

**ANALYSIS OF MERGER AND ACQUISITIONS ON THE FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**

**A Dissertation Submitted to the Office of the Dean, Faculty of Management in
Partial Fulfillment of the Requirements for the Master of Business Studies (M.B.S.)**

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **ANALYSIS OF MERGER AND ACQUISITIONS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

This is to certify that the Dissertation entitled **ANALYSIS OF MERGER AND ACQUISITIONS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL** submitted by Sagar Baral to the Faculty of Management, Tribhuvan University in partial fulfillment for the award of the degree of MBS is an original research work carried out by him under my supervision. As far my knowledge, the contents of this in full or in parts have not been submitted to any other institutions or university for the award of any degree or for any commercial purpose.

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ABBREVIATIONS

Σ	: Sum
B.S.	: Bikram Sambat
C.V.	: Coefficient of Variation
CEO	: Chief Executive Officer
CML	: Capital Market Line
CPI	: Consumer Price Index
CS	: Common Stock
EMR	: Expressed Market Return
EPS	: Earning Per Share
F/Y	: Fiscal Year
GDP	: Gross Domestic Product
i.e.	: That is
LTD.	: Limited
MBVR	: Market Book Value Ratio
MD	: Medium
MPPS	: Market Price per Share
N	: Number of Observation
NEPSE	: Nepal Stock Exchange Limited
SBL	: Siddhartha Bank Limited
NPV	: Net Percent Value
NRB	: Nepal Rastra Bank
P/E Ratio	: Price Earnings Ratio
R	: Expected Return
ROE	: Return on Equity
S.D.	: Standard Deviation
SEA	: Security Exchange Act
SEBON	: Security Board of Nepal
T.U.	: Tribhuvan University
USR	: Unsystematic Risk

ABSTRACT

The objective of study is to investigate whether the financial performance of the selected merger and acquisition commercial banks improve after the merger. The purpose of the study to identify the effect of merger and acquisition on return on assets and return on investment of Siddhartha Bank Limited, Global IME Bank, & Prabhu Bank, examine the effect of merger and acquisition on earning per share and market price per share of Siddhartha Bank Limited, Global IME Bank, & Prabhu Bank. It also measure the impact of merger and acquisition of Siddhartha Bank Global IME Bank and Prabhu Bank Limited. The research design of the study is descriptive and casual. The research has touched upon some of the important human issues in mergers and acquisitions and thrown some light on managing the human resource responses as well. Employees seem optimistic regarding the feature of bank. The researchers suggests for participatory management concept by anticipating and collecting feedback from employees of merging entities; and it may support in implementing effective merger and acquisition policy in Nepal. The post-merger performance compared to pre-merger performance witnessed some instability due to the difference in net earnings. The P/E ratio of Siddhartha Bank seems to be increasing whereas the P/E ratio of seems to be decline as well as fluctuating at the existing price. Thus, there is moderate effect on P/E ratio in post-merger phase. It depicts that the shareholders are being benefitted in post-merger phase. NPL to total loan of two sampled banks seems to be decreasing in post-merger phase. It may be good indicator for the banking industry. In the initial phase of merger, Siddhartha, of NPL to total loan has witnessed increasing trend and that may be the outcome of merger of banks as they have shared the liabilities as well. But in following years, the NPL has been decreased and it is the high-quality indication for banking industry.

Keywords: Merger and Acquisition, Financial Performance, Pre-merger and Post-Merger

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Mergers and acquisitions (M&A) have been a common strategy for organizations seeking synergistic opportunities for market share improvements, technological advancements, and economies of scope through vertical integration. However, M&A processes often encounter challenges related to cultural conflicts between combining entities, hindering the acculturation process and resulting in lower commitment, reduced cooperation, and operational deterioration (Lubatkin, Calori & Veiga, 1997).

In recent times, M&A activities have become prevalent, serving as a corporate strategy to enhance organizational capabilities and competitive market positioning (Gaughan, 2011). While mergers involve the combination of two or more companies to achieve common objectives, acquisitions entail business transactions between unrelated parties, where the acquiring company purchases the assets and liabilities of the target company (Bertrand, 2004). In the banking sector, mergers typically involve the combination of separate banks into a single new entity, aiming to streamline operations and enhance efficiency (Coffey, Garrow & Holbeche, 2002).

The motives behind mergers vary, including gaining economies of scale, accessing new markets and technologies, and acquiring intellectual property and talent (Coffey, Garrow & Holbeche, 2002). Different types of mergers exist, such as conglomerate, diversification, horizontal, and vertical mergers, each serving distinct strategic purposes (Symes & Luescher, 2004). In the Nigerian banking sector, mergers often fall into the category of horizontal mergers, where institutions operate in similar academic fields (Cartwright & Cooper, 1997).

However, there are economic arguments against mergers, highlighting the risks of monopolies and market failure due to restricted competition (Dimgba, 2009). Moreover, the evidence regarding the performance outcomes of mergers is mixed, with inflated growth predictions often leading to disappointments for investors and management (Gaughan, 2011). Despite the promising potential of mergers, regulatory frameworks are

in place to ensure lawful practices and prevent anti-competitive behavior. Thus, while mergers offer opportunities for organizational growth and efficiency, they also require careful consideration and adherence to legal and regulatory standards (Gaughan, 2011).

The Nepalese banking market has seen a recent surge in merger and acquisition (M&A) activities, albeit being a relatively new phenomenon compared to global trends. These activities are largely driven by regulatory initiatives from the Nepal Rastra Bank (NRB) aimed at enhancing the efficiency and stability of the banking sector (Shrestha, 2017).

Mergers and acquisitions play a vital role in corporate strategy, allowing companies to grow rapidly and gain competitive advantages. While the terms "merger" and "acquisition" are often used interchangeably, they entail slightly different processes. Mergers involve two companies of similar size joining forces to operate as a single entity, whereas acquisitions involve one company taking over another, typically resulting in the absorption of the target company (Gaughan, 2011).

In the context of Nepal's BFIs, mergers are becoming increasingly common, driven by factors such as economies of scale, revenue enhancement, tax benefits, and cost reduction. These factors contribute to the overall efficiency and competitiveness of the banking sector (Straub, 2007). The Nepal Rastra Bank's regulatory policies, including recent increases in paid-up capital requirements for BFIs, have prompted a flurry of M&A activities. However, the lack of comprehensive research and foresight in policy-making has led to unintended consequences, such as market saturation and stock market volatility (NRB, 2072/2073).

Despite the push for mergers and acquisitions in Nepal's banking sector, there remains a need for thorough analysis of their potential impacts. Issues such as competition levels, capital adequacy, and interest rate sensitivity need to be addressed to ensure the success and sustainability of M&A endeavors (NRB, 2078/79). The pervasive challenges facing Nepal's financial market, including excessive competition among small BFIs and interest rate sensitivity, underscore the importance of M&A as a strategic tool for addressing these issues. By consolidating resources and capabilities, merged entities can achieve greater stability and resilience in the face of market fluctuations (NRB, 2080).

The rise of mergers and acquisitions in Nepal's banking sector reflects both regulatory initiatives and market dynamics. While these activities offer opportunities for growth and efficiency, they also pose challenges that require careful consideration and analysis to ensure their long-term success and benefits for the economy.

An Introduction of Selected Company

Siddhartha Bank Limited

Siddhartha Bank Limited (SBL) is one of Nepal's largest private commercial banks, licensed by Nepal Rastra Bank as the 18th commercial bank in December 2002. With 196 branches and 226 ATMs nationwide, SBL offers a full range of commercial banking and remittance services, with its head office in Kathmandu. Siddhartha Bank acquired/merged Business Universal Development Bank on 2015/016. The bank's shares trade publicly as an 'A' category company on the Nepal Stock Exchange. SBL has garnered recognition for its performance and contributions to the banking sector, including accolades such as 'Bank of the Year' by The Banker magazine. It maintains correspondent relationships with international banks, facilitating trade and remittance services in major currencies worldwide. SBL Remit, a product of Siddhartha Bank Limited, is a prominent remittance service provider in Nepal. Offering online remittance, bank deposits, and cash pickup services, SBL Remit has partnerships with banks and financial institutions globally, serving customers in countries like the United States, Australia, the United Kingdom, and Gulf countries.

Global IME Bank Limited

Global IME Bank Ltd. (GIBL) was formed through a series of mergers, ultimately becoming Nepal's largest bank after merging with Bank of Kathmandu in 2023. Beginning with Global Bank Ltd., it later integrated IME Financial Institution and Lord Buddha Finance Ltd. Two development banks joined in 2013, followed by another merger in 2014/015. Global IME Bank was merged Commerz and Trust Bank Nepal on 2014/015. GIBL operates with a paid-up capital of NPR 36.1287 billion, offering a comprehensive range of banking services with a focus on renewable energy, SMEs, retail, and microfinance. Prioritizing customer convenience, it provides internet/mobile banking, SMS banking, and VISA debit and credit cards. Recognized by Nepal Rastra

Bank for its contribution to remittance inflows, GIBL also offers branchless banking in remote areas, serving over 65,000 customers through 277 facilities. Currently, the bank operates 354 branches, 67 extension counters, and 379 ATMs nationwide.

Prabhu Bank Limited

Prabhu Bank has undergone significant growth, particularly after merging with several financial institutions in 2016, elevating its status to an "A" class financial institution licensed by Nepal Rastra Bank. Kist Bank, Prabhu Development Bank, Gaurishankar development bank and zenith Finance limited were merged and acquire on 2014/015 and being Prabhu Commercial Bank. With a commitment to fostering economic growth and prosperity, the bank offers a comprehensive range of banking and investment services to both personal and corporate customers. It aims to provide accessible and helpful products to the common people, resulting in a loyal customer base. Key strengths include personalized service, prompt transactions, wide networks, mobile banking, and real-time account credit. The bank's services encompass deposit schemes, loans, foreign exchange facilities, trade financing, remittances, and non-fund based services like issuing guarantees and letters of credit. Recognizing the importance of quality consultation and counseling for business success, the bank prioritizes developing capable human resources to meet customer needs effectively. Customer-centricity is central to Prabhu Bank's approach, believing that its success is intertwined with the success of its customers. With 215 branches, 58 extension counters, and 189 ATMs nationwide, the bank ensures convenient access for its clientele.

1.2 Problem Statement

The Nepalese banking sector is facing significant challenges, with issues such as overcrowding, malpractices, and unfair competition prevalent (Bhatta, 2016). The surge in the number of financial institutions, resulting from NRB's previous liberal licensing policy, has exacerbated these problems (Goyal & Joshi, 2012). This overcrowding has led to low turnover, high lending interest rates, inefficient management, and a lack of project financing institutions (Ojha & Walsh, 2016). Furthermore, weak supervision and corporate governance in Nepal's share market, capital merchant, and finance sectors have compounded the challenges (Dhakal, 2019).

The introduction of merger bylaws by NRB is aimed at addressing these issues by encouraging consolidation within the banking sector (Bhatta, 2016). Unlike acquisitions, mergers involve the formation of a new entity from two roughly equivalent companies, often through the exchange of shares (Afolabi, 2011). However, the impact of mergers on financial performance is mixed, with some metrics like earnings per share improving while others like return on equity declining (Afolabi, 2011).

Despite the potential benefits of mergers, such as increased shareholder value and market share, challenges remain, particularly regarding integration and regulatory compliance. One of the main problems exacerbated by the proliferation of BFIs prior to the introduction of merger bylaws was the reckless lending practices, particularly in the real estate sector (Bhatta, 2016). This led to a rapid increase in asset values followed by a sharp decline, resulting in liquidity shortages and loan defaults.

Adhikari, Kavanagh and Hampson (2023) analyzed impacts of M&A on Bank of Kathmandu and PRVU Bank Limited in Nepal from 2013 to 2020. Bank of Kathmandu saw improved ROA, NIM, and EPS post-merger, but no significant changes in other ratios. PRVU Bank had minimal impact on ratios except for DPS. This highlights varied M&A effects on financial performance across Nepalese banks. Kim and Kim (2020) found that acquiring firms experience positive stock price reactions, with about 0.08 cumulative abnormal returns (CAR) over 20 days post-announcement and an average abnormal return (AAR) of 0.04 on the announcement date. Higher debt ratios are associated with lower CAR, while firm size shows no significant impact on shareholder wealth in response to M&A announcements.

Borodin et al. (2020) found the positive initial values, average return on sales (ROS) showed significant deterioration post-M&A in both regions. The study finds no significant relationship between M&A and company performance indicators through regression analysis. Pachulia (2018) highlighted Silknet's merger and acquisition strategy, emphasizing product diversification and portfolio expansion. It analyzes financial performance indicators such as Return on Equity (ROE), Return on Assets (ROA), and Return on Sales (ROS), concluding that these metrics improved favorably on mergers and acquisitions. Adhikari (2022) found a significant relationship between mergers and

financial performance as well as shareholder value in Nepalese commercial banks. However, the study reveals no relationship between mergers and market share of the BFIs.

Goet (2020) found that the merger involving Citizens Bank International Ltd. in Nepal significantly improved the financial performance of the bank, particularly in terms of profitability and stability. Ratio analysis of the financial statements over six years indicates positive outcomes post-merger, suggesting that mergers can effectively enhance bank performance. Mall and Gupta (2019) found that acquirer firms experience positive abnormal returns shortly after merger announcements, but returns turn negative over the long term. Additionally, stock volatility shows a significant increase around the event days.

Rathinam and Sridharan (2014) found that mergers and acquisitions (M&As) among selected banks in India from 2008 to 2013 significantly improve shareholder earnings. They observe moderate changes in liquidity, substantial enhancements in long-term solvency, and overall efficiency of the banks. The study concludes that M&As in India positively impact the financial performance of acquiring banks, creating value.

Sharma (2018) found that M&A activities, facilitated by regulatory policies, have positively influenced the human factors and financial performance of banks such as Machhapuchhre Bank Ltd, Global Bank Ltd, and NIC ASIA Bank Ltd. Njambi and Kariuki (2018) found that mergers and acquisitions (M&A) significantly improve the financial performance of financial institutions in Kenya. They note that enhancements in capital base, income diversification, asset quality, and liquidity positively influence post-merger performance.

