

IMPACT OF MERGER & ACQUISITION ON PRODUCTIVITY GAIN IN NEPALESE BANKING INDUSTRIES

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CERTIFICATE OF AUTHORSHIP

I hereby attest that I have completed my dissertation research and sent in the completed manuscript, "**IMPACT OF MERGER & ACQUISITION ON PRODUCTIVITY GAIN IN NEPALESE BANKING INDUSTRIES.**" This dissertation has never been recommended or offered as a prerequisite for any other academic purpose, nor has it ever been submitted with the intention of awarding degrees. My assistance and participation with this research effort have been acknowledged. Additionally, I attest that the reference section of the dissertation accurately cites all information sources and literature consulted.

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REPORT OF RESEARCH COMMITTEE

Ms. Tilkanya Acharya has defended research proposal entitled “**IMPACT OF MERGER & ACQUISITION ON PRODUCTIVITY GAIN IN NEPALESE BANKING INDUSTRIES**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Joginder Goet Submit the thesis for evaluation and viva-voce examination.

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ABBREVIATIONS

CAR	:	Capital Adequacy RATIO
EMT	:	Economic Motive Theories
GPM	:	Gross Profit Margin
MA	:	Mergers and Acquisition's
MOU	:	Memorandum of Understanding
NPT	:	Net Profit Margin
NRB	:	Nepal Rastra Bank
OPM	:	Operating Profit Margin
PPE	:	Profit per Employee
RBS	:	Royal Bank of Scotland's
RBV	:	Resource Based View
ROA	:	Return on Assets
ROCE	:	Return on Capital Employed
ROE	:	Return on Equity

ABSTRACT

With a focus on Siddhartha Bank Limited and Machhapuchhre Bank Limited, this study examines how mergers and acquisitions (M&A) affect productivity improvements in Nepal's banking industry. The goal is to evaluate improvements in productivity, profitability, liquidity, and operational efficiency after the merger, as prompted by Nepal Rastra Bank's 2011 merger policy. In particular, this research looks at liquidity ratios, staff productivity, and profitability measurements, adding to financial theory and real-world banking management in Nepal.

The research employs a descriptive and analytical research design, relying on secondary data extracted from financial statements covering five years before and after each merger. Key financial ratios such as Return on Equity, Operating Profit Margin, and Liquidity Ratios were used to evaluate changes in performance across both banks. The sample consists of two merged entities selected through systematic random sampling from a population of twelve commercial banks involved in mergers, specifically focusing on Machhapuchhre Bank (merged in 2012) and Siddhartha Bank (merged in 2015). This sampling provided a representative view of the sector-wide impact of mergers on operational and financial metrics.

Findings reveal that Siddhartha Bank demonstrated considerable improvements in profitability ratios and operational efficiency post-merger, with significant gains in Return on Capital Employed and Earnings per Share. However, Machhapuchhre Bank faced challenges in profitability post-merger, despite gains in liquidity and productivity metrics such as deposits and business per employee. This study underscores the complex nature of mergers, emphasizing that outcomes vary based on integration strategies and resource management. These insights offer valuable guidance for Nepalese bank managers and policymakers working to enhance merger success and sustain productivity in an evolving financial landscape.

Keywords: *mergers and acquisitions, Nepalese banking sector, Siddhartha Bank, Machhapuchhre Bank, productivity gains, profitability, liquidity, operational efficiency.*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the corporate world, mergers, acquisitions, and combining have long been essential. The main goal of businesses in the current dynamic economic climate is to maximize shareholder value. Businesses may get a competitive advantage and eventually increase shareholder value via mergers and acquisitions. In a merger, two businesses are combined into one, and one of them loses its unique character. In a typical merger, securities are exchanged, and after the transaction, only one business is left (Kishore, 2009).

"An acquisition is a transactions in which a person or business, referred to as the offer or (or acquirer), obtains control of the assets and management of another business, referred to as the offeree (or target), either directly by acquiring the shares or indirectly by becoming the owner of these assets" (Firer et al., 2004). Buying the target company's shares and/or assets is one way to complete an acquisition. Another acquisition method that may be used alternately is a takeover. A takeover usually occurs without the consent of the target companies and is hostile and aggressive in character. When both firms agree on becoming a part of one another, acquisitions are easier. (Firer-Ross-Westerfield-Jordan, 2004; Ross et al., 2003).

Shrestha (2012) claims that when the Nepal Rastra Bank, which oversees and regulates all BFIs, released merger bylaws in May 2011, the idea of M&A was completely new to the country's banking and financial institutions (BFIs). "Nepal Rastra Bank has been preparing for this for years" (Gyanwali 2011). Since there were no distinct acts or decrees for the execution of a merger, many people were skeptical that the BFIs would combine right away. By lowering the number of institutions, the merger bylaws aim to improve the BFI's performance and standing. One clause in the merger bylaws has the power to compel all BFIs to pursue an immediate merger via consolidation (Nepal Share Bazar, 2013).

Due to regulatory changes and the need for financial stability, merger activity in Nepal's banking industry has significantly increased. In order to decrease the number of banks, improve financial stability, and cultivate public confidence, the Nepal Rastra Bank (NRB) implemented the Merger by Law, 2068 (NRB, 2011). The goal of these mergers is to build bigger, stronger financial organizations that can provide more services at lower operating costs. Larger banks may provide goods and services at reduced operational costs by achieving economies of scale and scope due to their greater resources (Zuhri et al., 2020). According to NRB (2011), bank consolidation is seen as a tactic to strengthen the financial sector's resilience to competitive markets.

Because they eliminate overlapping services, realize economies of scale, and make better use of cutting-edge financial instruments, bank mergers are often seen as sources of efficiency benefits. These claims must be carefully considered, however. The majority of previous study has been on voluntary or market-driven mergers, in which the merging firms must consent to the procedure. When two or more banks combine voluntarily, they create a new, united organization without the boards' and shareholders' objections (Zuhri et al., 2020). Mergers may result in decreased credit availability and anti-competitive conduct despite the possible advantages, underscoring the need of strict regulatory control (Sharma, 2018). Key performance indicators from the banking industry include capital sufficiency, asset quality, management effectiveness, earnings effectiveness, and liquidity. Assessments take place on two levels: externally by credit rating firms and internally by management and regulators. The emphasis of regulatory and supervisory rating systems is on internal performance, guaranteeing adherence to regulatory requirements and upholding appropriate bank operations. Only bank management has secret access to these internal ratings. On the other hand, banks are publicly assessed and rated by external credit rating organizations, which provide investors and the general public vital information. A consistent and unambiguous image of the bank's state must be presented by both internal and external ratings in order to provide management and investors with trustworthy information.

