It was concluded that board independence reduced debt financing's inverse effect on performance.

Nazir, Azam and Khalid (2019), assessed how debt financing affects firm performance: empirical evidence from the Pakistan stock exchange. It was proxied by debt, tangibility, sales growth and size of firm while ROA and NPM were indicators of performance. Data used was derived from Secondary sources like financial reports for a sample size of 30 largest manufacturing firms. Descriptive and inferential statistical tools were utilized to process data. It was revealed that debt had an inverse and substantial influence on profitability. Further, the study noted that both sales and size of firms directly affected profitability of nonfinancial outfits. Similarly, it was discovered that profitability and leverage were inversely linked. It was concluded that debt and financial performance were inversely and greatly interrelated.

Pradhan and Khadka (2017), wanted to determine how debt finance influenced the financial performance of commercial banks in Nepal. It utilized secondary data gathered from bank supervision reports and statistics on financials. It was anchored on 148 observations from a sample of 22 banks in Nepal. Descriptive and inferential techniques were applied to process data. They noted that debt, all assets, ICR and bank size had a direct linkage with profitability. Additionally, the study noted that profitability and loan to all assets, and loan to ordinary ratio were inversely related.

Badi and Ishengoma (2021), did a study on the accessibility to debt finance and performance of SMEs. The study was based on affordability, and timeliness adequacy as independent variables while profitability was measured in terms of GPM, ROA and ROE. Queries were utilized to derive primary data from 152 participants picked through stratified random sampling. Descriptive, and Standard Multiple regression analysis were applied in analysing collected data. It was illustrated that; debt finance and earnings of SMEs were directly correlated. Further, it showed that ROA was more influenced by funds accessibility unlike GPM and ROE. Thus, availability of debt improved SME's earnings when measured in terms of all assets. They concluded that debt accessibility is a key input in SMEs' output.

Ohaka, Edori and Ekweozor (2020), employed a descriptive research design to assess how debt financing affected financial performance of outfits in Nigeria. It was based on firm size, short- and long-term loan. Data was sourced from company statements. Collected data was analysed through Panel econometric tools like panel least square, random and fixed effect, Hausman statistic. It was realized that firm size, short and long-term loans were positively and significantly related to profitability. Further, it was found out that debt capital allows tax deductible hence, it enhances performance of the firm. They affirmed that funds from debt are key to the performance of an outfit because they affect financial performance directly and significantly. It was recommended that bigger firms ought to upscale the debt proportion in financing operations so that they can enhance their financial performance.

Yosia (2017), utilized descriptive research design to evaluate debt management on financial performance of commercial banks in centenary Bank Uganda Kabalagala Branch. The independent variables were debt management strategies, and the dependent variable was performance. It was based on debt management strategies that were independent variables. Questionnaires and interviews were employed to get primary data. Stratification sampling techniques were utilized to earmark 60 respondents. Analysis of data was achieved through descriptive statistics. It was established that strategies utilized to control debt and performance of commercial banks in Uganda were directly linked. Further, it was noted that determination of payment period, debt consolidation, debt cycling, security and safety of the advance, efficiency of management and liquidity level influenced performance directly and substantially. The study suggested that debt management and financial performance had strong and positive linkage in Centenary banks due to an effective debt policy, hence higher financial performance levels.

Onchomba (2019), applied explanatory cross-sectional design and panel data design to assess the effects of loan portfolios on financial performance of commercial banks in Kenya. It was grounded on personal loans, real estate loans, SME loans, and insider loans besides bank size as independent variables. ROA, ROE and CR were used to measure financial performance. Census sampling was utilized to sample 42 commercial banks. The data was derived through a data analysis sheet from financial reports and other relevant financial sources using. Inferential statistics was applied to analyse data. It was revealed that personal loans, real estate loans, SME loans, and insider loans affected the performance of banks significantly. Findings moreover illustrated that, loan portfolio influenced the commercial banks' financial performance. It was suggested that ROA, ROE and current ratio had a strong influence on loan portfolio.