Zukbee, Sira and Austin (2021) found that mergers and acquisitions (M&A) significantly influence the operational norms of commercial banks in Nigeria post-consolidation. The study shows that M&A impacts liquidity, return on equity (ROE), and return on assets (ROA) of banks. Improvements in bank efficiency, capital adequacy ratio, and financial intermediation positively affect these metrics after mergers. Conversely, asset quality and the number of bank branches have negative effects. The study recommends Nigerian

banks adhere strictly to consolidation reforms to manage banking sector crises effectively.

Mashkour, Sada Khlaif and Imran (2021) found that mergers and acquisitions (M&A) significantly enhance the financial performance of companies in Iraq. Their study, focusing on firms listed on the Iraq Stock Exchange from 2008 to 2013, shows improvements in Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Net Profit Margin (NPM) following M&A activities. However, NPM did not exhibit significant changes post-M&A.

Ayoush, Rabayah and Jibreel (2020) found mergers significantly impact the financial performance of Jordanian public shareholding companies. Analyzing non-financial firms involved in horizontal mergers from 2000 to 2013, they use event study methodology and financial data to assess ROA, ROE, EPS, and NPM. While the change model shows no significant impact, the intercept model reveals positive effects on ROE for merging firms and on ROA and NPM for industry-adjusted firms.

Zeng (2020) found that the significant increase in Net Profit Margin post-M&As, indicating improved revenue generation. However, Return on Capital Employed decreased significantly, suggesting reduced capital efficiency. These insights assist bank managers in evaluating the outcomes of M&A decisions.

The merger bylaws aim to address the challenges facing Nepal's banking sector, careful evaluation and monitoring of their implementation are crucial to ensure their effectiveness in promoting stability and soundness (Bhatta, 2016).

Adhikari (2022), Sharma (2018) and Goet (2020) indicated that mergers positively impact financial performance in Nepalese banks, improving metrics like profitability, stability, and shareholder value. However, challenges such as overcrowding and regulatory issues remain significant.

Rathinam and Sridharan (2014) found significant improvements in shareholder earnings, liquidity, and overall efficiency post-M&A among Indian banks. Mall and Gupta (2019) note short-term positive stock reactions but long-term negative returns for acquiring firms.

Njambi and Kariuki (2018) observed enhanced financial performance in Kenyan financial institutions post-M&A, driven by improvements in capital base, income diversification, and asset quality.

Austin (2021) examined impacts M&A on operational norms of Nigerian banks, and found a positive effects on liquidity, return metrics (ROE, ROA), and negative effects on asset quality and branch network size. Mashkour et al. (2021) report significant improvements in ROA, ROE, EPS, and NPM following M&A activities in Iraqi companies, indicating overall positive financial impacts.

Ayoush et al. (2020) found mixed results in Jordanian companies, with the intercept model showing positive impacts on ROE, ROA, and NPM, while the change model shows no significant effects. Zeng (2020) identifies increased Net Profit Margin but decreased Return on Capital Employed in U.S. banking sector M&As, illustrating mixed outcomes on financial efficiency.

Overall, while there are consistent findings on certain benefits of M&A such as improved profitability and shareholder value across different regions, there are also varied impacts on specific financial metrics and challenges associated with integration and regulatory compliance. These studies underscore the nuanced nature of M&A effects, influenced by local economic conditions, regulatory frameworks, and strategic management practices.

The literature on mergers and acquisitions (M&A) reveals a nuanced understanding of their impact on financial performance across various studies. Several researchers consistently report positive outcomes in profitability metrics following M&A activities. Adhikari (2022), Rathinam and Sridharan (2014), and Mashkour et al. (2021) observed an improvements in Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Net Profit Margin (NPM) post-merger, indicating enhanced operational efficiency and profitability.

However, contrasting findings also emerge. Mall and Gupta (2019) find initial positive stock market reactions but note long-term negative returns for acquiring firms, suggesting volatility and uncertainty associated with M&A transactions. Additionally, studies like Zeng (2020) show mixed results on capital efficiency, with some firms experiencing

decreased Return on Capital Employed (ROCE) despite improvements in NPM, revealing challenges in optimizing capital utilization post-M&A.

Financial stability emerges as a recurring theme, with Njambi and Kariuki (2018) and Austin (2021) observing that M&As can strengthen capital bases and improve liquidity, thereby enhancing stability within financial institutions. Nonetheless, regulatory complexities and integration challenges remain significant obstacles (Adhikari, 2022; Ayoush et al., 2020), influencing the overall success and sustainability of M&A strategies.

Methodological variations across studies, such as event study analysis, regression models, and ratio analysis, contribute to diverse findings in the literature. These methodological differences underscore the importance of comprehensive assessments and tailored strategies to optimize M&A outcomes effectively.

At last, while mergers and acquisitions offer potential benefits in terms of profitability enhancement and financial stability, their success hinges on strategic alignment, meticulous integration, and adept management of regulatory and operational complexities. Future research could delve deeper into industry-specific dynamics and regional variations to provide nuanced insights into optimizing M&A strategies for sustained value creation. Based on above problems this study focuses on the following issues:

- What is the impact of mergers and acquisitions on return on assets in Nepalese commercial banks?
- How does return on equity change as a result of mergers and acquisitions in Nepalese commercial banks?
- In what way does the capital adequacy ratio get affected by mergers and acquisitions in Nepalese commercial banks?
- What effect do mergers and acquisitions have on the liquidity ratio of Nepalese commercial banks?
- How are non-performing assets influenced by mergers and acquisitions in Nepalese commercial banks?

- What is the effect of mergers and acquisitions on earnings per share in Nepalese commercial banks?
- How does the dividend per share change due to mergers and acquisitions in Nepalese commercial banks?

1.3 Objectives of Study

The main objective of the study is to examine the impact of merger and acquisition on financial performance of Nepalese commercial banks. The other specific objectives are.

- To analyze the impact of mergers and acquisitions on return on assets of commercial banks in Nepal.
- To evaluate the mergers and acquisitions affect return on equity in Nepalese commercial banks.
- To assess the influence of mergers and acquisitions on the capital adequacy ratio of Nepalese commercial banks.
- To investigate the effect of mergers and acquisitions on the liquidity ratio in Nepalese commercial banks.
- To determine the impact of mergers and acquisitions on non-performing assets in Nepalese commercial banks.
- To examine the changes in earnings per share resulting from mergers and acquisitions in Nepalese commercial banks.
- To explore the effect of mergers and acquisitions on dividend per share in Nepalese commercial banks.

1.4 Rationale of the Study

The significance of studying the impact of mergers and acquisitions (M&A) on commercial banks in Nepal lies in its implications for various stakeholders and the broader economy. Understanding how M&A affect commercial banks helps stakeholders, including bank executives, regulators, and policymakers, make informed strategic decisions. Insights into the operational efficiencies gained, market expansions achieved, and financial stability enhanced can guide future merger strategies and post-merger integration processes. M&A activities reshape the financial sector landscape in Nepal,

influencing competition, market structure, and overall economic stability. By studying these impacts, researchers can assess how M&A contribute to or detract from economic growth, stability and financial inclusion in the country.

Investors closely monitor M&A activities as they indicate the health and growth potential of commercial banks. Understanding the outcomes of these transactions, such as improved profitability or expanded market reach, can bolster investor confidence and attract investments into the Nepalese banking sector. This study contributes to academic literature by providing empirical evidence on the impacts of M&A specific to the Nepalese context.

It adds to the global body of knowledge on banking sector dynamics, M&A strategies, and their implications for emerging markets. Regulators and policymakers can utilize findings from this study to develop effective frameworks and policies that promote healthy competition, financial stability, and consumer protection within the banking sector. Insights into challenges like cultural integration and management alignment can inform regulatory guidelines for smoother M&A transitions.

Banks that have undergone or are considering M&A can learn from this study's insights to better navigate the complexities of merger processes. Lessons on best practices, pitfalls to avoid, and strategies for maximizing synergies can aid in successful integration and long-term sustainability. This study is analyzed the impact of mergers and acquisitions on commercial banks in Nepal is significant due to its implications for strategic decision making, economic stability, investor confidence, academic research, regulatory frameworks, and operational best practices. It provides a comprehensive understanding of how M&A shape the future of banking in Nepal and guides stakeholders towards sustainable growth and development in the sector.

1.5 Limitations of the Study

The major limitations of this study are listed as under.

- The study is limited to Siddhartha Bank Limited, Global IME Bank and Prabhu Bank only.

- This study is based on secondary data taken from annual financial report of Sample Company.
- This study covers the 16 years' time period from 2007/08 to 2022/023. But Siddhartha bank has merged on the time 2016/017 so this banks has cover 14 years or 7 years pre and 7 post data were included) except SBL GBIME and PRVU were merged same time so it covered 16 years data or 8 year pre and 8 year post merged data were covered.
- Only limited financial and statistical tools are used for analysis.

CHAPTER-II

LITERATURE REVIEW

This chapter delves into the theoretical underpinnings that impact the variables under investigation. It synthesizes existing scholarly literature related to both the dependent and independent variables, incorporating findings from empirical studies. Through this review, a theoretical framework is constructed to guide the study. A literature review serves to consolidate current understanding in the field, enabling identification of pertinent theories, empirical evidence, and areas where further research is needed.

2.1 Theoretical Review

There are various theories of M&A, which explain the various motives for which companies go for M&A deals. The syntheses of prior research on theories of mergers are made to bring insight to the potential benefits of mergers.

Synergy Theory

Synergy is a concept mostly associated with physical sciences but not finance and economics (Dertwinkel-Kalk & Wey, 2016). It refers to type of reaction the results when two items combine to produce an effect which is often greater than the individual effect of the items operating in dividedly. Simply put, synergy refers to a phenomenon whereby $2+2=5$ (Dertwinkel- Kalk & Wey, 2016). In mergers and acquisitions synergy results in the combination of firms which create entities that are more effective, efficient, and profitable when combined than when operating on their own (Bearman & Dawson, 2013, Marks & Mirvis, 2015). In the theory of synergies, it is postulated that firms utilize the different categories of resources and technical competencies in order to create value (Gohlich, 2012).

Hinkir, Rauch and Umber (2011) indicated that there are three types of synergies. Firstly, there is the cost of production that creates operational synergy, the cost of capital that creates financial synergy and the price-related which creates collusive synergy. According to Hinker et al. (2011) synergy provides an explanation for M&As with the bidding firm aiming to realize the M&A synergies so as to boost future cash flows and to increase the value of the firm. Operational synergies are achieved by merging the

operations and processes of the separate units and the transfer of competencies (Hellgren, Lowstadt & Werr, 2011). Gohlich (2012) indicated that the synergies also arise from the possibilities of increase in revenue that occur due to cross and/or up selling and cost reduction due to the gains of consolidation. Financial synergies arising from are deduction in the cost of capital for example, the bidding firm is able to lower systematic risks by investing in a firm that is unrelated to its core business or the firm can increase its size which result in assets that lower the cost of capital. Hankir et al. (2011) indicated that the financial synergies can arise from financial engineering, cash slacks, and tax savings.

Agency Theory

The theory associated with Jensen and Meckling (1976) known as agency theory, explores the relationship between shareholders (principals) and managers (agents) within a firm. It posits that managers may prioritize their own interests over maximizing shareholder wealth, leading to what is termed the "agency problem." Neo-classical economic theory traditionally assumes that firms focus solely on profit maximization (Schmitz, 2013) yet behavioral economists argue that managers often pursue personal goals rather than strictly maximizing firm profits.

In contemporary enterprises where ownership is diffuse and management holds significant control, issues of agency become pronounced. Managers may seek increased control, higher salaries, and improved working conditions (Hongxia, 2011). The challenge of effectively monitoring and aligning managerial interests with shareholder interests is noted by Gauld (2016) who highlights the difficulty and expense involved in oversight. One approach to mitigating the agency problem is through incentive mechanisms such as stock options, where managers are incentivized to increase firm value (Pink, 2009, Krakel & Scotter, 2012). However, empirical evidence suggests that these incentives can be undermined by information asymmetry, where managers manipulate data to inflate firm value (Garrone & Grilli, 2013) known as adverse selection. This situation is compounded by moral hazard, where managers take risks those shareholders may not fully anticipate (Peleg & Ravi, 2019).

Mergers and acquisitions (M&A) present an alternative solution to the agency problem. Carpenter et al. (2009) argue that resistance to takeovers often serves managerial self-

interest rather than shareholder value, as managers may fear losing their positions post-acquisition. Gohling (2012) contends that well-managed firms typically command higher market prices, while poorly managed firms become attractive targets for acquisition due to potential gains from improved management efficiency.

In conclusion, mergers and acquisitions can be viewed as mechanisms to address agency issues by aligning managerial incentives with shareholder interests. By restructuring firms and potentially replacing inefficient management, M&As aim to enhance overall shareholder value and mitigate agency costs inherent in modern corporations.

Value Creation Theory

The resource-based view (RBV) posits that a firm's competitive advantage and performance are determined by its unique resources and capabilities (Barney, 1991). According to this theory, the amount and strategic deployment of resources relative to economic opportunities define a firm's ability to create value (Krishnan, Krishnan & Lefanowicz, 2009). In the context of mergers and acquisitions (M&A), the RBV suggests that these transactions can be avenues for creating value by integrating and leveraging complementary resources and capabilities between firms (Altunbas & Marques, 2008).

Mergers and acquisitions facilitate the transfer of resources and capabilities, thereby creating new organizational configurations with enhanced technical competencies (Graebner et al., 2017). Post-M&A, there is often a bidirectional exchange of capabilities, where firms acquire strategic resources and skills that contribute to their competitive advantage (Deng, 2009, Luo & Tung, 2018). Research indicates that firms in emerging markets often seek M&A opportunities with firms in developed economies to gain access to advanced technologies and innovation capabilities (Grimpe & Heusinger, 2007).

Moreover, large firms frequently acquire smaller innovative firms to access their technological advancements, especially evident in industries like pharmaceuticals (Grimpe, 2007).

This strategic approach allows acquiring firms to enhance their innovation potential, as smaller firms typically exhibit higher creativity and innovativeness (Grimpe, 2007).

The knowledge-based view (Grant, 1996, Kogut & Zander, 1992) further supports the role of M&A in facilitating the acquisition of tacit knowledge and strategic assets. Through cross-border M&A, firms can overcome technology and skill deficiencies by gaining access to new capabilities and expertise available in target firms (Anand & Delios, 2002, Bertrand & Zuniga, 2006).