The terms merger, consolidation, acquisition, and takeover are a little unclear. As a result, the terms are often interchangeable and comparable (Sherman-Hart, 2006). According to the definition of merger, the fundamental idea of mergers and

acquisitions is to increase corporate profits in order to maximize shareholder benefit. But in commercial contexts, each phrase has a somewhat different connotation. Combining businesses of about the same size to create a new business is known as a merger. Usually, a merger occurs amicably, and all parties involved in the new business split the profits equally. Expansion of corporate activities is the main goal of a merger. On the other hand, acquisitions are when one business buys out another business using stock or assets. An acquisition is often made when business earnings are steadily declining and the economy is in a recession. Firer et al. (2004).

The handling of acquisitions between businesses is another important distinction between a merger and an acquisition. It is possible to complete an acquisition without the target company's mutual approval. Generally speaking, larger, more powerful firms tend to operate more superficially than weaker ones. When two businesses combine, the agreement is amicable and both sides split the same portion of the profit and ownership. (Firer et al., 2004; Ross et al., 2003).

Different company strategies drive the three main kinds of mergers and acquisitions. They fall into three categories: conglomerate, vertical, and horizontal. At first, each variety has its own qualities. Ross and colleagues (2003).

A company may now reinforce its core capabilities via the use of mergers and acquisitions as a business strategy. As the legal, political, economic, and social landscapes evolve, so do the variables influencing mergers. Businesses participate in mergers and acquisitions for a variety of financial motives. The most frequent reasons for mergers and acquisitions include tax benefits, cost savings, revenue increase, and synergy.

Although merger attempts have increased, there aren't many thorough studies looking at how they affect Nepalese commercial banks' productivity gains. By examining commercial banks' financial metrics before and after mergers, with an emphasis on cost effectiveness, economies of scale, and overall productivity, this study seeks to close this gap. Government officials, regulators, investors, and industry practitioners are among the stakeholders in the banking sector who must comprehend how mergers affect productivity gains (Sharma, 2018).The research's conclusions may help direct

investment plans, streamline regulatory changes, and influence strategic decision-making processes. Through the analysis of merger-induced shifts in productivity gain, this research seeks to provide important insights that support the banking industry's resilience, stability, and sustainable development in Nepal. The results will provide a better picture of how mergers have affected productivity improvements in the Nepalese banking sector by assisting in determining if they have really improved the operational effectiveness and financial stability of commercial banks.

1.2 Problem Statement

The study's main objective is to examine how mergers and acquisitions (M&A) affect the banking sector's productivity growth in Nepal. Bank managers and shareholders often seek mergers in the hope of increasing financial efficiency and profitability, but the results of the study that has been done so far are conflicting and unclear. There is a great deal of ambiguity about the long-term consequences of mergers on development and profitability in Nepal, where they are a relatively recent phenomena in the banking and financial institutions (BFIs).

While some studies reveal no discernible increase in financial performance after a merger, others indicate that amalgamated banks outperform their separate pre-merger companies. For example, Shah & Khan (2017) found that after acquirer bank mergers, profitability measures including Return on Equity (ROE) and Return on Assets (ROA) decreased. Additionally, they observed a decline in capital stability and liquidity ratios, which pointed to negative post-merger effects.

In a similar vein, Shrestha et al. (2017) found that Nepal's BFIs' performance changed significantly before and after mergers. Even while mergers are a common way to improve performance in the global banking industry, there is still a conundrum where acquisitions often have conflicting effects on different stakeholders. owners of acquiring corporations usually suffer from underperformance in share prices after acquisition, but owners of target firms may realize short-term advantages. By investigating the precise effect of M&A operations on the general financial health of Nepal's commercial banks, this research seeks to resolve these discrepancies and close the current information gap. By doing this, it aims to provide insightful information

on whether mergers have a beneficial impact on the sector's long-term development and profitability. The following questions are addressed in this research.

- i. What are the factors of mergers on the productivity and profitability of the sampled banks in Nepal?
- ii. What are the strengths and weaknesses of the merged banks in Nepal, and what improvements have been experienced by the beneficiaries?
- iii. How have mergers affected the liquidity, profitability, and capital adequacy of Nepalese commercial banks before and after the merger?

1.3 Objectives of the Study

Every research should have a well-defined and specific goal. It must emphasize the study's goal. The study's primary goal is to analyze how mergers affect banks' increased efficiency. The study's particular goals are:

- i. To assess the factors on the Productivity and Profitability of the sampled Banks in Nepal.
- ii. To examine the strength and weakness of the merged banks in Nepal and find out the Improvements faced by the beneficiaries
- iii. To evaluate the impact of merger on liquidity, profitability and capital adequacy before and after in Nepalese commercial banks.

1.4 Hypothesis of the Study

A set of hypotheses served as the foundation for the investigation. The research is possible to examine the effects of mergers and acquisitions in commercial banks with the use of hypotheses. The following theories were developed in order to test the aforementioned goals.

H_0 = There is no significant difference between the pre-merger and post-merger productivity gain of Machhapuchchhare bank and sidhartha bank of Nepal

H_1 = There is significant difference between the pre-merger and post-merger productivity gain of Machhapuchchhare bank and sidhartha bank of Nepal

1.5 Rationale of the Study

Taking into account the significant financial and non-financial resources usually involved in these procedures, the purpose of this research is to examine the true effect of mergers and acquisitions (M&A) on the productivity increase of Nepal's

commercial banks. Policymakers looking to set guidelines for M&A activity in the banking industry must comprehend this effect. The results may guide more efficient approaches for regulatory frameworks and operational leadership in Nepalese banks by illuminating the ways in which M&A impacts the administration of liquidity and overall firm performance.

Additionally, present investors, bank clients, and other stakeholders in the cutthroat banking sector stand to gain important information from this study. It aims to advance knowledge of how mergers affect financial results and customer experiences, both of which are crucial in determining strategic choices and market perceptions.

The study also lays the groundwork for future investigations, especially for scholars and professionals who want to examine the empirical data and theoretical foundations of M&A in commercial banks. Managers and executives in the banking industry might improve their ability to make strategic decisions by using the insights gained from the performance study of recently combined firms. In the conclusion, this study aims to close current research gaps and provide a point of reference for next financial sector merger and acquisition studies, enhancing the larger conversation on the complexities of corporate reorganization and its ramifications.