Omollo, Muturi, and Wanjare (2019), utilized a descriptive research design to study the effect of debt financing alternatives on financial performance of outfits quoted at NSE. The study was guided by short and long period loan and total loan as predictors while firm profitability was proxied by ROA and ROE. The study applied purposeful sampling to select 40 non-financial firms quoted in NSE. Data from annual reports for 6 years from 2009- 2015 was gathered and used. Obtained data was analysed through panel econometric techniques like OLS, FE and RE. It was depicted that predicator variables inversely and outstandingly affected ROA. Additionally, the study revealed that debt had no substantial effects on ROE. Further, it was noted that, Overreliance on immediate financing unlike to long period financing by listed firms in Kenya is due to uncertainty that makes long-term debt costlier. They suggested that financial managers ought to find a balance betwixt debt levels for optimum operation.

Karuma, Ndambiri and Oluoch (2018), wanted to find out how debt financing influences financial performance of manufacturing firms in NSE. Panel and correlation research designs were applied. Its variables were short, long period debts and interest rates. The sample size was 45 firms selected through stratification. Descriptive and inferential statistics were utilized to process. The data found out that accounts payable, bank overdrafts and debentures, significantly affected performance as proxied via ROA. Further, the study found out Bank loans and interest payments insignificantly affected ROA. It was proposed that manufacturing firms ought to formulate measures that sustain their accounts payables because this led to increased returns on assets.

Okoth (2017), applied a correlation research design to find out how debt financing affected performance of non-financial firms listed in NSE. Equity, change in interest coverage and firm size were predictors. The study applied information obtained from the CMA and annual reports. Gathered information was analysed through multiple regression. Census sampling approach was applied to sample 64 non-financial firms as at 2017. The findings indicated DER directly and significantly affected ROA. Further, it was depicted that, interest coverage ratio had an insignificant effect on return on equity. Similarly, it was illustrated that, size of firm insignificantly but directly affected ROA. The study recommended that outfits ought to utilize more debt to reap big out of borrowing benefits.

2.4 Conceptual Framework

A conceptual framework brings together a number of related concepts to explain a certain event and give a wider understanding of the research problem (Fuad, 2020). In This study, equity securities, debt securities and bonds were independent variables.

Independent variables

Dependent variable

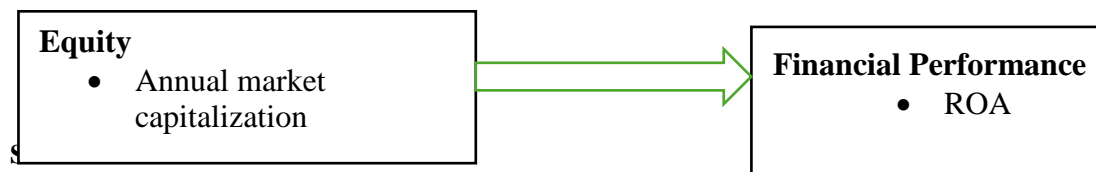


Figure 2.1 Conceptual Framework

Debt securities provide money for investment borrowed from debtors for investments in long term projects. Firms using debt for financing are required to pay back the principal amount and interest rates at maturity in the future. However, when interest is paid, firms are allowed to deduct interest paid on debt. This reduces the cost of acquiring and using debt hence, leading to enhanced financial performance. Further, income generated from investment undertaken increases profitability of firms.

RESEARCH METHODOLOGY

3.1 Research design

According to Cooper & Schindler, (2012) research design gives a road map on how to choose the various sources and kinds of information required and defines the linkage betwixt variables. The Study utilized descriptive research design. A descriptive design allowed studies to observe, describe reasons for the status of a certain phenomenon (Cooper Et Al., 2003).

3.2 Study area

The study targeted 11 commercials banks listed in NSE Kenya (appendix I). Kenya is found in E.A it borders Tanzania to the south, Uganda to the west, Ethiopia to North and Somalia to the east. The location where most of the headquarters are located is Nairobi, 1.2921° S, 36.8219° E.

3.3 Target population

Table 3.1 Target Population

BANKING
ABSA Bank Kenya
Bank of Kigali
Diamond Trust Bank Kenya
Equity Group Holdings
HF Group
KCB Group
I &M bank

Stanbic holding
NCBA Group
Standard Chartered Bank Kenya
The Co-operative Bank

Source: Researcher, 2022

A target population is a group of items, persons, or elements with common features found or not found in diverse geographical locations (Mugenda, 2008). The unit of analysis was 11 commercial banks quoted at NSE as at Dec 2020

3.4 Sampling design and sampling techniques

3.4.1 Sampling design

Sampling design is a roadmap utilized in earmarking a sample size (Kothari *et al.*, 2010). Simple random sampling technique was applied to pick a sample size of 10 commercial banks out of the 11 commercial banks listed in NSE.