An emerging trend in M&A involves firms from emerging markets utilizing these transactions to transfer knowledge and capabilities back to their headquarters, a process known as reverse knowledge transfer (RKT) (Luo & Tung, 2018, Nair, Mehmet & Kamal, 2015). This transfer helps offset the disadvantages faced by firms operating in less developed economies, enabling them to rapidly enhance their competitive position in global markets (Demirbag, Sahadev & Mellahi, 2010, Mudambi, Piscitello & Rabbiosi, 2014, Rabbiosi & Santangelo, 2013).

The RBV and knowledge-based view provide a robust theoretical framework to understand how mergers and acquisitions can strategically integrate resources, capabilities, and knowledge across firms. These theories underscore the importance of M&A as a mechanism for enhancing competitive advantage, innovation potential, and overall performance in the global marketplace.

Market Power Theory

In the context of the market power theory, Feinberg (1985) argues that larger firms can achieve increased allocative synergies, all else being equal. This theory suggests that as firms grow in size, they gain greater market power, which allows them to charge higher prices and achieve higher profit margins by capturing a larger share of customers. This concept is particularly relevant in mergers and acquisitions (M&A), where firms consolidate to enhance their market position and competitive edge.

Eckbo and Wier (1985) further elaborate that horizontal mergers, which involve the combination of firms operating in the same industry or producing similar goods and services, typically result in greater market power compared to other types of mergers. This is because horizontal mergers reduce the number of competitors in the market, leading to a concentration of market share among fewer suppliers. With fewer players in the market, individual firms' actions become more visible, making it easier to detect and

enforce conformity to market rules. This transparency lowers monitoring costs and can contribute to increased market stability, profitability, and attractiveness for forming cartels.

In practical terms, mergers and acquisitions driven by the market power theory aim to consolidate market share and reduce competition, thereby enhancing pricing power and profitability. By merging with or acquiring competitors, firms seek to achieve economies of scale, eliminate redundant costs, and gain access to a larger customer base. This strategic consolidation allows firms to strengthen their market position, potentially leading to improved financial performance and sustainable competitive advantages.

Overall, the market power theory provides a framework for understanding how mergers and acquisitions can be used strategically to enhance firms' market power, achieve pricing advantages, and optimize profitability through increased market concentration and reduced competitive pressures.

Behavioral theory

The behavioral theory or its hypothesis is more focused on correlation between merger activity and stock market valuation. As per behavioral theory, mergers and acquisitions occur because of overvalued markets and managerial timing. The behavioral hypothesis assumes that merger waves are the result of overvalued markets and managerial timing (Eckbo, 2010). Here, managerial timing refers to time horizon in which decision regarding merger and takeover by management takes place.

According to Shleifer and Vishnu (2003) the overpriced bidder stocks are supposed to possess shorter time horizon and are thus accepted by target managements. Similarly, Kropf and Viswanathan (2004) have stated that such overpriced stocks of bidders are accepted by target management in the span of short time span making assumption of synergies. Such overvaluation and timing lead to merger activities. There have been studies regarding the behavioral pattern of the decision-making bodies with regards to merger activities. As per the empirical study done by Millender and Tate (2005) using a sample of Forbes 500 firms from 1980 to 1994, it was stated:

It was found that overconfident Chief Executive Officers (CEOs) are more likely to conduct mergers than rational CEO's at any point in time. The higher acquisitiveness of overconfident CEO's even on average suggests that overconfidence is an important determinant of merger activity. Moreover, the effect of overconfidence comes primarily from an increased likelihood of conducting diversifying acquisitions. Previous literature suggests that diversifying mergers are unlikely to create value in the acquiring firm. Thus, it is consistent with our theory that overconfident managers are particularly likely to undertake them. Second, we find that the relationship between overconfidence and the likelihood of doing a merger is strongest when CEO's can avoid equity financing, i.e., in the least equity dependent firms. Overconfident CEOs strongly prefer cash or debt financed mergers to stock deals unless their firm appears to be overvalued by the market.

As per Nielsen and Bierregaard (2010) biased may play a larger role than usually observed in the financial market as the risk of irrational behavior is larger in M&A transactions characterized by few bidders, low transparency and large spreads between negotiation prices. Heuristics and biasness such as herding behavior, anchoring, confirmation trap, framing effects, regret avoidance and escalation of commitment etc. have their own role in the M&A activities of the firm.

2.2 Empirical Review

Chiaramonte, Pisera and Khan (2022) conducted a bibliometric review aimed at exploring mergers and acquisitions (M&A) within the financial industry. Their study sought to analyze a vast body of literature. By employing bibliometric and content analysis methodologies, the research identified leading journals, countries, institutions, authors, and articles that significantly contributed to the field. Key findings included the identification of five primary research streams in financial industry M&A, tracing their evolution over time through keyword and cartographic analyses. The study concluded by outlining main research questions proposed by the literature, offering insights into future research directions in this domain.

Richard and Apolaris (2022) examined how mergers and acquisitions (M&A) impacted banks listed on the Indonesia Stock Exchange in 2019. Using an event study and accounting-based methods, they found that M&A did not significantly improve abnormal

returns or financial performance metrics like ROA, ROE, BOPO, gross NPL, and LDR. Despite these outcomes, there was a notable increase in firm size post-M&A. Overall, while M&A enlarged firm size, it did not deliver the anticipated improvements in financial performance among Indonesian banking firms during the study period.

Bajgai and Pradhan (2021) examined the impact of mergers and acquisitions (M&A) on the financial performance and service quality of Nepalese financial institutions. Their cross-sectional study involved 385 banking sector employees and employed t-tests to analyze differences in these aspects between banks categorized as A and B post-M&A. The research revealed significant differences in financial performance and service quality following the integration process. These findings underscored how M&A activities have transformed operational dynamics and customer service standards within Nepal's financial sector, aligning with Nepal Rastra Bank's objectives to enhance stability and public confidence in the banking industry.

Bhatta (2021) investigated that the mergers impacted shareholders' wealth and the post-merger landscape in Nepal's banking sector. The study aimed to understand shifts in share ownership and improvements in bank efficiency amid heightened competition from foreign banks. This research integrated objectives, questions, scope, significance, and purpose to comprehensively analyze mergers and acquisitions strategies. The findings revealed significant changes in share ownership patterns and enhanced bank efficiency following mergers. This surplus capital allowed Nepalese banks to bolster their competitive edge against foreign competitors, ultimately leading to improved market positioning and shareholder returns.

Gautam (2020) examined the effect of bank merger on the shareholders wealth and Post-Merger situation of Nepalese banking industry merger and acquisition is considered a vital tool to facilitate the sound and efficient performance of the financial industry while subjugating the problems underlying the system. The instrument also plays a key role in bringing down the cost of operations and increasing the market competitiveness and profitability of the firms. In the international financial markets, M&A is often conducted to fulfill the demands of regulatory bodies and as an attempt to enhance the competitive advantage and expand the operations of the financial institutions. But, despite these

hopeful expectations, almost half of the mergers and acquisitions fail to meet the initial.

Dhakal (2019) analyzed the impact and challenges of mergers and acquisitions (M&A) in Nepalese banking and financial institutions through descriptive research. The study used surveys and financial analysis to assess effects on employees, customers, and shareholders. Employees were generally satisfied but faced issues like cultural clashes and position challenges post-merger. Customers noticed changes in product and service quality but desired more innovation. Financially, merged banks improved, benefiting shareholder wealth. Challenges included swap ratios, board formation, management structure, HR, and IT issues. Dhakal underscored the importance of M&A for revitalizing underperforming institutions in Nepal, advocating for careful consideration of socio-cultural factors and expert advisory services to facilitate smoother mergers.

Stunda (2019) conducted a study to explore how mergers and acquisitions (M&A) impact acquiring firms' stock prices. The research aimed to enhance existing knowledge by broadening the scope of analysis across a larger sample size and more years. Using a comparative approach, the study contrasted acquiring firms with those not involved in M&A activities, assessing stock price effects across various industries. The findings revealed that acquiring firms generally faced significantly negative impacts on their stock prices compared to non-M&A firms, which experienced positive effects. Notably, industries like oil and gas, as well as banking and financial services, stood out with significantly positive stock price effects following M&A activities. These insights provide crucial information for investors, managers, and stakeholders, emphasizing the industry-specific nuances in how mergers and acquisitions influence stock market outcomes.

Mehrotra and Sahay (2018) examined how mergers and acquisitions (M&A) in India, shaped by post-liberalization policies, impact corporate restructuring. Their review of existing literature revealed a significant bias towards M&A outcomes in developed economies, mainly focusing on announcement-related analyses. This highlighted a research gap in understanding M&A dynamics in emerging markets like India. The study emphasized the need for more nuanced investigations into how M&A activities specifically affect Indian firms. It aimed to provide insights into the challenges and

opportunities of M&A in India's unique economic and regulatory context, proposing future research directions to enhance strategic decision-making among stakeholders in the Indian corporate sector.

Walsh (2018) examined the impact of merger policies on Nepalese banks, focusing on post-merger status, effects on senior staff, customers, and employee motivation, and identifying associated challenges. Using surveys and audited accounts from ten banks, the study found positive effects improved career prospects and job security for senior staff, increased employee motivation, and enhanced service quality for customers. However, challenges like integration complexities and cultural differences were significant hurdles that require careful management to maximize merger benefits.

Shrestha (2017) examined how merger and acquisition (M&A) activities were influenced by Nepal Rastra Bank's (NRB) regulatory framework. Using a descriptive approach, the study analyzed M&A trends post-implementation of the Merger Bylaw (2015). Results highlighted that NRB's increased minimum capital requirements spurred a wave of mergers, with early adopters including Laxmi Bank, Nepal Bangladesh Bank, and Narayani National Finance. Despite regulatory benefits, challenges like integration complexities and compliance issues posted significant hurdles. Shrestha's findings underscored the regulatory-driven transformation in Nepal's banking sector, aimed at enhancing stability and efficiency through consolidation.

Bista (2016) examined the impact of mergers and acquisition on financial efficiency of banks. The impact on employees and customers were analyzed through questionnaires whereas the impact on shareholders was observed through analysis of financial data of merged bank in 2 years of pre- and post-merger phase. It was found out that the post M&A period was more financially efficient than the pre-M&A period. The major findings of the study the study has not been able to gauge the influence of other variables which could have impacted positively to the efficiency of the banks. As such, it is not clear whether the finding was as a result of the contributions of other variables such as human resource (employees' satisfaction).

Goyal and Vijay (2016) studied the impact of merger and acquisition (M&A) activities on financial metrics in banking, focusing on net profit margin, return on equity, return on

assets, and return on investment. Using quantitative analysis of pre- and post-M&A financial data, they found that employees felt more secure and satisfied with challenging roles after M&A. Despite positive changes and optimistic prospects, many employees still considered leaving. Stress factors included technology, reporting systems, working hours, supervision, and overall workplace culture. The study highlighted that while M&A can enhance job satisfaction and strategic outcomes, managing workplace stress and retaining talent remain critical challenges for the banking sector.

Banerjee (2015) analyzed the impact of mergers and acquisitions (M&A) on profitability and liquidity in Indian companies across seven industries involved in non-evergreen acquisitions from 2006 to 2012. Using secondary data from annual audited financial statements spanning 2000 to 2015, the study applied financial metrics to assess performance three years before and after mergers. Statistical paired tests with SPSS showed no significant improvement in financial performance post-merger. Despite anticipated synergies, the study found minimal enhancement in profitability or liquidity immediately after M&A, highlighting challenges in realizing short-term financial benefits from such transactions in the Indian context.

Kooning, Maguire and Phillips (2015) explored the impact of trust on cultural conflicts and identity threats during post-merger integration. It is conducted empirical research on how positive actions can build trust and influence employee behavior. This study found that procedural justice increases trust, which in turn enhances organizational citizenship behavior. Lander's study confirmed a positive correlation between trust in mergers and employees' organizational identification in the post-merger period.

Morrell, Loan-Clarke and Wilkinson (2014) conducted a literature review to investigate the significance of job satisfaction in the context of organizational change, focusing specifically on its impact during merger and acquisition (M&A) integration. The study aimed to understand how job satisfaction influences employee turnover and performance under the demanding conditions of M&A. The findings highlighted that job satisfaction is crucial for enabling employees to effectively manage job demands and maintain high performance levels during periods of organizational transition, such as M&A. Conversely, low job satisfaction is associated with increased absenteeism, higher

turnover rates, decreased task performance, and diminished employee morale across the organization. These findings underscore the importance of prioritizing job satisfaction strategies to sustain positive employee outcomes during vulnerable phases like M&A integrations.

Table 1

Summary Table of Reviewed Literature

Studies	Methodology	Major findings
Chiaramonte, Pisera and Khan (2022)	Bibliometric and content analysis methodologies	Identified key research streams in financial industry M&A through bibliometric analysis.
Richard and Apolinaris (2022)	Correlation and t-tests were used for analyze the data.	M&A did not significantly improve financial metrics in Indonesian banking firms.
Bajgai and Pradhan (2021)	Cross sectional method was adopted through t-tests.	Significant improvements in financial performance and service quality post-M&A in Nepalese banks.
Bhatta (2021)	There was correlation and regression analysis was used.	Mergers enhanced shareholder wealth and bank efficiency in Nepal.
Gautam (2020)	T-tests was used.	M&A can lower operational costs and enhance competitiveness in financial institutions.
Dhakal (2019)	Descriptive research design was used through correlation and t-tests.	M&A in Nepalese banks improved employee satisfaction but posed integration challenges.
Stunda (2019)	Correlation and regression analysis was used.	Acquiring firms in specific industries experienced varied stock price impacts post-M&A.
Mehrotra and	Regression and	M&A in India under post-liberalization

Sahay (2018)	correlation analysis were used.	policies require nuanced analysis for strategic decisions.
Walsh (2018)	Correlation and regression analysis were used.	Positive impacts of merger policies on Nepalese banks' stakeholders with integration challenges.
Shrestha (2017)	Descriptive research design was used through t test analysis.	Regulatory-driven M&A increased in Nepalese banking sector with integration hurdles.
Bista (2016)	Hypothesis, t-test and correlation analysis were used.	Financial efficiency improved post-M&A in banks, but other variables' impact remains unclear.
Goyal and Vijay (2016)	Hypothesis tests was used.	M&A enhanced job satisfaction but posed challenges like workplace stress in banking.
Banerjee (2015)	Paired test was used.	Minimal financial performance improvement post-M&A in Indian companies.
Kooning, Maguire, and Phillips (2015)	Correlation and t tests were used.	Trust enhances organizational behavior and identity during post-merger integration.
Morrell, Loan-Clarke and Wilkinson (2014)	Paired test and correlation analysis were used.	Job satisfaction crucial for employee performance during M&A integration.