1.6 Limitation of the study

The research looks at how mergers affect Nepal's commercial banks' increased productivity. But it has certain drawbacks.

- i. The research looks at how mergers affect Nepal's commercial banks' increased productivity. But it has certain drawbacks.
- ii. This study only uses secondary data from Siddhartha Bank Limited's and Machhapuchhre Bank Limited's annual reports. Because data from other banks and financial institutions that have amalgamated with these banks are excluded, the correctness of the available yearly reports determines how reliable the findings are.
- iii. Only information from Machhapuchhre Bank Limited and Siddhartha Bank Limited is taken into account for pre-merger data. Not included are data from other banks and financial organizations that have amalgamated with these banks.

- iv. Since the study focuses on banking and financial institutions (BFIs), it may not be generalizable to other areas of the Nepalese business community.
- v. The validity of the statistical analysis may be impacted by the study's failure to verify the paired sample t-test assumptions.
- vi. The research ignores other crucial performance indicators like risk and cash flow, which might provide a more complete picture of financial success, in favor of concentrating on productivity ratios, which are often assessed by the ratio of outputs to inputs.

CHAPTER II

LITERATURE REVIEW

We carried out a thorough literature analysis with an emphasis on the fundamental causes of value in M&A versus performance results in order to provide the groundwork for our investigation into how M&A affects productivity gains in the banking sector of Nepal. Finding relevant articles, choosing those with relevant information, and assessing them to make sure they handled efficiency or value sources in the context of M&A were the three stages of our review process. This procedure assisted in establishing the goals of the study, identifying the variables being examined, and pointing out areas that need further research.

The recorded literature on M&A's impact on banks' productivity is covered in this part, along with specific empirical studies that are pertinent to our investigation. It offers a succinct background for comprehending the topic. The voluntary combination of two businesses on equal terms to form a new legal entity is known as a merger, and it is often done to expand market share, save expenses, and boost profits. In an acquisition, one company purchases a majority stake in another in order to get competitive and operational benefits. M&A operations are strategic choices for business reorganization that facilitate greater competitiveness, quicker development, and market expansion. Understanding the differences between acquisitions (dominated by one company) and mergers (voluntary and collaborative) is essential to comprehending how they affect competitiveness and productivity.

2.1. Conceptual Review

The fundamental idea of a connected topic, such as mergers and acquisitions, the distinction between mergers and acquisitions, mergers by legislation, etc., is referred to as a theoretical review. It makes the true meaning and aspects of mergers and acquisitions clear and simple to comprehend.

2.1.1 Difference between Mergers and Acquisitions

The terms merger, consolidation, acquisition, and takeover are a little unclear. Because of this, the terms are often interchangeable and similar. (Hart and Sherman, 2006).

According to the definition of merger, the fundamental idea of mergers and acquisitions is to increase corporate profits in order to maximize shareholder benefit. But in commercial contexts, each phrase has a somewhat different connotation. Combining businesses of about the same size to create a new business is known as a merger. Usually, a merger occurs amicably, and all parties involved in the new business split the profits equally. Expansion of corporate activities is the main goal of a merger. Acquisitions, on the other hand, are when one business buys out another business in the form of stock or assets. Acquisitions are often made when business earnings are steadily declining and the economy is in a recession. (Ross and others, 2003).

The handling of acquisitions between businesses is another important distinction between a merger and an acquisition. It is possible to complete an acquisition without the target company's mutual approval. Generally speaking, larger, more powerful firms tend to operate more superficially than weaker ones. When two businesses combine, the agreement is amicable and both parties split the same ownership and profit ratio (Firer et al., 2004).

2.1.2 Types of Merger and Acquisition

Different company strategies drive the three main kinds of mergers and acquisitions. They fall into three categories: conglomerate, vertical, and horizontal. At first, each variety has its own qualities. (Ross and others, 2003).

Horizontal Mergers

Combinations between two or more rival companies in the same industry are known as horizontal mergers. According to Gaughan (2002), a horizontal merger may be challenged on antitrust grounds if it results in an increase in market dominance for the merged company that would have an anticompetitive impact. When two tiny

businesses band together to get a competitive edge over their rivals, the horizontal merger has ripple effects in addition to market dominance. (Ross and others, 2003)

In Nepal, horizontal acquisitions have been the most significant and common kind of merger. Twenty sets of horizontal mergers between financial and banking firms have occurred in Nepal's financial industry. It would be a horizontal merger between the banks. (Bank Supervision Report, Annual, 2012).

Vertical Mergers

A vertical merger is the term used to describe the growth of businesses brought about by either the development of vertical operations by businesses or mergers between two businesses active at different stages of the manufacturing process. Wilson and Lipczynski (2004). Businesses go for vertical mergers in order to increase supply chain efficiency and boost profitability via economies of scale.

Conglomerate Mergers

When there are no buyer-seller relationships and the firms are not rivals, a conglomerate merger takes place. As an example, consider the tobacco corporation Philip Morris, which paid \$5.6 billion to purchase General Foods in 1985. Gaughan (2002).

2.1.3 Merger by Laws of NRB 2011

By 2010, the banking and financial industries in Nepal were going through a highly important time. Nearly one-third of Nepalese BFIs are characterized by excessive liquidity, high operational expenditures, insufficient working capital, unhealthy competition, and poor management, according to a 2008 study by the International Monetary Fund. The BFIs' third-quarter balance sheet reveals that, with a few exceptions, all banks' earnings have decreased while the proportion of problematic loans has been rising. In addition to lowering bank profits, the persistent political unrest and future uncertainties have also made investors less inclined to fund new initiatives. It has resulted in a low demand for large-scale project financing. As a result, banks are under more and more pressure to either engage in the riskiest industries, such as real estate and housing, or to fail to manage their capital in order to create more income. 2011's New Spotlight News Magazine.

The sad situation of the BFIs was starting to worry the Nepal Rastra Bank, which was the primary organization of all the BFIs. In order to strengthen the financial sector, the Central Bank introduced the Merger Bylaw 2011, which was based on Article 177 of the Company Act 2063 and Articles 68 and 69 of the BAFIA 2063, which require all BFIs to combine immediately as a consolidation. The Nepal Rastra Bank did not want to combine; rather, it was a forced tactic to boost capital and fortify their ability to compete in the market. If not, a lot of BFIs could have to perish. Gautam (2012).