3.4.2 Sample Size

Mugenda & Mugenda (2003) states that a sample size is a section of the whole set. The study used Simple random sampling methods. 10 quoted commercial banks in NSE were sampled. The sample size was arrived at using Yamane formula 1967.

$$n = \frac{N}{1 + N(e)^2}$$

Where

n = the Minimum Sample;

N = population size

- e = confidence level at 95 % (5%=0.05)

$$\frac{11}{1 + 11(0.05)^2} = 10$$

Table 3.2 Sample Size

BANKING

ABSA Bank Kenya
Diamond Trust Bank Kenya
Equity Group Holdings
HF Group
KCB Group
I &M bank
Stanbic holding
NCBA Group
Standard Chartered Bank Kenya
The Co-operative Bank

Source: Researcher, 2022

3.5 Data Collection

Data utilized was obtained from financial reports for 10 years from 2011-2020 through a data collection sheet.

3.6 Data Analysis and Presentation

According to Sheikh (2015), data analysis is a way of cutting and organising data to give an outcome that necessitates interpretation by the researcher.

3.6.1 Descriptive Statistics

Descriptive statistics (minimum, maximum, mean and standard deviation) was used to process data and presented in tables.

3.6.2 Inferential Statistics

In addition, regression and correlation methods were applied to analyse collected data. The findings were presented in tables and figures. Panel data model was as shown below.

Simple panel data analysis model was as shown below

$$Y_{1it} = \beta_0 + \beta_1 X_{1it} + \epsilon$$

$$Y_{1it} = \beta_0 + \beta_2 X_{2it} + \epsilon$$

$$Y_{1it} = \beta_0 + \beta_3 X_{3it} + \epsilon$$

Multiple linear Regression model for a moderating variable was as shown below

Where

$$Y_{1it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon$$

$$Y_{1it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon$$

β_0 - Constant variable

$\beta_1, \beta_2, \beta_3, \beta_4$ - Regression coefficients

X_{1it} - equity and inflation rates

XI_{2it} – debt and inflation rates

XI_{2it} – bonds and inflation rates

ε = Error term

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.2.1 Correlation

The study did a correlation analysis to determine the linkage betwixt predictors and predicted variables. The results were presented in table 4.5 below

Table 4.1 Correlation analysis

		Debt securities	Financial performance
Debt securities	Pearson Correlation	1	.420**
	Sig. (2-tailed)		.000
	N	100	100
Financial performance	Pearson Correlation	.420**	1
	Sig. (2-tailed)	.000	
	N	100	100

Source: field data 2023

*. Correlation is significant at 0.05 level (1-tailed).

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

Similarly, the study unveiled that, debt securities had a moderate but, direct and significant correlation with financial performance of listed Commercial banks in Nairobi Securities Exchange $r = .420^{**} .000 < 0.01$. Thus, any variation in debt security levels makes financial performance to significantly go up. These findings were same as the findings of Badi and Ishengoma (2021), who found out that, debt finance and the performance of SMEs were directly correlated. Further they showed that ROA was more influenced by funds accessibility compared to GPM and ROE. Thus, debt-financing accessibility enhanced the profitability of SMEs when measured in terms of total assets. Similarly, Yosia (2017), indicated that debt management practices had a direct linkage with financial performance of commercial banks in Uganda. Further, the study noted that determination of payment period, debt consolidation, debt cycling, security and safety of the advance, efficiency of management and liquidity level directly and significantly affected performance of firms.

4.3 Simple Regression

4.2.3.1 Debt securities and financial Performance

The study determined the influence of debt securities on and financial performance of quoted commercial banks listed in NSE. The study conducted simple regression analysis and findings were presented in the table 4.10 a-c below

Table 4.10 (a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.420 ^a	.176	.168	1.66444

Source: Field data 2023

a. Predictors: (Constant), Debt securities

b. Dependent Variable: Financial performance

The study established that financial performance of commercial banks listed at NSE was directly correlated with debt, $r = .420^a$. Further, it was discovered that R Square was .176. Thus, debt had a 17.6 % effect on financial performance of listed commercial banks listed on the NSE. These findings were not like the findings of Omollo *et al.*, (2019) who depicted that debt inversely and significantly affected returns on assets. Additionally, it he noted that debt securities had no substantial effects on ROE.