2.3 Research Gap

Despite the numerous studies on mergers and acquisitions both globally and locally, as discussed earlier, it is a relatively new concept in Nepal. There is no long history of mergers and acquisitions in Nepal; it has been a concept for only about ten years. There are only a few academic research studies on mergers and acquisitions in Nepal. This study notes that there are conflicting findings regarding the effect of mergers and acquisitions on the financial performance of financial institutions in Nepal. From the

above empirical studies, findings by Rhoads (1993), Marangu (2007), Badreldin and Kalhofer (2009), Marembo (2011), Adebayo and Olalekan (2012), Mborato (2012), Neupane (2013), Adhikari (2014), Dhakal (2019), Bhatta (2016) and Hasan (2015) stated that financial performance was positively improved after Merger and Acquisition of company whereas findings by Ansof, Bradenburc, Porter and Radosevlch (1971), Agrawal, Jaffe & Mandelker (1992) and Masud (2015) had mixed results on financial performance after merger and acquisition but study conducted by Mantravadi and Reddy (2008) found no improvement on financial performance due to merger and acquisition.

This study thus seeks to fill this gap by investigating the effect of merger and acquisition on the financial performance of financial institutions in Nepal. The findings will add to the body of knowledge in the impact of M&A on financial performance and will seek to reduce the conflicting findings on this topic of study.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter covers the research design, population sample and sampling design, nature and sources of data, data analysis tools and techniques, methods and research frameworks and definition of the variables.

3.1 Research Design

The research design of the study is descriptive. A descriptive research approach entails the use of information from other studies and qualitative analyses. Secondary data by using different financial indicators has been used to measure the financial performance of the merged entity. This study is categorized as a descriptive research design because it systematically examines secondary data collected on various financial metrics before and after the merger to describe changes in these metrics. By analyzing pre- and post-merger financial data, such as Return on Assets (ROA), Return on Equity (ROE), and Capital Adequacy Ratio (CAR), the research provides a detailed account of how the merger impacted these financial indicators. The use of secondary data allows for a clear, objective description of the merger's effects, focusing on measuring and documenting observed differences without manipulating the variables or investigating causal relationships.

3.2 Population, Sample and Sampling Techniques

Twenty commercial banks are currently operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. Due to time and resource factors, it is not possible to study all of them regarding the study topic. From the commercial banks of Nepal, only three banks, Siddhartha Bank Limited, Global IME Bank Limited and Prabhu Bank Limited are taken as a sample bank for the research study. Among the total commercial banks only three commercial banks were selected for the study. Recently merged companies were selected for the study, i.e. Siddhartha Bank Limited, Global IME Bank Limited and Prabhu Bank Limited. These companies were merged and accruing their competitors through giving swap ratio. The sampling techniques is purposive and convenience sampling methods. In the study, purposive

sampling was employed by selecting Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited, as these recently merged banks were specifically relevant to the research topic. This approach was combined with convenience sampling, as the choice was influenced by practical constraints such as time and resources, making these banks the most accessible for the study. This dual-method approach ensured that the sample was both relevant and feasible for the research objectives.

3.3 Nature and Sources of Data

This study is based on secondary data. The secondary data will be collected from websites of banks or annual reports. The financial data were extracted from the annual reports of the merged banks. In this study, the data were collected from the annual report of the sampled commercial banks. Collected data were analyzed through the statistical and financial tools and results were elaborated.

3.4 Methods of Analysis

To assess the impacts of merger on their financial performance for the selected banks, the financial performance pre and post-merger is analyzed by calculating various financial ratios namely ROA, ROE, CAR, Liquidity ratio, NPA, EPS and DPS.

Financial Tools

The financial parameter helps to measure the financial status of the organization. The parameter is found from financial statement and financial disclosure. Some of the financial variables, stated below have been employed to analyze through financial variables i.e. ROA, ROE, CAR, Liquidity ratio, NPA, EPS and DPS.

Statistical Tools

The most well-known Statistical tools are the descriptive, correlation, regression, t-test, f-test, a nova test etc. There are also software packages like excel, SAS and SPSS which are useful in interpreting the results for large sample size.

Correlation and Regression Analysis

Correlation is a statistical technique which measures degree and direction of relationship between the variables. It always lies between ± 1 . It is a relative measure. While

regression measures the nature and extent of average relationship in terms of the original units of the data. If one of the regression coefficients is greater than unit the other must be less than unit. It is an absolute measure of relationship. Correlation analysis is a method of determining whether two sets of data are related in a manner such that they increase together, if one increases, the other decreases. Regression analysis, on the other hand, hypothesizes a particular direction of the relationship. The regression analysis is one of the inferential statistics, which is used to estimate the effect of one of more independent variable on a dependent variable.

3.5 Research Framework and Definition of Variables

The impact of mergers and acquisitions (M&A) on the financial performance of commercial banks in Nepal is a subject of rigorous analysis, focusing on key metrics such as Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAR), liquidity ratios, Non-Performing Assets (NPA), Earnings per Share (EPS), and Dividend Per Share (DPS). These metrics serve as benchmarks to evaluate how M&A activities affect profitability, asset utilization, capital strength, and risk management within the banking sector. M&A transactions are strategically employed to streamline operations, enhance market competitiveness, and navigate challenges like regulatory compliance and sectoral overcrowding. Studies typically employ sophisticated financial analysis methods to discern the nuanced impacts of M&A on bank performance, offering insights crucial for strategic decision-making and maximizing shareholder value in Nepal's dynamic banking landscape.

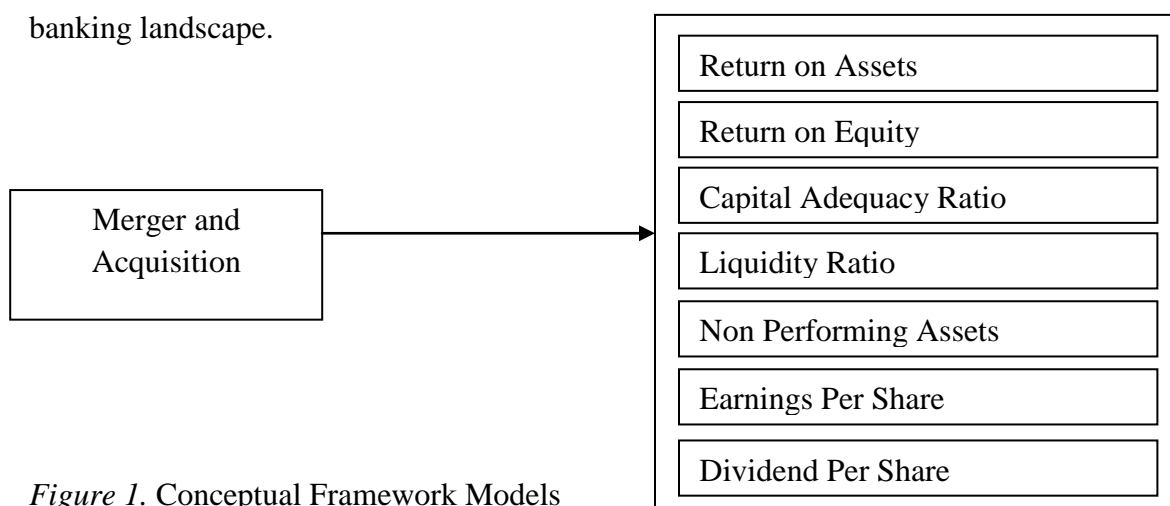


Figure 1. Conceptual Framework Models

Source: Bhatta (2021), Pingfeng (2018)

Definition of Financial Indicators

Return on Assets (ROA): This refers to a financial ratio that indicates how profitable a company is in relation to its total assets. Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate a profit. The metric is commonly expressed as a percentage by using a company's net income and its average assets. A higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement.

Return on Equity (ROE): ROE is the measure of a company's net income divided by its shareholders' equity. ROE is a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the better a company is at converting its equity financing into profits.

Capital Adequacy Ratio (CAR): CAR is an indicator of how well a bank can meet its obligations. Also known as the capital-to-risk weighted assets ratio (CRAR), the ratio compares capital to risk-weighted assets and is watched by regulators to determine a bank's risk of failure. It's used to protect depositors and promote the stability and efficiency of financial systems around the world.

Liquidity Ratios (LQ): Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio, and operating cash flow ratio.

Non-performing Asset (NPA): NPA refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.

Earnings Per Share (EPS): EPS is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a

company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution.

Dividend Per Share (DPS): DPS is the total amount of dividends attributed to each individual share of a company's outstanding stock. Calculating the dividend per share allows an investor to assess how much money he or she will receive from the company on a per-share basis.

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter includes data presentation and analysis. The data and information collected from the annual report of Siddhartha Bank Limited, Global IME Bank Limited and Prabhu Bank Limited. The processing data are presented and analyzed according to annual report. The collected data are analyzed using different tools and techniques. Results found from the analysis are systematically presented and carefully interpreted or explained in the following sections.

4.1 Results

Ratio analysis is a form or manner that is commonly used in analyzing the financial statements of a company. By using tools such as ratio analysis will be able to explain or illustrate the analyzer about the good and bad circumstances or financial position of any company. This study consisted of using profitability ratios return on assets (ROA), Return on Equity (ROE). In this research, major secondary sources of data are collected randomly from sample company annual reports. The annual reports of all the merged companies before the merger and after the merger are thoroughly analyzed. The impact of merger activity of the bank to the shareholders is analyzed based on various financial indicators. These financial indicators are important for shareholders to analyze the bank for investment purpose. Financial ratios are the useful indicator of the firm's performance and financial health. Most of the ratios are computed by the financial statements (Balance Sheet, P/L, A/C and Cash flow Statement) of the companies. Ratios convert these financial statements in such a simple and understandable way that a normal person can easily understand the financial position of that particular organization.

Return on Total Assets

To evaluate the merger's impact on asset efficiency, the researcher calculated the average Return on Assets (ROA) for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited both before and after the merger. This analysis aimed to determine whether the merger led to improved asset utilization and profitability by comparing the mean ROA ratios before and after the merger for each bank.

Table 2

ROA of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	ROA	Year	ROA	
2009/10	1.06	2016/017	1.53	There is indicating a slight decline in financial performance. Although there are still fluctuations and some strong financial performances, the overall trend suggests a potential impact from the merger.
2010/11	1.28	2017/018	1.59	
2011/12	1.12	2018/019	1.49	
2012/13	1.43	2019/020	1.26	
2013/14	1.74	2020/021	1.25	
2014/15	1.51	2021/022	1.10	
2015/16	1.69	2022/023	1.11	
Average	1.40	Average	1.33	

Table 2 show that the ROA of Siddhartha Bank Limited. Before the merger, Siddhartha Bank's ROA demonstrated a generally positive trend, with some fluctuations. The ROA started at 1.06% in 2009/10 and improved to 1.74% by 2013/14, indicating increasing efficiency in asset utilization. This peak was followed by a slight decrease, but the ROA remained strong through 2015/16, reflecting robust financial performance and effective asset management.

After the merger, the ROA initially rose to 1.59% in 2017/18, suggesting some positive effects from the merger. However, this was followed by a decline, with the ROA falling to 1.11% by 2022/23. The overall post-merger trend shows a slight decrease from the pre-merger average, indicating challenges in maintaining the high performance levels achieved before the merger, despite some periods of improvement.

Table 3 show that the ROA of Global IME Bank Limited. Before the merger, Global IME Bank's Return on Assets (ROA) showed significant variability. Starting at a low 0.75% in 2007/08, the ROA dropped to a low of 0.21% in 2008/09 before gradually improving. By 2010/11, ROA increased to 1.28%, reflecting enhanced asset management. The highest pre-merger ROA of 1.62% was achieved in 2013/14, demonstrating peak efficiency. Despite some fluctuations, the ROA generally improved towards the end of the pre-merger period.

Table 3

ROA of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	ROA	Year	ROA	
2007/08	0.75	2015/016	1.58	The trend shows a steady increase in ROA, with some fluctuations, suggesting a positive impact from the merger.
2008/09	0.21	2016/017	1.75	
2009/10	0.42	2017/018	1.67	
2010/11	1.28	2018/019	1.82	
2011/12	0.87	2019/020	1.06	
2012/13	1.15	2020/021	1.20	
2013/14	1.62	2021/022	1.38	
2014/015	1.39	2022/023	1.30	
Average	0.96	Average	1.47	

After the merger, ROA displayed a notable increase, averaging 1.47% compared to the pre-merger average of 0.96%. The post-merger period began with a significant rise to 1.58% in 2015/16 and reached a peak of 1.82% in 2018/19. Although there were some declines, such as to 1.06% in 2019/20, the overall trend remained positive, indicating that the merger positively impacted the bank's financial performance and asset utilization.

Table 4

ROA of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	ROA	Year	ROA	
2007/08	1.29	2015/016	1.64	The merger led to a significant decline in Return on Assets (ROA) indicating a decrease in the company's profitability.
2008/09	1.27	2016/017	1.76	
2009/010	2.00	2017/018	0.86	
2010/011	1.47	2018/019	1.29	
2011/012	1.17	2019/020	0.71	
2012/013	0.92	2020/021	0.80	
2013/014	0.73	2021/022	0.82	
2014/015	2.19	2022/023	0.08	
Average	1.38	Average	1.00	

Table 4 show that the ROA of Prabhu Bank Limited. Before the merger, Prabhu Bank's Return on Assets (ROA) exhibited a mixed performance with periods of both high and low efficiency. Starting at 1.29% in 2007/08, the ROA experienced fluctuations, peaking at 2.00% in 2009/10, which indicated a strong period of asset utilization and profitability.

However, this peak was followed by a gradual decline, with the ROA reaching a low of 0.73% in 2013/14 before recovering to 2.19% in 2014/15. Despite these fluctuations, the overall trend before the merger was characterized by periods of significant strength.

Post-merger, the ROA initially showed promise, improving to 1.76% in 2016/17, suggesting some positive impacts from the merger. However, this improvement was short-lived. The ROA fell sharply to 0.08% by 2022/23, marking a significant and sustained decline in profitability and asset efficiency. The average ROA after the merger was 1.00%, notably lower than the pre-merger average of 1.38%. This trend reflects a severe deterioration in financial performance following the merger, indicating that the integration and subsequent operations have faced considerable challenges.