2.1.4 Guidelines and Conditions for Opting Merger Bylaws 2011

The Nepal Rastra Bank has determined three criteria that it may use to compel the BFIs to combine right now. The first requirement is that BFIs run and owned by the same family, relatives, or groups shall be deemed to have merged. If the BFIs are owned by the same family, relatives, or organizations, the central bank will require them to combine. According to the central bank's Merger Bylaws policy, if the BFIs are run by a single family group, the central bank may be able to convince them to combine. Likewise, in accordance with the second requirement, in the event of a capital shortage, the central bank will compel such BFIs to combine. Development banks and commercial banks are required to keep a minimum capital adequacy ratio (CAR) in accordance with NRB banking and financial institution laws. To ascertain the bank's ability to satisfy time obligations and other risks, including credit and operational risk, a CAR is necessary. The BFIs will be forced to combine in order to shore up their capital and improve their competitive performance if they are unable to sustain a CAR that the NRB has set. Subedi (2012).

Major Provisions of Merger Bylaws 2011

The New Business Age (2013) states that the major provisions of Merger- Bylaws laid by the NRB are: -

- i. While financial institutions of the A, B, and C classes are able to combine with one another, those of the D class are only able to do so with other financial institutions of the same class.
- ii. BFIs that want to combine should execute a memorandum of understanding (MOU) and assign distinct merger committee from their annual general meetings.

- iii. Before submitting an application for a Letter of Intent (LOI) to Nepal Rastra Bank, the proper procedure, which includes an MOU, should be supported by an action plan. After receiving the LOI application, the NRB shall schedule a meeting within 15 days.
- iv. After meeting discussions and a thorough analysis of the relevant financial institution, the NRB has the authority to decide whether or not to approve the LOI.
- v. Within six months after obtaining a letter of intent from the central bank, a due diligence audit must to be completed.
- vi. The NRB shall receive a thorough assessment of the relevant institutions' assets, liabilities, and transactions.
- vii. Copies of the final decision pertaining to the names, addresses, and share ratios of the relevant BFIs should be sent to the NRB.

2.2 Theoretical Review

The objective of the theoretical literature review is to differentiate between different theories that explain mergers and acquisitions (M&A), how they relate to one another, and the scope of empirical research. This framework offers a better comprehension of the research challenge and aids in the development of new hypotheses. Numerous theories have been put up to explain the reasons behind and effects of M&A, each providing a distinct perspective on why businesses participate in these activities and the results they might anticipate. A thorough analysis of these ideas is necessary to comprehend the phenomenon being studied and to support the ongoing investigation into how M&A affects productivity increases in the banking sector of Nepal.

Economic Motive Theories (EMT): assert that economic considerations such obtaining economy of scale, competitive advantage, and diversification are the main drivers of mergers and acquisitions. According to these beliefs, businesses use M&A to improve their competitiveness and economic efficiency. According to Shams and Gunasekarage (2016), a company's long-term operating performance after an acquisition often exhibits inconsistent outcomes, suggesting differing degrees of effectiveness in achieving operational synergies. In a similar vein, Martynova, Oosting, and Renneborg (2006) examined 155 mergers and acquisitions in Europe and

found that, although not always statistically significant, post-acquisition profitability increased somewhat.

Theory of Synergy, encompassing Profitability and Operating Synergy: implies that the goal of mergers is to pool resources and skills in order to increase productivity and profitability. The total may be more than the sum of its parts, according to this principle. The idea of operational synergies in M&A transactions was supported by Kaur and Kaur's (2010) research of Indian commercial banks using data envelopment analysis, which revealed that combined enterprises had greater operational efficiency. The Financial Synergy Theory is highlighted by Ghosh and Jain (2000), who show how mergers may result in higher financial leverage and possible gains in financial performance. They noted that mergers often lead to major adjustments in the acquiring companies' financial structures, which might improve their performance and financial stability.

Tax Incentive Hypothesis Theory: implies that possible tax benefits are a driving factor for certain mergers and acquisitions. In order to maximize their tax responsibilities via restructuring, acquiring companies may participate in M&A transactions. This theory emphasizes how businesses may use mergers and acquisitions to attain tax efficiency, underscoring the significance of tax concerns in corporate strategy. Businesses may be able to reduce their tax obligations and enhance their overall financial performance by restructuring their company structure.

Managerial and Agency Motives: as explained by Kemal (2011), suggest that managers could want to acquire companies in order to increase their own wealth or job security, sometimes at the cost of the interests of shareholders. The possibility of conflict between directors and shareholders is highlighted by this agency motivation, since management incentives may deviate from the objective of maximizing shareholder value. This idea states that managers may make acquisitions in order to expand the size of the company they oversee, which would improve their own authority and income. Decisions that are not always optimal for the shareholders may result from this.

Market Power Theory: recommends that businesses use M&A to expand their market share and lessen competition. Businesses may improve their market position and exercise more influence over pricing and market dynamics by acquiring rivals or breaking into new markets. According to this view, M&A is a strategic instrument for obtaining a competitive edge. Stronger market presence and increased profitability are two benefits of increased market power, which makes it an attractive incentive for M&A activity. In conclusion, these theories provide a thorough framework for comprehending the motivations behind and results of mergers and acquisitions. They draw attention to the complex aspects of M&A, which include market power dynamics, tax optimization, management incentives, economic rationality, and synergy realization. These theoretical stances provide insights into the reasons for M&A as well as its possible consequences on firm performance, laying the foundation for empirical studies into how M&A affects improvements in productivity in the banking industry of Nepal.

Resource-Based View (RBV): The resource-based view (RBV) provides a further rationale for M&A activity from the standpoint of strategic management. According to the RBV, businesses want to buy out other businesses in order to get unique and valuable resources that are difficult to generate in-house. These resources might be intangible (like patents, branding, or specialized expertise) or tangible (like technology or physical assets). According to Barney (1991), businesses may strengthen their competitive edge by purchasing businesses with special resources or skills. This will make it simpler for them to adjust to market circumstances that are changing quickly or to competition challenges. In sectors where development and proprietary assets are essential to competitive success, such as technology or medicines, this approach to M&A is especially pertinent. Many technology companies, for example, seek acquisitions in order to acquire new patents, intellectual property, or technical skills that would need years to build on their own. Since the effective transfer and integration of significant resources may determine the acquisition's long-term success, the RBV theory emphasizes the significance of the tactical fit between the acquiring and target organizations.