To test the Model’s goodness of fit table 4.10 (b) ANOVA was used

Table 4.10 (b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58.065	1	58.065	20.959	.000 ^b
	Residual	271.497	98	2.770		
	Total	329.561	99			

Source: Field data 2023

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Debt securities

According to the findings in the table above, the F- test value for the model of 20.959, $P .000 < 0.05$. Thus, the overall regression was okey for the study. Additionally, the study illustrated that debt securities significantly influenced the financial performance of

commercial banks listed at NSE. According to Ohaka, Edori and Ekweozor (2020), firm size, short and long-term loans were positively and significantly related to profitability. Besides, it was identified that debt capital allows tax deductible, which enhances performance of the firm. Similarly, Karuma, Ndambiri and Oluoch (2018), noted that accounts payable, bank overdrafts and debentures, significantly affected performance as proxied via ROA.

4.4 Hypotheses Testing

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.522	.318		16.387	.000
Debt securities	.140	.001	.698	10.609	.000

When all other constructs are held *centris paribus* at zero, independent variable had a 52.2% effect on financial performance of listed commercial banks at NSE. Thus, 47.8% can be explained by other factors not studied in this study.

Further, it was demonstrated that debt securities directly and significantly affected financial performance of listed commercial banks at NSE $B=140$, $t=10.609$, $P=.000<0.05$. Hence, one unit increase in debt securities led to 14% change in financial performance of listed institutions at NSE. According to Onchomba (2019), personal loans, real estate loans, SME loans, and insider loans affected financial performance of commercial banks significantly. Further it was shown that, loan portfolio influenced the commercial banks' financial performance. It concluded that there is a strong influence of loan portfolio on ROA, ROE and current ratio. Same results were obtained by Pradhan *et al.*, (2017), who found out that there was a direct linkage between profitability with immediate loan, total assets, and interest coverage ratio and bank size. Additionally, Karuma, Ndambiri and Oluoch (2018), found out that accounts payable, bank overdrafts and debentures, significantly affected performance as proxied via ROA. Further, the study found out Bank loans and interest payments insignificantly affected ROA. It was proposed that manufacturing firms ought to formulate measures that sustain their accounts payables because this led to increased returns on assets.

H₀₁: Debt securities has no statistically significant effect on financial performance of commercial banks Listed in Nairobi Securities Exchange.

The study established that debt securities had a positive and significant effect on financial performance of listed commercial banks at Nairobi Securities Exchange. $P=.000<0.05$. The null hypothesis was rejected.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

5.1.1 Debt securities and Financial Performance

The study established that debt securities had a weak but direct and significant linkage with financial performance of listed commercial banks in NSE. Thus, any change in debt securities levels led to an increase in financial performance of listed commercial banks significantly. Similarly, the study established that debt securities had a positive and significant correlation with financial performance of listed commercial banks at NSE. Hence, an increase in debt led to substantial change in financial performance of listed commercial banks at NSE.

5.2 Conclusions

5.2.1 Debt securities and Financial Performance

The study concluded that debt securities had a weak, positive and significant effect on financial performance of listed commercial banks in NSE. Thus, any change in debt security levels led to an increase in financial performance significantly. Similarly, the study concluded that debt securities had a positive and significant effect on financial performance of listed commercial banks at NSE. Hence, a unit change in debt securities led to substantial change in financial performance of listed commercial banks at NSE.

5.3 Recommendations

5.3.1 Debt securities and Financial Performance

The study recommends that listed commercial banks at NSE should increase the amount of debt securities more, especially long-term debt in their financial structure. Additional funds would allow them to invest in more profitable projects which in return would enhance profitability. Moreover, long-term debt allows firms to spread interest rates paid over a long period of time. This leads to increased financial performance as the pressure of paying all interest rates at once is eased. Similarly, more debts come with benefits like tax shields and diminution of free cash flow problems through improving managerial behaviour. Thus, paying less taxable income because of use of debt, enhancing financial performance.

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