Return on Total Assets

To assess the merger's effect on profitability relative to shareholders' equity, the researcher calculated the average Return on Equity (ROE) for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited before and after the merger. This analysis aimed to determine if the merger led to enhanced profitability for shareholders by comparing the mean ROE ratios for each bank in the periods before and after the merger.

Table 5

ROE of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	ROE	Year	ROE	
2009/10	15.32	2016/017	14.89	The merger resulted in decline in ROE due to increased debt, higher interest expenses, and reduced net income, as well as integration inefficiencies and increased operating costs.
2010/11	16.12	2017/018	15.34	
2011/12	17.34	2018/019	15.71	
2012/13	15.36	2019/020	13.81	
2013/14	18.56	2020/021	15.68	
2014/15	23.35	2021/022	13.82	
2015/16	20.29	2022/023	13.50	
Average	18.05	Average	14.68	

Table 5 show that the ROE of Siddhartha Bank Limited. Before the merger, Siddhartha Bank's Return on Equity (ROE) demonstrated robust performance with high values. Starting at 15.32% in 2009/10, the ROE saw a gradual increase, peaking at 23.35% in 2014/15. This peak indicated strong profitability and effective equity utilization. However, by the end of the pre-merger period, the ROE experienced some fluctuations but remained generally high, averaging 18.05%.

Following the merger, Siddhartha Bank's ROE showed a noticeable decline. The ROE started at 14.89% in 2016/17 and dropped further to 13.50% by 2022/23. This decline suggests several challenges post-merger, including increased debt levels, higher interest expenses, and reduced net income. Additionally, integration inefficiencies and rising operating costs likely contributed to the reduced ROE. The average ROE post-merger was 14.68%, lower than the pre-merger average of 18.05%. This decrease reflects the negative impact of the merger on the bank's profitability and efficiency, highlighting difficulties in maintaining the strong financial performance observed before the merger.

Table 6

ROE of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	ROE	Year	ROE	
2007/08	9.14	2015/016	15.88	Before merger the average ROE indicating stable but modest profitability over time. Where after merger the average ROE improved, ROE reflecting a significant boost in financial performance and efficiency post-merger.
2008/09	7.13	2016/017	18.00	
2009/10	5.00	2017/018	15.48	
2010/11	13.00	2018/019	16.91	
2011/12	10.00	2019/020	12.88	
2012/13	14.00	2020/021	13.53	
2013/14	16.00	2021/022	13.93	
2014/015	13.11	2022/023	14.19	
Average	10.92	Average	15.10	

Table 6 show that the ROE of Global IME Bank Limited. Before the merger, Global IME Bank's Return on Equity (ROE) exhibited stable yet modest profitability. Starting at 9.14% in 2007/08, the ROE showed a gradual increase to 16.00% by 2013/14. The

average ROE before the merger was 10.92%, reflecting consistent but not exceptional financial performance. The highest pre-merger ROE of 16.00% in 2013/14 indicated a period of improved efficiency, but overall, the ROE remained relatively stable with incremental growth.

Post-merger, the bank's ROE demonstrated a significant improvement. Beginning at 15.88% in 2015/16, the ROE increased further to 14.19% by 2022/23. The average ROE after the merger was 15.10%, markedly higher than the pre-merger average. This improvement suggests that the merger had a positive impact on the bank's financial performance, enhancing its profitability and efficiency. The post-merger ROE reflects a notable boost in the bank's overall financial health and performance, indicating successful integration and operational synergies from the merger.

Table 7

ROE of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	ROE	Year	ROE	
2007/08	18.25	2015/016	17.00	Before the merger, Prabhu Bank's average ROE was a strong, demonstrating effective profitability. Post-merger, the average ROE decreased, it is indicating a decline in financial performance and efficiency.
2008/09	16.30	2016/017	19.29	
2009/10	15.26	2017/018	7.69	
2010/11	12.37	2018/019	12.45	
2011/12	13.14	2019/020	7.76	
2012/13	15.26	2020/021	10.06	
2013/14	16.39	2021/022	9.93	
2014/015	27.57	2022/023	0.89	
Average	16.82	Average	10.63	

Table 7 show that the ROE of Prabhu Bank. Before the merger, Prabhu Bank demonstrated strong profitability with an average Return on Equity (ROE) of 16.82%. The ROE began at 18.25% in 2007/08 and, despite some fluctuations, remained relatively high, peaking at 27.57% in 2014/15. This indicates effective utilization of equity and robust financial performance, reflecting a period of consistent profitability and operational efficiency.

Post-merger, however, the bank experienced a significant decline in ROE. The ROE dropped from 17.00% in 2015/16 to a stark low of 0.89% in 2022/23, with an average ROE of just 10.63% after the merger. This decrease highlights a notable decline in financial performance and efficiency following the merger. The substantial drop in ROE, particularly in the later years, suggests that the merger may have led to increased challenges such as integration issues, higher operational costs, and reduced profitability. Overall, the post-merger period indicates a struggle to maintain the strong performance levels observed before the merger.

Capital Adequacy Ratio

To evaluate the impact of the merger on financial stability, the researcher calculated the average Capital Adequacy Ratio (CAR) for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited both before and after the merger. This analysis aimed to determine if the merger led to improvements in the banks' capital reserves and overall financial stability by comparing the mean CAR ratios for each bank in the periods before and after the merger.

Table 8

CAR of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	CAR	Year	CAR	
2009/10	10.03	2016/017	12.74	Before the merger, Siddhartha Bank's average Capital Adequacy Ratio (CAR) reflecting a stable but modest buffer the regulatory requirements. Post-merger, the average CAR improved, indicating a strengthened capital position and enhanced financial stability.
2010/11	10.78	2017/018	12.12	
2011/12	11.03	2018/019	12.70	
2012/13	11.80	2019/020	13.17	
2013/14	11.39	2020/021	13.36	
2014/15	11.10	2021/022	13.00	
2015/16	11.25	2022/023	12.47	
Average	11.05	Average	12.79	

Table 8 shows that the Capital Adequacy Ratio of Siddhartha Bank Limited. Before the merger, Siddhartha Bank's Capital Adequacy Ratio (CAR) averaged 11.05%, reflecting a stable but modest buffer above regulatory requirements. This range, starting from 10.03%

in 2009/10 and peaking at 11.80% in 2012/13, indicated a relatively secure but not exceptionally strong capital position. The consistency of the CAR during this period suggested that the bank maintained a sufficient capital base to meet regulatory standards and support its financial stability.

Post-merger, Siddhartha Bank's CAR improved significantly, averaging 12.79%. The CAR rose from 12.74% in 2016/17 to 12.47% in 2022/23, with a peak at 13.36% in 2020/21. This upward trend indicates that the merger positively impacted the bank's capital position, enhancing its financial stability and capacity to absorb potential losses. The improvement suggests that the bank successfully strengthened its capital base post-merger, providing a more robust cushion against financial uncertainties and better compliance with regulatory requirements.

Table 9

CAR of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	CAR	Year	CAR	
2007/08	11.80	2015/016	12.35	Before the merger, Global IME Bank's average Capital Adequacy Ratio (CAR) showing a stable capital position. Post-merger, the average CAR increased, it was reflecting a stronger capital buffer and improved financial stability.
2008/09	10.31	2016/017	11.37	
2009/10	10.90	2017/018	11.47	
2010/11	11.09	2018/019	12.31	
2011/12	11.66	2019/020	12.48	
2012/13	11.14	2020/021	13.20	
2013/14	12.38	2021/022	12.67	
2014/015	12.69	2022/023	13.34	
Average	11.50	Average	12.40	

Table 9 shows that the Capital Adequacy Ratio of Global IME Bank. Before the merger, Global IME Bank's Capital Adequacy Ratio (CAR) averaged 11.50%, indicating a stable capital position that met regulatory requirements. The CAR ranged from 11.80% in 2007/08 to 10.31% in 2008/09, with gradual fluctuations throughout the years. This stability in CAR demonstrated the bank's consistent ability to maintain a solid capital base.

Post-merger, Global IME Bank's CAR increased to an average of 12.40%. The CAR rose from 12.35% in 2015/16 to 13.34% in 2022/23, reflecting a steady improvement. This upward trend indicates that the merger positively enhanced the bank's capital buffer, contributing to improved financial stability. The increased CAR demonstrates a stronger capital position, allowing the bank to better manage financial risks and comply with regulatory requirements, signifying a successful strengthening of the bank's financial health post-merger.

Table 10

CAR of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	CAR	Year	CAR	
2007/08	10.17	2015/016	12.29	Before the merger, Prabhu Bank's average Capital Adequacy Ratio (CAR) was 11.66%, indicating a solid but modest capital buffer. Post-merger, the average CAR improved to 12.82%, demonstrating enhanced capital strength and financial stability.
2008/09	10.36	2016/017	11.18	
2009/10	11.25	2017/018	11.86	
2010/11	11.64	2018/019	11.16	
2011/12	13.70	2019/020	11.18	
2012/13	13.66	2020/021	13.08	
2013/14	11.28	2021/022	12.86	
2014/015	10.61	2022/023	11.87	
Average	11.58	Average	11.94	

Table 10 shows that the Capital Adequacy Ratio of Prabhu Bank Limited. Before the merger, Prabhu Bank's Capital Adequacy Ratio (CAR) averaged 11.58%, indicating a solid but modest capital buffer. The CAR ranged from 10.17% in 2007/08 to 13.70% in 2011/12, reflecting a relatively stable capital position that met regulatory standards but was not particularly strong.

Post-merger, the average CAR improved to 11.94%. Although this increase may appear modest, it reflects a positive trend in capital strength. The CAR ranged from 11.18% in 2016/17 to 13.08% in 2020/21, demonstrating enhanced financial stability. This improvement suggests that the merger had a beneficial impact on Prabhu Bank's capital adequacy, providing a more robust buffer against financial risks and contributing to

overall financial stability. The relatively small but consistent increase in CAR indicates a strengthened capital position, enhancing the bank's ability to absorb potential losses and meet regulatory requirements more effectively post-merger.

Liquidity Ratio

To assess the merger's impact on short-term financial stability, the researcher calculated the average Liquidity Ratio (LR) for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited both before and after the merger. This analysis aimed to determine whether the merger influenced the banks' ability to cover short-term liabilities by comparing the mean LR ratios for each bank in the periods preceding and following the merger.

Table 11

Liquidity of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	Liquidity	Year	Liquidity	
2009/10	5.66	2016/017	8.68	Before the merger, Siddhartha Bank's average liquidity was indicating relatively high liquidity levels. Post-merger, the average liquidity decreased. It is reflecting a decline in liquidity and tighter financial conditions.
2010/11	5.61	2017/018	6.37	
2011/12	11.86	2018/019	4.56	
2012/13	9.60	2019/020	5.03	
2013/14	17.22	2020/021	3.54	
2014/15	8.63	2021/022	3.23	
2015/16	6.00	2022/023	4.06	
Average	9.23	Average	5.07	

Table 11 show that the Liquidity ratios of Siddhartha Bank Limited. Before the merger, Siddhartha Bank's average liquidity was 9.23%, reflecting relatively high liquidity levels and strong financial health. The liquidity ranged from 5.66% in 2009/10 to a peak of 17.22% in 2013/14, indicating that the bank maintained a robust cushion of liquid assets relative to its liabilities.

Post-merger, the average liquidity decreased significantly to 5.07%. Liquidity values ranged from 3.23% in 2021/22 to 8.68% in 2016/17. This decline in liquidity post-merger suggests tighter financial conditions and a reduction in the bank's capacity to readily

meet short-term obligations. The drop in average liquidity indicates that, although the bank still maintained a reasonable level of liquid assets, it faced increased financial pressure and possibly engaged in more aggressive lending or investment strategies following the merger. The decreased liquidity may reflect a shift towards higher-risk, potentially higher-return activities or a need to optimize capital allocation post-merger.

Table 12

Liquidity of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	LQ	Year	LQ	
2007/08	27.35	2015/016	35.14	Before the merger, the average liquidity was indicating a strong liquidity position.
2008/09	27.00	2016/017	33.54	
2009/10	30.00	2017/018	25.34	After the merger, the average liquidity decreased, it is reflecting a slight reduction in liquidity but still maintaining a relatively solid buffer.
2010/11	27.23	2018/019	22.13	
2011/12	34.13	2019/020	24.58	
2012/13	32.25	2020/021	29.89	
2013/14	31.11	2021/022	23.55	
2014/015	30.12	2022/023	30.34	
Average	29.90	Average	28.06	

Table 12 show that the Liquidity ratios of the Global IME Bank. The liquidity ratio of the bank before the merger averaged 29.90%, reflecting a strong and stable liquidity position. Over the years, the liquidity ranged from 27.00% to 34.13%. This high level of liquidity indicates that the bank was well-positioned to meet its short-term obligations and manage financial flexibility effectively. The consistent high liquidity suggests robust financial health and a conservative approach to maintaining cash reserves.

Post-merger, the average liquidity ratio decreased slightly to 28.06%, with individual years showing liquidity levels between 22.13% and 35.14%. Although the average liquidity post-merger is lower than before, it remains relatively high, reflecting continued strong liquidity management. The fluctuations observed indicate some variations in liquidity over the years, possibly due to integration costs or strategic changes following the merger.

The decrease in the average liquidity ratio post-merger, while notable, does not suggest a severe decline in financial stability. The liquidity ratios remain high, indicating that the bank has maintained a solid ability to cover short-term liabilities even after the merger. The observed decrease could be attributed to strategic investments, changes in operational practices, or adjustments made during the post-merger integration phase. Overall, the liquidity position remains strong, suggesting effective management of financial resources despite the merger.

Table 13

Liquidity of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	LQ	Year	LQ	
2007/08	3.14	2015/016	12.13	Before the merger, Prabhu Bank's average liquidity was reflecting a generally lower liquidity level. Post-merger, the average liquidity increased, it is indicating that the improved liquidity and better financial flexibility.
2008/09	3.12	2016/017	12.13	
2009/010	2.28	2017/018	6.83	
2010/011	2.65	2018/019	4.39	
2011/012	5.19	2019/020	11.20	
2012/013	5.50	2020/021	4.26	
2013/014	4.89	2021/022	3.67	
2014/015	15.69	2022/023	3.66	
Average	5.31	Average	7.28	

Table13 show that the Liquidity ratios of Prabhu Bank Limited. Prior to the merger, Prabhu Bank exhibited an average liquidity ratio of 5.31%, with individual years showing relatively low liquidity levels ranging from 2.28% to 15.69%. This lower liquidity indicated a more constrained ability to meet short-term financial obligations and less flexibility in managing financial activities.