Market Power and Competitive Advantage: According to the market power hypothesis, companies buy and sell to increase their price power, decrease

competition, and gain market domination. More market concentration may result from horizontal mergers in particular, giving the newly created company more influence over distribution routes, supply chains, and prices. Businesses may find it simpler to regulate pricing if there are fewer rivals, which might result in higher profit margins. Furthermore, according to Porter's Five Forces Model, purchasing companies can aim to strengthen their negotiating position with clients and suppliers or erect obstacles to entrance for possible rivals. The goal of economies of scope, where the merged company can provide a greater variety of goods or services and use its increased market presence to bargain for better terms with suppliers and consumers, often motivates this M&A strategy. However, since they may result in monopolistic conduct and unfair competition, regulatory agencies often examine mergers driven by market power. For businesses considering mergers to improve their competitive stance, the danger of regulatory involvement is a crucial factor, particularly when M&A results in a dominating market position.

Behavioral Finance and Overconfidence: This new area of behavioral finance highlights the importance of psychological considerations in M&A choices. According to this viewpoint, mergers are sometimes the product of cognitive biases like overconfidence, optimism, or herd mentality rather than logical economic calculations. For instance, managers may get overconfident in their capacity to carry out successful mergers during economic booms, which might result in a spike in M&A activity even when the economic fundamentals do not support such deals. This pattern was most noticeable during the late 1990s dot-com boom, when tech firms made several acquisitions in spite of little indications of possible profitability or synergies. Herding behavior, which is often seen in M&A markets, is a reflection of managers' propensity to copy rivals or follow trends, which raises values and fuels potentially unwise purchase sprees. Behavioral finance has become more well-known over time as a means of understanding why certain M&A transactions, even when financially illogical, go through because of management psychology or transient market forces.

Challenges and Risks in M&A: Although M&A is a popular growth strategy in theory, there is conflicting actual data about its effectiveness. According to a number of research, most M&A transactions don't provide the anticipated advantages.

According to a well-known KPMG (1999) research, 83% of mergers don't boost shareholder value, underscoring the huge risks involved in these kinds of deals. Post-merger integration is one of the main obstacles, especially when it comes to preserving key personnel, coordinating activities, and bringing corporate cultures into alignment. Employee opposition to mergers that disregard the cultural fit between the two companies often results in high turnover rates, low morale, and poor productivity. Furthermore, the acquirer's financial resources may be strained if they overpay for the target company, which is often the result of overconfidence or aggressive bidding, making it difficult to get a return on investment. Problems with valuation also occur, particularly when businesses overemphasize anticipated synergies without properly taking integration's costs and complexity into consideration. Regulatory obstacles may sometimes cause delays or even derail mergers, especially in cross-border M&A. The deal is further complicated by the fact that antitrust regulators examine mergers for possible market dominance or anti-competitive activity.

2.3 Empirical Review

Wangui (2007) investigated on mergers among Kenyan commercial banks, the main goal of these mergers was to gain market share and improve their financial standing in the marketplace. investigated the post-merger financial performance of commercial banks and found that, despite certain ratios declining, major financial metrics improved with no legislative requirement. Significant anomalous profits for investors trading in acquiring firms were identified in both investigations. They also pointed out that, despite their improved profitability, Kenyan financial institutions had trouble with liquidity, solvency, and growing operational costs before mergers. However, these indicators saw a considerable improvement after the merger, improving overall financial performance.

Mantra et al. (2008) investigated whether horizontal, vertical, and conglomerate mergers were successful in improving the performance of the merging companies. Three years before to and five years after mergers were used in the research to evaluate pre- and post-merger performance using financial measures such operating profit margin, net profit margin, and return on capital employed. According to the data, which were examined using paired t-tests, horizontal mergers caused the biggest drop in performance during operations, followed by conglomerate and vertical

mergers. The research came to the conclusion that when the merged post-merger company is worth more than the total of the pre-merger businesses, shareholder value rises.

Altunbas and Marques (2008) investigated the effect of bidders' and targets' strategic similarity on post-merger financial performance in European Union bank mergers. Improved returns on capital after mergers were revealed by the research, which analyzed a large sample of bank mergers connected with private bank accounting data, especially in cross-border mergers. Although there were significant disparities between domestic and international mergers across strategic dimensions, the findings indicated that strategic a connection between merging partners typically resulted in improved performance.

Ndora (2010) investigated financial performance for five years before to and after the mergers using profitability, solvency, and capital adequacy measures Six businesses that combined between 1995 and 2005 were examined in order to learn more about the financial achievements of Kenyan insurance firms after the merger.. The results demonstrated significant post-merger gains. Ndora also looked at businesses that were listed on the Nairobi Stock Exchange and came to the conclusion that mergers have a beneficial impact on financial performance metrics like profits per share (EPS) and dividends per share (DPS), which boosts investor confidence and fosters synergy.

Sinha (2010) examined how mergers affected the banking industry's financial efficiency between 2000 and 2008. The purpose of the research was to assess the impact of mergers on financial performance, specifically with regard to liquidity situations and shareholder profits. Sinha used ratio analysis and the Wilcoxon signed-rank test to find that, although liquidity situations were mostly the same after mergers, shareholder profits varied significantly. The study found that mergers and improved financial performance were positively correlated over the long run, indicating that acquiring companies were able to create more value after the merger. The effect of mergers was assessed using key financial measures such operating profit margin and return on net worth, which showed slight differences in operational performance that seemed to be related to the relative sizes of the merging companies. Overall, the results indicate that while mergers may increase shareholder profits, the impact on

liquidity and overall operational effectiveness may differ based on the size of the participating companies.

Kemal (2011) investigated to analyze how the Royal Bank of Scotland's (RBS) 2006–2009 merger with ABN AMRO affected the company's financial performance in Pakistan. According to the analysis, the merger had no positive effects on cash flow, leverage, asset management, profitability, or liquidity. The fact that metrics like Return on Equity (ROE) and Return on Assets (ROA) were unchanged indicates that the anticipated financial efficiencies were not achieved. RBS's ongoing cash management issues were shown by the liquidity ratios, which showed little to no improvement. Additionally, there were no notable changes in asset management or leverage efficiency, which did not improve the bank's capacity to use assets or successfully manage debt. As seen in this instance, when RBS was unable to use the combination to increase its operational efficiency or financial metrics, the results led to the conclusion that mergers do not always result in better financial performance.