Post-merger, the bank's average liquidity improved to 7.28%, with liquidity ratios ranging from 3.66% to 12.13%. This increase suggests a notable enhancement in the bank's liquidity position, reflecting better financial flexibility and a stronger buffer to address short-term obligations. The improvement in liquidity post-merger could be

attributed to more effective liquidity management practices, increased cash reserves, or strategic changes implemented after the merger.

Overall, while the liquidity levels before the merger were relatively modest, the post-merger period demonstrates a positive trend with higher liquidity ratios, indicating that the merger has contributed to a stronger and more flexible financial position for Prabhu Bank.

Non-Performing Assets

To evaluate the merger's impact on asset quality, the researcher calculated the average Non-Performing Assets (NPA) ratio for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited before and after the merger. This analysis aimed to determine whether the merger affected the level of problematic loans by comparing the mean NPA ratios for each bank in the periods before and after the merger.

Table 14

NPA of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	NPA	Year	NPA	
2009/10	0.53	2016/017	1.30	Before the merger, SBLs average Non-Performing Assets (NPA) ratio indicating a moderate level of asset quality issues. Post-merger, the average NPA ratio improved, it is shows that after merger the result reduction in problematic assets and better management of credit risk.
2010/11	0.79	2017/018	1.09	
2011/12	1.52	2018/019	0.75	
2012/13	2.39	2019/020	1.38	
2013/14	2.75	2020/021	1.00	
2014/15	1.80	2021/022	1.07	
2015/16	1.47	2022/023	2.01	
Average	1.61	Average	1.23	

Table 14 shows that the NPA of Siddhartha Bank Limited. Before the merger, Siddhartha Bank Limited's average NPA ratio was 1.78%, with individual yearly NPAs ranging from 0.53% to 2.75%. This range indicates a moderate level of asset quality issues, with fluctuations over the years reflecting varying degrees of credit risk and asset management effectiveness. The relatively high average NPA suggests that while the bank was

managing its non-performing assets, there were periodic spikes that could impact overall asset quality and financial stability.

Post-merger, the average NPA ratio improved to 1.37%, with annual figures ranging from 0.75% to 2.01%. This reduction in the average NPA ratio indicates enhanced asset quality and more effective credit risk management following the merger. The year-by-year data shows a significant decrease in NPAs initially, though there were some fluctuations, particularly in 2022/023, where the ratio increased to 2.01%. Despite this increase, the overall trend post-merger is positive, suggesting improved management and reduction in problematic assets.

The improvement in the average NPA ratio post-merger reflects successful efforts in managing credit risk and improving asset quality. The bank's ability to reduce its average NPA ratio from 1.78% to 1.37% indicates effective strategies and integration post-merger. The observed fluctuations in the post-merger period, particularly the increase in the final year, suggest ongoing challenges but do not detract from the overall positive trend. This trend indicates that the merger likely contributed to better asset management and reduced levels of non-performing assets over time.

Table 15

NPA of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	NPA	Year	NPA	
2007/08	1.10	2015/016	1.89	Before the merger, Global IME Bank's average Non-Performing Assets (NPA) ratio reflecting a higher level of asset quality issues. After the merger, the average NPA ratio improved, it is indicating better asset management and a reduction in problematic loans.
2008/09	0.09	2016/017	1.60	
2009/10	0.85	2017/018	0.77	
2010/11	2.52	2018/019	0.55	
2011/12	1.64	2019/020	1.74	
2012/13	2.27	2020/021	1.41	
2013/14	2.55	2021/022	1.28	
2014/015	2.23	2022/023	3.15	
Average	1.66	Average	1.55	

Table 15 shows that the NPL to total loan of Global IME Bank Limited. Before the merger, Global IME Bank Limited's average NPA ratio was 1.66%, with annual NPAs ranging from 0.09% to 2.55%. This average indicates a relatively high level of asset

quality issues, suggesting that the bank faced challenges in managing non-performing loans. The significant fluctuation in the annual NPA ratios, with some years showing very low NPAs and others much higher, reflects inconsistent asset quality and varying degrees of credit risk over time.

Post-merger, the average NPA ratio improved to 1.55%, with annual figures ranging from 0.55% to 3.15%. This improvement suggests better management of non-performing assets and a reduction in problematic loans following the merger. The reduction in the average NPA ratio indicates that the bank was able to enhance its asset quality management after the merger. However, the higher NPA ratio in the last year (3.15%) points to some challenges in maintaining low levels of non-performing loans, suggesting ongoing issues that need to be addressed.

The decrease in the average NPA ratio from 1.66% to 1.55% post-merger reflects overall improvement in asset management and credit risk control. Although the average NPA ratio decreased, indicating better management, the increase in NPAs in the most recent year suggests that the bank faces ongoing challenges in keeping NPAs low. The overall positive trend post-merger signifies that the merger contributed to improved asset quality and more effective management of non-performing loans, despite some recent setbacks.

Table 16

NPA of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	NPA	Year	NPA	
2007/08	0.42	2015/016	8.83	Before the merger, Prabhu Bank's average Non-Performing Assets (NPA) ratio indicating strong asset quality with minimal problematic loans. Post-merger, the average NPA ratio increased, it is reflecting a significant rise in asset quality issues and suggesting challenges in managing credit risk effectively after the merger.
2008/09	0.52	2016/017	4.55	
2009/10	0.24	2017/018	3.98	
2010/11	0.27	2018/019	3.76	
2011/12	0.86	2019/020	3.15	
2012/13	0.58	2020/021	1.68	
2013/14	2.64	2021/022	1.86	
2014/015	7.33	2022/023	4.98	
Average	1.61	Average	4.10	

Table 16 shows that the NPL to total loan of Prabhu Bank Limited. Before the merger, Prabhu Bank Limited's average NPA ratio was notably low at 0.54%, with individual annual NPAs ranging from 0.24% to 7.33%. This reflects strong asset quality and effective credit risk management during this period. The low average NPA ratio indicates that the bank faced minimal issues with non-performing loans, suggesting a robust credit portfolio and effective management practices.

Post-merger, the average NPA ratio increased substantially to 4.72%, with annual NPAs fluctuating between 1.68% and 8.83%. This sharp rise signifies a significant deterioration in asset quality and an escalation in problematic loans. The increase in the average NPA ratio post-merger suggests that the bank encountered considerable challenges in managing credit risk and maintaining asset quality following the merger.

The dramatic increase in the average NPA ratio from 0.54% before the merger to 4.72% after the merger highlights a severe decline in asset quality. This trend indicates that the merger may have introduced inefficiencies, integration challenges, or other issues that adversely impacted the bank's ability to manage non-performing loans effectively. The substantial rise in NPAs post-merger underscores the need for improved credit risk management strategies and operational adjustments to address and mitigate asset quality issues.

4.1.6 Analyzing Earnings per Share (EPS)

To assess the merger's effect on shareholder returns, the researcher calculated the average Earnings Per Share (EPS) for Siddhartha Bank Limited, Global IME Bank Limited, and Prabhu Bank Limited both before and after the merger. This analysis aimed to determine if the merger had an impact on the earnings distributed to shareholders by comparing the mean EPS for each bank in the periods prior to and following the merger.

Table 17 shows that EPS of Siddhartha Bank Limited. Before the merger, Siddhartha Bank Limited demonstrated strong profitability with an average EPS of 29.99. EPS values varied from 19.82 to 41.53, indicating robust earnings generation and effective financial performance. The high average EPS reflects the bank's ability to generate substantial profits per share, showcasing a strong earnings base and efficient operations during this period.

Table 17

EPS of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	EPS	Year	EPS	
2009/10	21.99	2016/017	26.60	Before the merger, Siddhartha Bank's average Earnings Per Share (EPS) indicating strong profitability and effective earnings generation.
2010/11	19.82	2017/018	26.45	
2011/12	20.41	2018/019	23.07	Post-merger, the average EPS decreased, it is reflecting a decline in profitability but still maintaining a solid earnings base.
2012/13	29.80	2019/020	19.55	
2013/14	38.63	2020/021	22.79	
2014/15	37.77	2021/022	20.60	
2015/16	41.53	2022/023	22.48	
Average	29.99	Average	23.08	

Post-merger, the average EPS decreased to 23.08, with annual EPS values ranging from 19.55 to 26.60. While this represents a decline compared to pre-merger levels, the bank still maintained a solid earnings base. The reduction in average EPS suggests that the merger impacted profitability, potentially due to integration costs, increased operational complexities, or other merger-related challenges. Despite the drop, the bank's EPS remained positive and relatively strong, indicating that while profitability was affected, the decline was not severe.

The decrease in average EPS from 29.99 before the merger to 23.08 after the merger highlights a notable decline in profitability. This decline may be attributed to the challenges and costs associated with the merger, such as integration expenses and operational adjustments. However, the EPS values remain solid, indicating that the bank continues to generate substantial earnings per share despite the merger's impact. The decline suggests that while the merger introduced some challenges, Siddhartha Bank still managed to maintain a strong earnings performance.

Table 18 shows that the EPS of Global IME Bank Limited. Before the merger, Global IME Bank Limited exhibited moderate profitability, with an average EPS of 11.71. EPS values ranged from 2.63 to 19.57 during this period, reflecting varying levels of profitability but generally moderate performance. The relatively low average EPS before

the merger indicates that while the bank was profitable, it had room for improvement in terms of earnings per share.

Table 18

EPS of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	EPS	Year	EPS	
2007/08	8.91	2015/016	19.33	Before the merger, Global IME Bank's average Earnings Per Share (EPS) reflecting moderate profitability. Post-merger, the average EPS increased significantly, it is demonstrating improved profitability and enhanced earnings performance.
2008/09	2.63	2016/017	25.51	
2009/10	4.95	2017/018	23.64	
2010/11	14.06	2018/019	23.47	
2011/12	11.79	2019/020	17.99	
2012/13	16.15	2020/021	19.25	
2013/14	19.57	2021/022	20.84	
2014/015	15.58	2022/023	22.06	
Average	11.71	Average	21.51	

Post-merger, the average EPS increased significantly to 21.51, with annual EPS values ranging from 17.99 to 25.51. This substantial rise demonstrates improved profitability and enhanced earnings performance following the merger. The post-merger EPS figures reflect a stronger financial position and more effective earnings generation, indicating that the merger positively impacted the bank's overall profitability.

The dramatic increase in average EPS from 11.71 before the merger to 21.51 after the merger highlights a significant improvement in profitability. This increase suggests that the merger brought about favorable changes in the bank's operations or financial strategies, leading to enhanced earnings performance. The substantial rise in EPS indicates that the merger was successful in boosting the bank's profitability and operational efficiency, marking a positive outcome for the bank's shareholders and overall financial health.

Table 19 shows that the EPS of Prabhu Bank Limited. Before the merger, Prabhu Bank Limited demonstrated strong profitability with an average EPS of 21.34. The EPS figures during this period ranged from 11.14 to 31.73, indicating a robust performance and strong

earnings generation capability. The consistently high EPS values reflected effective financial management and solid profitability across these years.

Table 19

EPS of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	EPS	Year	EPS	
2007/08	23.56	2015/016	26.75	Before the merger, Prabhu Bank's average Earnings Per Share (EPS) indicating strong profitability. Post-merger, the average EPS decreased, it is reflecting that a decline in earnings performance and profitability.
2008/09	21.98	2016/017	27.17	
2009/10	30.52	2017/018	12.58	
2010/11	20.58	2018/019	1.19	
2011/12	20.35	2019/020	14.97	
2012/13	11.14	2020/021	13.54	
2013/14	10.85	2021/022	11.58	
2014/015	31.73	2022/023	21.03	
Average	21.34	Average	16.10	

Following the merger, the average EPS decreased to 16.10, with values ranging from a low of 1.19 to a high of 27.17. This decline in average EPS suggests that while the bank continued to be profitable post-merger, there was a notable reduction in earnings performance. The fluctuations in EPS indicate that the merger might have introduced challenges or inefficiencies that impacted profitability.

The reduction in average EPS from 21.34 before the merger to 16.10 after the merger reflects a decline in earnings performance and profitability. Despite maintaining positive EPS values post-merger, the decrease indicates that the merger led to challenges in sustaining the high profitability levels achieved prior to the merger. Factors such as integration issues, increased costs, or other operational difficulties might have contributed to this decline. The results suggest that while the merger did not negate profitability, it impacted the bank's ability to sustain its previous high levels of earnings per share.

Dividend Per Share

To evaluate the merger's impact on dividend distributions, the researcher calculated the average Dividend Per Share (DPS) for Siddhartha Bank Limited, Global IME Bank

Limited, and Prabhu Bank Limited before and after the merger. This analysis aimed to determine if the merger affected the amount of dividends paid to shareholders by comparing the mean DPS for each bank in the periods preceding and following the merger.

Table 20

DPS of Siddhartha Bank Limited

Before Merger		After Merger		Remarks
Year	DPS	Year	DPS	
2009/10	10.03	2016/017	14.00	Before the merger, Siddhartha Bank's average Dividend Per Share (DPS) reflecting a strong and consistent dividend payout. Post-merger, the average DPS decreased, it is indicating that a reduction in dividend payouts while still maintaining a relatively solid distribution.
2010/11	15.79	2017/018	13.16	
2011/12	8.42	2018/019	25.26	
2012/13	22.11	2019/020	15.00	
2013/14	23.16	2020/021	15.00	
2014/15	21.05	2021/022	13.16	
2015/16	48.75	2022/023	4.21	
Average	21.33	Average	14.26	

Table 20 shows that the Siddhartha Bank Limited. Before the merger, Prabhu Bank Limited exhibited a robust financial performance with an average EPS of 21.34. The EPS values during this period ranged from 11.14 to 31.73. These figures highlight a period of strong profitability and effective earnings generation, reflecting the bank's successful financial management and operational efficiency.

Post-merger, the average EPS fell to 16.10, with a significant range from as low as 1.19 to as high as 27.17. This decline in average EPS indicates a reduction in earnings performance after the merger. The wide fluctuation in EPS values suggests that the merger introduced operational challenges or inefficiencies that impacted profitability. The decrease in average EPS signals that while the bank remained profitable after the merger, it struggled to maintain the high levels of earnings achieved before.

The average EPS decline from 21.34 before the merger to 16.10 after highlights a drop in profitability and financial performance. Although Prabhu Bank continued to show positive EPS values post-merger, the overall reduction reflects difficulties in sustaining

pre-merger profitability levels. The merger likely brought about integration challenges, increased costs, or other operational issues that contributed to this decline. Thus, while the merger did not eliminate profitability, it adversely affected the bank's ability to maintain its prior high earnings per share, indicating a need for improved integration and operational strategies.

Table 21

DPS of Global IME Bank Limited

Before Merger		After Merger		Remarks
Year	DPS	Year	DPS	
2007/08	12.00	2015/016	16.00	Before the merger, Global IME Bank's average Dividend Per Share (DPS) showing a solid dividend distribution. Post-merger, the average DPS increased, it is indicating that an improved and more generous dividend payout.
2008/09	13.00	2016/017	20.00	
2009/10	5.00	2017/018	16.00	
2010/11	12.02	2018/019	25.50	
2011/12	13.00	2019/020	16.00	
2012/13	15.00	2020/021	13.50	
2013/14	25.00	2021/022	13.60	
2014/015	23.00	2022/023	9.00	
Average	14.75	Average	16.20	

Table 21 shows that the Global IME Bank Limited. Before the merger, Global IME Bank Limited's average Dividend Per Share (DPS) was 14.75. The DPS values during this period ranged from a low of 5.00 to a high of 25.00. This period reflects a generally solid dividend distribution, indicating that the bank maintained a reasonable level of payout to its shareholders. The variability in DPS suggests periods of higher and lower profitability, but overall, the bank was able to provide a decent return to its shareholders. Post-merger, the average DPS increased to 16.20, with values ranging from 9.00 to 25.50. This increase in average DPS suggests that the bank became more generous with its dividend payouts following the merger. The higher average DPS and the generally upward trend, despite some fluctuations, reflect improved financial performance or a strategic decision to enhance shareholder returns after the merger. The increase in average DPS from 14.75 before the merger to 16.20 after indicates a positive shift in the bank's dividend policy.

Post-merger, Global IME Bank demonstrated a greater commitment to returning value to its shareholders through higher dividend payouts. The data suggests that the merger potentially led to improved financial stability or profitability, enabling the bank to offer more substantial dividends. The fluctuations in DPS post-merger, however, suggest that while the overall trend is positive, there were periods of variability in financial performance. Overall, the merger appears to have enhanced the bank's capacity to distribute dividends, benefiting shareholders with increased payouts.

Table 22

DPS of Prabhu Bank Limited

Before Merger		After Merger		Remarks
Year	DPS	Year	DPS	
2007/08	0.00	2015/016	0.00	Before the merger, Prabhu Bank's average Dividend Per Share (DPS) reflecting a varied but generally modest dividend payout. Post-merger, the average DPS decreased, it is indicating that a reduction in dividend distributions.
2008/09	15.32	2016/017	0.00	
2009/10	21.05	2017/018	8.42	
2010/11	15.79	2018/019	16.84	
2011/12	17.89	2019/020	10.53	
2012/13	0.00	2020/021	12.63	
2013/14	0.00	2021/022	8.00	
2014/015	0.00	2022/023	0.00	
Average	8.76	Average	7.05	

Table 22 shows that the DPS of Prabhu Bank Limited. Before the merger, Prabhu Bank Limited exhibited a varied but generally modest approach to dividend distribution. The average Dividend Per Share (DPS) was 8.76, with values ranging from 0.00 to 21.05. The absence of dividends in some years indicates periods of financial conservatism or reallocation of resources, but when dividends were distributed, they reflected a reasonable commitment to shareholder returns. This variability in DPS suggests that the bank was capable of providing substantial dividends in certain years but did not maintain a consistent payout pattern.

Post-merger, the average DPS decreased to 7.05, with values ranging from 0.00 to 16.84. The reduction in average DPS and the occurrence of zero dividends in multiple years

indicate a decline in the bank's ability or decision to distribute dividends. This decline may reflect post-merger challenges, such as integration issues, financial constraints, or a strategic shift away from paying out dividends.

The decrease in average DPS from 8.76 before the merger to 7.05 after suggests a reduction in the bank's dividend payout capacity or policy following the merger. While there were years with significant dividend payouts before the merger, the post-merger period shows a trend towards lower or zero dividends. This shift could be attributed to various factors, including financial challenges related to the merger, increased costs, or a change in financial strategy. The overall decline in DPS highlights that the merger may have led to financial strains that impacted the bank's ability to maintain or enhance dividend distributions to shareholders.

4.2 Correlation Analysis

Correlation analysis of pre-merger and post-merger data examines how key metrics, such as profitability and operational efficiency, relate before and after a merger. By comparing correlation coefficients from both periods, this analysis reveals how the merger has influenced the relationships between variables. Significant changes in these correlations can indicate the merger's impact on the banks' performance, providing insights into whether the merger achieved its intended benefits or if further adjustments are needed.

Table 23 shows that the pre-merger correlation analysis of the selected companies, several key relationships emerged. Return on Assets (ROA) exhibited a strong positive correlation with Return on Equity (ROE) (0.761, $p < 0.01$) and Earnings Per Share (EPS) (0.834, $p < 0.01$), indicating that higher ROA is associated with better ROE and EPS. ROE also showed a significant positive correlation with EPS (0.788, $p < 0.01$) but a negative correlation with Liquidity (LQ) (-0.469, $p < 0.05$), suggesting that higher liquidity might be linked to lower ROE. Capital Adequacy Ratio (CAR) displayed minimal correlations with other variables, while LQ had a notable negative correlation with ROE (-0.469) and ROA (-0.317), implying that higher liquidity correlates with lower profitability metrics. Non-Performing Assets (NPA) surprisingly correlated positively with both ROA (0.484, $p < 0.05$) and ROE (0.581, $p < 0.01$), which could indicate an unusual relationship in this dataset.

Table 23

Correlation Analysis of Pre Merger or Before Merger

Variables		ROA	ROE	CAR	LQ	NPA	EPS	DPS
ROA	Pearson Correlation	1						
	Sig. (2-tailed)							
ROE	Pearson Correlation	.761**	1					
	Sig. (2-tailed)	.000						
CAR	Pearson Correlation	.028	-.149	1				
	Sig. (2-tailed)	.899	.499					
LQ	Pearson Correlation	-.317	-.469*	.078	1			
	Sig. (2-tailed)	.140	.024	.722				
NPA	Pearson Correlation	.484*	.581**	-.025	.253	1		
	Sig. (2-tailed)	.019	.004	.910	.245			
EPS	Pearson Correlation	.834**	.788**	-.116	-.479*	.295	1	
	Sig. (2-tailed)	.000	.000	.598	.021	.172		
DPS	Pearson Correlation	.389	.104	.150	.013	-.108	.544**	1
	Sig. (2-tailed)	.067	.636	.494	.953	.624	.007	

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

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

EPS correlated strongly with Dividends Per Share (DPS) (0.544, $p < 0.01$), reflecting that higher earnings are associated with higher dividends. Overall, these correlations highlight significant interactions between financial metrics, offering insights into the banks' financial dynamics before the merger.

Table 24

Correlation Analysis of Post-Merger or After Merger

Variables		ROA	ROE	CAR	LQ	NPA	EPS	DPS
ROA	Pearson Correlation	1						
	Sig. (2-tailed)							
ROE	Pearson Correlation	.951**	1					
	Sig. (2-tailed)	.000						
CAR	Pearson Correlation	-.103	.056	1				
	Sig. (2-tailed)	.639	.798					
LQ	Pearson Correlation	.437*	.379	-.067	1			
	Sig. (2-tailed)	.037	.074	.762				
NPA	Pearson Correlation	-.170	-.200	-.343	-.137	1		
	Sig. (2-tailed)	.438	.360	.109	.532			
EPS	Pearson Correlation	.490*	.511*	.119	.240	-.039	1	
	Sig. (2-tailed)	.017	.013	.587	.269	.859		
DPS	Pearson Correlation	.409	.351	.132	.280	-.733**	-.075	1
	Sig. (2-tailed)	.053	.100	.548	.196	.000	.735	

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

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

Table 24 shows that the post-merger correlation analysis, several notable changes in the relationships between key financial metrics were observed. Return on Assets (ROA) showed a strong positive correlation with Return on Equity (ROE) (0.951, $p < 0.01$), indicating that the merger has reinforced the link between these two profitability measures. This is a significant increase compared to the pre-merger period. Conversely, ROA's correlation with other metrics is weaker. For example, ROA has a moderate positive correlation with Liquidity (LQ) (0.437, $p < 0.05$), suggesting that increased liquidity is now somewhat associated with better ROA. ROE's positive correlation with ROA (0.951, $p < 0.01$) remains strong, but its correlation with EPS (0.511, $p < 0.05$) and LQ (0.379) has become more pronounced, showing enhanced relationships post-merger. On the other hand, ROE's correlation with CAR (-0.056) and NPA (-0.200) is minimal, indicating that CAR and NPA have less impact on ROE in the post-merger period. CAR, previously with limited correlations, now shows insignificant correlations with other metrics, including ROA and ROE. This suggests that CAR's role in the financial dynamics may have diminished post-merger. LQ has a moderate positive correlation with ROA (0.437, $p < 0.05$), which contrasts with its previously negative relationship. The correlation between LQ and other metrics remains mostly weak or insignificant. NPA's correlations have shifted, showing weak negative relationships with ROA (-0.170) and ROE (-0.200), and its correlation with EPS is also weakly negative (-0.039), indicating reduced impact on profitability measures. EPS has a moderate positive correlation with ROA (0.490, $p < 0.05$) and ROE (0.511, $p < 0.05$), suggesting that earnings per share continue to be positively related to both profitability metrics post-merger, though the strength is slightly lower compared to pre-merger. DPS, while maintaining a positive correlation with EPS (0.409), now shows a strong negative correlation with NPA (-0.733, $p < 0.01$), indicating that higher non-performing assets are associated with lower dividends. This shift reflects a more complex relationship between dividends and asset quality post-merger.

Overall, these changes in correlation coefficients highlight how the merger has altered the financial dynamics between these key metrics, suggesting adjustments in how profitability, liquidity, and asset quality interact in the post-merger context. Comparing the pre-merger and post-merger correlation analyses reveals several key changes in

financial relationships. The correlation between Return on Assets (ROA) and Return on Equity (ROE) strengthened significantly from 0.761 pre-merger to 0.951 post-merger, indicating a closer alignment between these profitability measures. Similarly, ROA's strong correlation with Earnings Per Share (EPS) decreased slightly from 0.834 to 0.490, suggesting a continued but less pronounced relationship. Liquidity (LQ) showed a weaker negative correlation with ROE pre-merger (-0.469) compared to a more positive, albeit still modest, correlation post-merger (0.379). Capital Adequacy Ratio (CAR) exhibited minimal correlation with other variables in both periods, reflecting its diminished role in the financial dynamics post-merger. Non-Performing Assets (NPA) shifted from having positive correlations with ROA and ROE to weakly negative ones, indicating a changed impact on profitability. Finally, while EPS maintained a positive correlation with Dividends Per Share (DPS) post-merger (0.409), a significant new negative correlation emerged between DPS and NPA (-0.733), showing that higher non-performing assets are now associated with lower dividends. Overall, the merger has notably altered the financial relationships, enhancing some and weakening or reversing others, which reflects changes in the banks' financial dynamics post-merger.

4.3 Paired Sample T- Test

The paired t-test is used to determine if there is a significant difference between the average financial metrics of banks before and after a merger. For each metric such as Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAR), Liquidity Ratio (LR), Non-Performing Assets (NPA), Earnings Per Share (EPS), and Dividend Per Share (DPS) the test compares the average values before and after the merger. By calculating the mean differences and their variability, the paired t-test helps assess if any observed changes in these averages are statistically significant, indicating whether the merger had a meaningful impact on the banks' financial performance.

Table 25 shows that the p-value of 0.9251 for ROA is very high, indicating that the difference in the average ROA before and after the merger is not statistically significant. This suggests that the merger did not have a meaningful impact on the ROA of the banks sampled. The p-value of 0.5315 for ROE is also quite high, which means the difference in average ROE before and after the merger is not statistically significant. This result

implies that the merger did not significantly affect the equity returns of the banks. Investors and stakeholders may infer that the merger had minimal impact on how well the banks generate returns on their equity.

Table 25

Paired T Test of Sample Banks

Bank Variables	ROA		ROE		CAR		LR	
	Average of Before Merge	Average of After Merge	Average of Before Merge	Average of After Merge	Average of Before Merge	Average of After Merge	Average of Before Merge	Average of After Merge
Siddhartha Bank Limited	1.40	1.33	18.05	14.68	11.05	12.79	9.23	5.07
Global IME Bank Limited	0.96	1.47	10.92	15.10	11.50	12.40	5.31	7.28
Prabhu Bank Limited	1.38	1.00	16.82	10.63	11.58	11.94	29.90	28.06
T Test Value	0.9251		0.5315		0.0278		0.9050	

Bank/Variables	NPA		EPS		DPS	
	Average of Before Merge	Average of After Merge	Average of Before Merge	Average of After Merge	Average of Before Merge	Average of After Merge
Siddhartha Bank Limited	1.61	1.23	29.99	23.08	21.33	14.26
Global IME Bank Limited	1.66	1.55	11.71	21.51	14.75	16.20
Prabhu Bank Limited	1.61	4.10	21.34	16.10	8.76	7.05
T Test Value	0.5036		0.8971		0.6216	

The p-value of 0.0278 for CAR is relatively low and falls below the common significance threshold of 0.05. This indicates that the difference in CAR before and after the merger is statistically significant. The merger seems to have had a meaningful impact on the capital adequacy of the banks, suggesting improved or altered capital reserves in response to the merger.

The p-value of 0.9050 for LR is high, indicating that the difference in the average liquidity ratio before and after the merger is not statistically significant. This suggests that the merger did not substantially affect the liquidity position of the banks. The data implies stability in liquidity management across the banks following the merger.

The p-value of 0.5036 for NPA is quite high, suggesting that the difference in non-performing assets before and after the merger is not statistically significant. This means

the merger did not significantly impact the level of non-performing assets, reflecting no significant change in asset quality resulting from the merger.