Bakari (2011) investigated the effect of mergers on Kenyan commercial banks' profitability from 1994 to 2010 using important financial metrics such as return on equity (ROE) and return on assets (ROA). The research indicated that mergers lead to greater profitability in the five years after the consolidation, indicating higher operational efficiency and superior financial performance. The increase in ROA and ROE indicated that the banks were better equipped to make money off of their equity and assets after the merger. Furthermore, Bakari's results aligned with a related research on the recapitalization of Nigerian banks, which similarly showed significant increases in capital adequacy and a decrease in risk after recapitalization initiatives. Whether in Kenya or Nigeria, both studies showed that mergers strengthened banks' financial situations, allowing them to function more efficiently, lower operational risks, and preserve healthier capital bases in the years after the merger.

Joshua (2011) investigated a thorough examination of Nigerian banks' post-merger financial performance, with an emphasis on important financial indicators including profit after taxes and gross profits. The research compared the financial performance of these banks before and after the merger using t-tests in SPSS and discovered that these institutions' efficiency had significantly increased after consolidation. According

to the findings, mergers and acquisitions successfully improved Nigerian banks' operating capacities, enabling them to produce more revenues and profits in the years after the merger. This study demonstrated that merger activity and financial efficiency are positively correlated, indicating that the consolidation process improved resource use in addition to fortifying the banks' financial standing. All things considered, Joshua's research offered insightful information on the advantages of mergers and acquisitions in the banking industry, confirming that these calculated actions may boost productivity and profitability and thus help Nigerian financial institutions remain viable over the long run.

Kivindu (2013) investigated the impact of mergers and acquisitions on Kenyan commercial banks' profitability from 2000 to 2010, offering information on the industry's consolidation patterns. According to the report, a large number of banks with inadequate capital bases decided to combine in an effort to increase their profitability and generate synergies. While the data suggested an increase in post-merger profitability, the magnitude of this gain was not statistically significant. This implies that although mergers may be a calculated strategy for financial institutions looking to improve their financial position, the results may differ depending on the particular circumstances and settings of the merging companies. The study emphasizes that in order to optimize the possible advantages of merger operations, careful preparation and analysis are essential. All things considered, Kivindu's research advances knowledge of how banking sector profitability is impacted by consolidation, highlighting the fact that while synergies may be formed, they might not necessarily have a significant effect.

Maditinos (2013) investigated the complete investigation of both the short-term and long-term consequences of bank mergers, concentrating on their implications for profitability and competition. According to the report, the combined company was more profitable and positioned as a more competitive force in the banking industry. This improvement was ascribed to a number of causes, such as resource pooling and operational efficiency, which often take place during mergers. Nevertheless, the study also noted that stock performance had no discernible impact on the overall assessment of the merger's effectiveness. External variables that might obscure the underlying financial benefits were found, including market speculation and general economic

circumstances. This suggests that while profitability measurements could increase after a merger, unrelated variables may have an impact on investor views and stock market activity, making it more difficult to determine if a merger was successful. Maditinos' results highlight how complex mergers are and how crucial it is to take into account a variety of performance metrics in addition to stock prices.

Adhikari (2014) examined the impact of mergers on banks and financial institutions in Nepal, using secondary data from 25 combined companies as well as primary data gathered from 550 respondents. The research sought to determine changes in operational dynamics, evaluate the effects of mergers on financial performance, and look into the reasons behind them. According to the results, the main goals of these mergers were to increase paid-up capital, increase operating territories, and lessen competition in the banking industry. By the third year after the merger, the research showed significant gains in key financial metrics, notwithstanding early delays in decision-making procedures. The usefulness of mergers in improving the financial health of the participating institutions was shown by positive improvements in metrics like profitability and operational efficiency. All things considered, Adhikari's study highlights the strategic significance of mergers for Nepali banks and implies that, when well planned and executed, these consolidations may provide positive financial results.

Chellasamy and Ponsabariraj (2014) investigated the assessment of merger and acquisition performance among India's scheduled commercial banks from 1999–2000 to 2010–2011. Their study's main goal was to evaluate these banks' financial performance both before and after mergers, with an emphasis on important financial metrics such profitability ratios, current ratios, return on equity (ROE), and return on assets (ROA). The researchers used a paired t-test for statistical analysis to ascertain the significance of changes in profitability and liquidity performance. Notwithstanding their careful analysis, the results showed no appreciable changes in the banks' post-merger financial performance. This suggests that while mergers are often sought in an effort to increase productivity and profitability, the real financial results may not always match projections. The research emphasizes how complicated merger deals may be and raises the possibility that stronger tactics would be required to achieve the intended performance gains.

Gupta (2015) investigated the effects of mergers and acquisitions by looking at a number of statistics, such as the chosen banks' profitability, efficiency, and performance indicators. The BOR and ICICI Bank merger and the CBOP and HDFC Bank merger were the two scenarios examined in the research. Metrics including net profit margin, return on assets, and net interest margin showed positive revisions, indicating a considerable improvement in the first case's bank performance. The credit deposit ratio, return on equity, and total income/capital employed did not, however, alter much. In the second instance, the credit deposit ratio, return on equity, return on assets, and net profit margin all saw notable increases; however, the net interest margin changed negatively after the merger.

Singh and Gupta (2015) investigated a thorough analysis that focuses on a number of important financial indicators to assess how acquisitions affect banks' financial performance. By looking at variables like Net Profit Margin, Operating Income Margin, Return on Capital Employed, and Returns on Net Worth, the main goal was to find notable variations in financial performance before to and during the merger. By using statistical analytic techniques, the researchers discovered that these financial indicators had significantly improved after the merger, suggesting that the institutions' financial health had improved. Other critical indicators, such as the debt-to-equity ratio, earnings per share, current ratio, quick ratio, and gross profit margin, likewise showed non-significant changes, according to the research. The results indicated that whereas mergers often increase certain financial performance indicators, not all metrics show significant gains. The study's last finding, which highlighted the possible advantages of mergers in the banking industry, was that the post-merger era demonstrated higher financial efficiency than the pre-merger phase.

Mungai (2015) investigated the impact of mergers and acquisitions on Kenyan financial organizations' financial results. Evaluating whether these corporate activities had a substantial impact on the financial health of the participating institutions was the main goal. The study used a causal research methodology to accomplish this, using data from 18 financial institutions over a predetermined time frame. Mungai looked at a number of financial indicators, such as profitability, liquidity, and efficiency ratios, using regression analysis with multiple variables and correlation approaches. The results showed that mergers and acquisitions did, in fact,

significantly improve the institutions' financial performance. The study demonstrated how these business tactics increased financial results and operational efficiency, supporting the idea that banking sector consolidation may improve performance and resource allocation. Overall, Mungai's research emphasizes how crucial mergers and acquisitions are as practical means of enhancing financial performance in Kenya's cutthroat banking market.