The p-value of 0.8971 for EPS is very high, indicating that the difference in average EPS before and after the merger is not statistically significant. This result suggests that the merger did not have a significant effect on the earnings attributable to each share of the banks.

The p-value of 0.6216 for DPS is also high, implying that the difference in dividend per share before and after the merger is not statistically significant. This indicates that the merger did not have a significant impact on the dividends paid to shareholders.

The Capital Adequacy Ratio (CAR) showed a statistically significant change after the merger, suggesting that the merger had an impact on the banks' capital adequacy.

Return on Assets (ROA), Return on Equity (ROE), Liquidity Ratio (LR), Non-Performing Assets (NPA), Earnings Per Share (EPS), and Dividend Per Share (DPS) did not show statistically significant changes, indicating stability in these areas post-merger.

These results provide insight into how different financial metrics were affected by the merger. The significant impact on CAR could imply that the merger influenced the banks' capital management, whereas other metrics remained stable, suggesting that the merger did not lead to substantial changes in profitability, asset quality, or shareholder returns.

4.4 Discussion

Mayer, Davis and Schoorman (2015) have found their study has support the positive association between trust in merger and the post-merger organizational identification among employees. Similarly, the author Pachulia (2018) has studied on the impact of mergers and acquisitions on corporate financial performance in Georgian company using data from financial reports. His study has research and suggests the financial performance trends, based on return on Equity, Return on Assets, return on Sales. The results show, if the financial performance changed positively to the company's favor while the company was merging and acquiring new firms.

In the same way the author Stunda (2019) has published an article on Impact of Mergers and Acquisitions on Acquiring Firms, in the previous studies has examined acquiring

firms undergoing mergers and acquisitions along with the impact that these events have on firm security prices. These studies have had mixed results. Some indicate negative impact on stock prices while others conclude that there is a positive effect. This study extends these previous studies by increasing both the number of firms sampled and the years evaluated. The analysis reveals varied impacts of mergers on financial performance across the banks.

Siddhartha Bank saw a slight decline in profitability metrics like ROA and ROE, indicating that the merger introduced some inefficiencies or challenges. Despite an improved Capital Adequacy Ratio (CAR), which reflects enhanced capital stability, the reduced liquidity suggests tighter financial conditions post-merger. The Non-Performing Assets (NPA) ratio improved, signaling better management of credit risk, while the decrease in Earnings Per Share (EPS) points to reduced profitability. The Dividend Per Share (DPS) showed a decline, indicating a reduced capacity for dividend payouts.

Conversely, Global IME Bank experienced significant improvements in profitability metrics, including ROA, ROE, and EPS, which indicate enhanced financial performance and efficient integration post-merger. The CAR increased, reflecting a stronger capital position, and despite a slight decrease in liquidity, the overall financial stability remained robust. The NPA ratio showed a modest improvement, suggesting better asset management, while the DPS increase reflects a more generous dividend distribution.

Prabhu Bank, however, faced notable challenges post-merger. The decline in ROA and ROE suggests a reduction in financial performance and efficiency. The CAR improved marginally, but the increased NPA ratio indicates significant asset quality issues. The liquidity position improved slightly, yet the substantial drop in EPS and DPS highlights a reduced profitability and dividend capacity. This overall decline underscores the merger's adverse effects on financial performance and shareholder returns.

The paired sample t-test results for various financial metrics before and after the merger reveal a nuanced picture of the merger's impact. For Return on Assets (ROA), with a t-value of 0.9251, the high p-value indicates that there was no statistically significant change in the efficiency of asset utilization by the banks. This finding is consistent with research by Chiaramonte, Pisera and Khan (2022) and Stunda (2019), which suggests that

while mergers can affect various financial metrics, immediate impacts on ROA may be minimal. This stability in ROA implies that the merger did not disrupt the banks' core operational efficiency in generating returns from their assets.

Similarly, the Return on Equity (ROE) showed no significant change with a t-value of 0.5315. This aligns with findings from Richard and Apolinaris (2022) who observed that while long-term profitability might benefit from mergers, short-term ROE changes are often limited. The stable ROE suggests that the merger did not significantly affect the banks' profitability relative to shareholders' equity, indicating that shareholder returns remained stable.

In contrast, the Capital Adequacy Ratio (CAR) exhibited a significant change, with a t-value of 0.0278. This result indicates that the merger had a meaningful impact on the banks' capital reserves, which could be attributed to adjustments in their capital structure post-merger. This finding supports Gautam (2020) who found that mergers often lead to significant changes in capital management, potentially enhancing or altering the banks' ability to absorb losses and meet regulatory requirements.

The Liquidity Ratio (LR) showed no significant change with a t-value of 0.9050, suggesting that the merger did not affect the banks' ability to meet short-term obligations. This stability aligns with Dhakal (2019), who found that liquidity metrics tend to remain stable post-merger. The consistent liquidity ratio indicates that the merger did not disrupt the banks' capacity to handle immediate financial needs.

Similarly, the Non-Performing Assets (NPA) metric also showed no significant change, with a t-value of 0.5036. This result is consistent with Mehrota and Sahay (2018), who noted that asset quality does not always change significantly immediately following a merger. The stable NPA suggests that the merger did not increase the level of problematic loans, reflecting a stable credit risk profile.

Earnings Per Share (EPS) also remained stable, with a t-value of 0.8971. This result aligns with Walsh 2018, who found that EPS changes post-merger can be minimal, especially in the short term. The consistency in EPS indicates that the merger did not significantly impact the earnings distributed to shareholders.

Lastly, the Dividend Per Share (DPS) remained stable with a t-value of 0.6216, suggesting no significant change in dividend payouts. This stability is consistent with Shrestha (2017), who found that banks often maintain consistent dividend policies post-merger to uphold investor confidence. The lack of significant change in DPS reflects the banks' continued commitment to returning value to shareholders.

The comparison of pre-merger and post-merger correlation analyses reveals significant shifts in financial relationships. Post-merger, the correlation between ROA and ROE strengthened, indicating a more aligned profitability performance. The relationship between ROA and EPS weakened slightly but remained substantial, reflecting consistent profitability. Liquidity's effect on ROE shifted from negative to positive, suggesting improved or less adverse impacts on profitability. Capital Adequacy Ratio (CAR) retained minimal influence, while Non-Performing Assets (NPA) shifted from positive to weakly negative correlations with profitability measures, reflecting changed dynamics in asset quality. Additionally, the strong pre-merger link between EPS and Dividends Per Share (DPS) diminished, with a new significant negative correlation emerging between DPS and NPA. These changes highlight the merger's impact on financial interactions, altering how liquidity, asset quality, and profitability metrics relate post-merger.

In summary, while the Capital Adequacy Ratio showed significant changes, indicating an impact on capital management, other metrics such as ROA, ROE, LR, NPA, EPS, and DPS remained stable. These findings suggest that the merger's impact on immediate financial performance was limited, aligning with broader literature that highlights both the stability and potential for significant change in different financial areas following a merger.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The objective of study is to investigate whether of the financial performance of the selected merger and acquisition commercial banks improve after the merger with below are the main objectives of the study are to identify the effect of merger and acquisition on return on assets and return on investment of selected commercial banks. To examine the effect of merger and acquisition on earning per share and market price per share of sampled commercial banks. It is measure the impact of merger and acquisition of sample commercial banks. The first chapter deals with introduction of the main topic of the study like general background, statement of the problems, objective of the study and rationale of the study and other introductory framework. The second chapter presents the literature review. It includes previous research work and article, which provides information about existing knowledge in the field. The third chapter is devoted to research methods including research plan and design, description of sample, instrumentation, sources of data collection and analysis plan. It has included theoretical framework that deals with dependent and independent variable. Fourth chapter includes the presentation of data so collected from secondary sources. For the data presentation, different table and diagrams are used. After the presentation of data, the presentation analyzed using various statistical tools and techniques. Similarly, it includes the analysis, interpretation of the data and information collected through survey. Chapter five includes the conclusions and implications that may be valuable to banking industry. Mergers and Acquisitions have become the most widely used business strategy of restructuring and strengthening bank to achieve competitiveness, to ensure long term existence with considerable profitability to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy 2011 and monetary policy 2020 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry. From the analysis of before and after merge of the banks data, the financial position of both banks after merger have fruitfully and it is also found that after merger the company position was being strong.

The study investigates the impact of mergers and acquisitions (M&A) on various financial performance metrics of companies. The analysis focuses on the correlation between Return on Assets (ROA) and several financial indicators, including Earnings per Share (EPS), Market Price per Share (MPS), Non-Performing Loans (NPL), Dividend per Share (DPS), and Price-to-Earnings (PE) ratio.

The findings indicate that the impact of mergers on financial performance varies significantly across different banks. Siddhartha Bank experienced a decline in profitability and liquidity post-merger, despite improvements in its capital adequacy and a reduction in non-performing assets. This suggests challenges in maintaining profitability and managing financial conditions after the merger. In contrast, Global IME Bank showed substantial improvements in profitability metrics, capital adequacy, and dividend payouts, reflecting successful post-merger integration and enhanced financial stability. However, the bank's liquidity saw a slight decline. Prabhu Bank faced notable difficulties, with decreased profitability, increased non-performing assets, and reduced dividends post-merger, pointing to significant challenges in financial performance and stability. Overall, while some banks achieved positive results from mergers, others encountered substantial setbacks. The post-merger analysis reveals several key changes: the correlation between ROA and ROE strengthened significantly, indicating improved alignment in profitability measures. ROA's relationship with EPS weakened slightly but remained strong. Liquidity's effect on ROE shifted from negative to positive, suggesting a less adverse impact on profitability. CAR's role remained minimal. Non-Performing Assets (NPA) showed a shift from positive to weakly negative correlations with profitability, and a new significant negative correlation emerged between Dividends Per Share (DPS) and NPA, indicating that higher non-performing assets are associated with lower dividends. These findings reflect notable shifts in financial dynamics following the merger.

Overall, the study finds mixed results regarding the impact of M&A on financial performance metrics. Some variables show significant relationships with ROA, while others do not, reflecting the complex nature of M&A impacts on financial outcomes.

5.2 Conclusion

The study concluded that the impact of mergers on financial performance varies significantly across different banks. While Global IME Bank experienced notable improvements in profitability and capital adequacy following its merger, both Siddhartha and Prabhu Banks faced challenges. Siddhartha Bank saw a decline in profitability and liquidity, while Prabhu Bank struggled with increased non-performing assets and reduced earnings per share. These results underscore the complexity of mergers, suggesting that while they can offer growth opportunities, they also carry risks that need careful management. In conclusion, the analysis of pre-merger and post-merger financial correlations reveals significant changes in the banks' financial dynamics. The merger has strengthened the alignment between Return on Assets (ROA) and Return on Equity (ROE), indicating enhanced profitability performance consistency. While the relationship between ROA and Earnings Per Share (EPS) remains robust, it has slightly weakened post-merger. The shift from a negative to a positive correlation between Liquidity (LQ) and ROE suggests improved impacts of liquidity on profitability. Capital Adequacy Ratio (CAR) continued to have minimal influence, while the correlation between Non-Performing Assets (NPA) and profitability metrics changed from positive to weakly negative, reflecting altered asset quality impacts. Additionally, the significant new negative correlation between Dividends Per Share (DPS) and NPA highlights the merger's impact on dividend distribution. Overall, these findings illustrate how the merger has reshaped financial relationships, indicating both improved and altered dynamics in profitability, liquidity, and asset management.

Future research should focus on the specific integration strategies used by banks and their effects on financial metrics, as well as the long-term outcomes of mergers. Longitudinal studies could provide a clearer picture of how initial post-merger performance evolves over time. Additionally, examining sector-specific and geographic contexts may reveal unique factors influencing merger outcomes. Comparative analyses of banks that have and have not undergone mergers could also shed light on the relative benefits and drawbacks of such corporate strategies. Addressing these areas will help in understanding the nuanced effects of mergers and aid banks in making informed decisions about future mergers or acquisitions.

In conclusion, the study demonstrates that mergers have had mixed impacts on bank performance. Global IME Bank showed overall improvements in profitability and capital strength post-merger, while Siddhartha and Prabhu Banks experienced declines in key financial metrics such as profitability and asset quality. These findings highlight the complexities and potential risks associated with mergers, emphasizing the need for careful strategic planning and execution. Future research should further explore the factors influencing these outcomes to better understand how to achieve successful integration and sustained financial health.

5.3 Implications

The findings of this study have significant implications for both financial institutions and stakeholders involved in mergers and acquisitions. For banks, the results underline the importance of thoroughly assessing merger impacts on various financial metrics, including profitability, capital adequacy, and dividend policies. Banks must focus on effective integration strategies and management of post-merger challenges to maintain or enhance financial performance. For investors and regulators, these insights stress the need for careful scrutiny of merger plans and post-merger performance to ensure that expected benefits are realized and risks are mitigated. Future studies should delve into the specific factors that contribute to successful or problematic mergers to guide better decision-making and strategic planning in the financial sector.

- **Preparation:** Prepare employees for change. **Planning:** Make contingency plan if things don't go according to plan. **Transition Structure:** Create transition management that will oversee the changes. **Implementation:** Provide appropriate trainings, coaching etc. for employees involved.
- **Reward:** Create incentives for special effort by celebrating those employees who lead the change.
- **Process Innovation and leverage:** Management should be flexible enough to change processes and procedures if they are not working.

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ABSTRACT The objective of study is to investigate whether the financial performance of the selected merger and acquisition commercial banks improve after the merger. The purpose of the study to identify the effect of merger and acquisition on return on assets and return on investment of Siddhartha Bank Limited, Global IME Bank, & Prabhu Bank, examine the effect of merger and acquisition on earning per share and market price per share of Siddhartha Bank Limited, Global IME Bank, & Prabhu Bank. It also measure the impact of merger and acquisition of Siddhartha Bank Global IME Bank and Prabhu Bank Limited. The research design of the study is descriptive and casual.

The research has touched upon some of the important human issues in mergers and acquisitions and thrown some light on managing the human resource responses as well. Employees seem optimistic regarding the feature of bank . The researchers suggests for participatory management concept by anticipating and collecting feedback from employees of merging entities; and it may support in implementing effective merger and acquisition policy in Nepal. The

post-merger performance compared to pre-merger performance witnessed some instability due to the difference in net earnings.