Joash and Njangiru (2015) investigated the influence of mergers and acquisitions on Kenyan banks' performance, with a focus on how they affect profitability and shareholder value. Assessing whether these corporate practices had a favorable impact on the financial results for banks participating in mergers was the aim of the research. A thorough analysis of the financial performance before to and after these transactions was provided by the data gathered from 14 banks that had merged since 2000. According to the results, mergers and acquisitions greatly raised the value of shareholders, demonstrating improved financial performance and profitability for the participating institutions. Notwithstanding these favorable results, the research underlined how crucial it is to carry out exhaustive feasibility studies before mergers and acquisitions. By minimizing the risks and maximizing the possible advantages of banking sector consolidation, these evaluations may assist institutions in making well-informed choices. All things considered, Joash and Njangiru's study emphasizes the crucial connection between mergers and Kenyan banks' financial performance.

Dhakal (2015) investigated the effects of the merger on the staff, clients, and shareholders of banks that merged in Nepal after the Nepal Rastra Bank's 2011 adoption of the merger bylaws policy. The study's goal was to assess how these acquisitions affected different stakeholders as well as the banks' overall financial performance. The results of a mix of qualitative evaluations and financial data analysis showed that, after the mergers, consumers noticed improvements in value, product options, and service quality; however, more innovation was required to improve customer happiness. The analysis found that the banks' overall performance had significantly improved on the financial front, which helped to raise shareholder value. All things considered, Dhakal's study emphasizes the necessity for ongoing innovation in the industry while highlighting the complex consequences of bank mergers on stakeholders.

Awan and Mahmood (2015) examined the effect of mergers and acquisitions on Pakistani commercial banks' performance, with an emphasis on important financial indicators to evaluate changes both before and after the merger. The study's goal was to examine the effects of mergers on investment ratios, profitability, liquidity, and solvency. The researchers used ratio analysis to make inferences using financial data from two years before and two years after the mergers. The results found that all investigated financial parameters exhibited positive improvements, showing an overall increase in profitability for banks in the short term. In particular, the research found that mergers and acquisitions improve commercial banks' financial standing, supporting the idea that smart consolidations may boost administrative efficiency and profitability in the cutthroat banking industry.

Ghosh and Dutta (2015) examined the strategic effects of M&A in the Indian banking industry, with a particular emphasis on 20 noteworthy M&A transactions that took place between 2000 and 2010. Assessing the performance improvements brought about by these mergers was the main goal, with a focus on financial and human resource (HR) metrics. To evaluate the effect on several performance measures, the researchers used a comparison technique before and after the merger. The results showed no discernible change in performance after the mergers, suggesting that the expected advantages of M&A such as increased profitability and efficiency were not achieved. This research highlights the difficulties banks have in attaining the intended results via M&A tactics, leading to a reassessment of the efficacy of such sector-wide consolidation initiatives.

Baniya and Shah (2016) examined the trend of mergers in Nepal's banking sector, with a focus on how government policy actions have helped to restructure the sector. The study's main goal was to examine the patterns and ramifications of these mergers, which have been more frequent in recent years. Using a qualitative methodology, the researchers collected information on the quantity of banking companies and their operating characteristics. According to their results, the number of financial institutions has significantly decreased, which they ascribe to government-led attempts to consolidate. Large universal banks with global operations have emerged as a result of this decline, indicating a move towards a more integrated financial environment. The research draws attention to how regulatory regulations have

influenced the development of the banking industry and poses queries about the long-term effects on industry competitiveness and customer choice.

Tamragundi and Devaraj (2016) investigated the impact of mergers on the combined banks' share price performance as well as its financial and physical performance in India. Evaluating the impact of these mergers on the overall expansion and operational effectiveness of the participating financial institutions was the study's main goal. The researchers used statistical methods including mean, standard deviation, and t-tests for their investigation using the CAMEL model, which assesses the performance of a financial institution based on Capital satisfactory, Asset quality, Management quality, Earnings, and Liquidity. The results showed that mergers are beneficial, resulting in notable enhancements to company operations and general expansion. The research highlights the benefits of mergers in improving operational and financial indicators, indicating that they might be useful tactics for banks seeking to increase shareholder value and market share.

Modebe et al. (2016) examined the impact of mergers and acquisitions on Nigeria's banking industry's performance. The study's main goal was to find out how various business tactics affected financial performance, with a special emphasis on return on assets (ROA), a metric used to gauge profitability. The research showed no discernible variation in profit performance as measured by ROA between the pre- and post-merger periods. Nonetheless, it pointed out notable shifts in other financial indicators, such capital adequacy and liquidity ratios, underscoring the intricate dynamics of mergers and acquisitions. The results indicate that mergers may have a substantial influence on other facets of financial performance, which in turn affects the overall efficacy of the Nigerian banking industry, even if they might not directly increase profitability in terms of ROA.

Shrestha and Phuyal (2017) investigated to thoroughly assess how mergers and acquisitions (M&A) affect commercial banks' financial performance, looking at all aspects of M&A and their significant impact on organizational efficacy. The study is organized around variables taken from the unified theory of acceptance, drawing on a wide range of academic publications that have examined the financial effects of M&A transactions. Important studies like those provide important insights into comparative

assessments and post-merger performance measures in Nepal's banking industry, including indicators like liquidity ratios, Return on Equity (ROE), and changes in capital structure and profitability. The goal of this research is to provide a thorough understanding of how M&A activities impact the financial results in commercial banks by combining the findings of these studies and utilizing the UTA framework. This will greatly advance the banking industry's understanding of strategic management.

Shah and Khan (2017) investigated a thorough analysis of how mergers and acquisitions affect the operational efficiency of Pakistani acquirer banks. The research focused on capital stability, liquidity, and profitability in order to evaluate the impact of 18 merger deals involving banks that are listed on the Karachi Stock Exchange. Using a quantitative approach, the researchers used important ratios to examine financial performance before and after the merger. The results showed a drop in profitability ratios after the mergers, suggesting that the banks' capacity to turn a profit from their activities had been negatively impacted. The research also found a notable decline in capital stability and liquidity ratios, which raises the possibility that mergers jeopardized the acquiring banks' financial stability. All things considered, the study emphasizes the difficulties and possible dangers connected to mergers and acquisitions in the banking industry, especially when considering Pakistan.

Shrestha and Phuyal (2017) investigated the combined banking and financial institutions' (BFIs') financial results in Nepal. Analyzing how mergers affect financial performance was the goal, with a special emphasis on the characteristics of the merging companies. The researchers used a quantitative approach to look at financial variables including loan quality and profitability both before and after the merger. The results showed that when bigger, more reliable players, such commercial banks, participated as bidders, mergers had a beneficial effect on performance. On the other hand, smaller BFI mergers often resulted in declining loan quality and had a detrimental impact on profitability. This research suggests that strategic alignment is essential for attaining targeted financial results and highlights the significance of the merging organizations' size and stability in influencing the success of mergers in the banking industry.

Shah and Dwa (2017) investigated the effect of mergers on Nepal's commercial banks' operational performance, with the aim of evaluating the ways in which these mergers impacted important operational indicators. The research used a quantitative approach, evaluating performance disparities using statistical tests and examining a variety of operational ratios obtained from secondary data of amalgamated institutions. The results showed that most combined banks' performance did not significantly increase as a result of mergers. The Machhapuchchhre Bank example, which showed significant operational improvements after the merger, was the study's exception. This suggests that a more customized method may be required for assessing the efficacy of mergers in improving performance, since the results of mergers in the banking industry might differ greatly depending on particular conditions.

Patel (2017) investigated a comparison of the financial performance of a few Indian banks before and after mergers, spanning the years 2003–04 to 2013–14, with the goal of assessing the overall effect of mergers on important financial indicators. In order to measure performance improvements, the research used a quantitative technique to evaluate a number of financial variables, such as yield on investment, net profit ratio, return on equity, and return on assets. The results showed that mergers had a detrimental effect on a number of important measures, pointing to declining financial health in these domains. Mixed outcomes in the post-merger environment were shown by the research, which also found a favorable trend in profits per share, profit per employee, and business per employee. These results highlight the complexity of merger impacts in the banking industry by indicating that, whereas mergers may cause difficulties in certain performance metrics, they may also promote growth in others.

Chalise (2017) investigated an examination of the effects of mergers and acquisitions on Nepal's commercial banks' performance, with a particular emphasis on Global IME Bank after the merger. Using the CAMEL Criteria, the research sought to ascertain if Global IME Bank's financial performance has improved. Chalise came to the conclusion that bank capital had improved considerably after the merger, with a statistically significant negative mean. Additionally, the Return on Assets (ROA) increased, suggesting that management was better able to transform bank assets into

profits. Following the merger and acquisition, there was a notable improvement in the financial performance as assessed by the CAMEL factors.

Gugler et al. (2018) investigated the impact of mergers and acquisitions on Kenyan commercial banks' financial results. Their research, which was based on the theories of differential efficiency, financial synergy, and hubris, examined nine banks that merged or acquired between 2007 and 2010. They discovered that a significant rise of 0.886 in bank financial performance was correlated with a unit enhancement in differential efficiency, highlighting the achievement of management synergy after the merger. Their study found no significant variations in liquid asset holdings between target and non-target enterprises, but that target firms appeared to have lower growth and leverage.

Sharma (2018) investigated In order to increase competitiveness, guarantee long-term sustainability with significant profitability, enter new markets, and reinforce capital bases, banks are increasingly reorganizing and fortifying themselves via mergers and acquisitions. The Nepal Rastra Bank's 2011 Merger Law Policy and 2015 Monetary Policy have been successful in promoting mergers and acquisitions in the banking industry in Nepal. This study examines the consequences of these mergers and acquisitions on shareholders by examining the financial performance of a few chosen banks and uses questionnaires to gauge the impact on staff. Key factors are compared before and after the merger for three randomly chosen cases: NIC Asia Bank Ltd., Global Bank Ltd., and Machhapuchhre Bank Ltd. The results of the research show that mergers and acquisitions have a favorable impact on the financial performance of the participating banks as well as their human resources, underscoring the possible advantages of such calculated choices in the banking sector of Nepal.

Kashyap (2022) investigated the rise of mergers and acquisitions, especially the consolidation of public-sector banks, as a means of bolstering the Indian economy. According to Kashyap's analysis of current patterns and synergies brought about by M&As in the Indian banking industry, capital management and financial results have typically improved after the merger. The research underlined that in order to maintain these beneficial effects, mergers must be accompanied with parallel governance and management changes. It came to the conclusion that M&As have been successful in

combining smaller banks into bigger organizations that can handle the problems of the global economy, ensuring their survival and expansion.

Karki (2022), examined In order to improve competitiveness, efficiency, and profitability, mergers and acquisitions (M&A) are essential corporate techniques for restructuring via consolidation. Karki emphasized M&A's contribution to the global financial system's consolidation, pointing out its track record of boosting deposits, expanding loan availability, and bolstering risk management across banks and financial institutions (BFIs). In order to create supportive policies that enable further industry growth, the research promoted regulatory cooperation. Karki emphasized that in order to create an atmosphere that is favorable for M&A operations that support sectoral development and stability, banks and regulators must be flexible and provide incentives from the government.

Adhikari et al. (2023) examined in Nepal's banking industry, mergers and acquisitions (M&A) have grown in importance as strategic moves meant to strengthen capital bases, broaden market penetration, and maintain financial stability. This research uses a comprehensive set of twelve accounting measures that are studied using paired sample t-tests to investigate how M&A affected the financial performance of two commercial banks between 2013 and 2020. The results paint a complex picture. For the first bank, the merger resulted in significant improvements in measures like earnings per share (EPS), net interest margin (NIM), and return on assets (ROA), which showed increased operational efficiency. Except for dividends per share (DPS), the second bank's post-merger improvements were negligible to nonexistent across the majority of financial measures. This variation highlights both the achievements and difficulties in attaining targeted financial performance goals via consolidation techniques, underscoring the complicated results of M&A activity in the Nepalese banking market.

Hampson et al. (2023) investigated the effects of regulatory-driven restructuring and consolidation in Nepal's banking industry, with an emphasis on recent mergers and acquisitions (M&A) laws. It compares the financial results of individual commercial banks and the larger commercial banking industry before and after these regulatory changes. Profitability, liquidity, leverage, which is and shareholder wealth are among

the financial parameters that are thoroughly examined in this study, which examines a sample of seven Nepalese commercial banks that were engaged in mergers between 2013 and 2020. The research evaluates hypotheses to identify significant changes in these indicators before and after the merger using paired sample t-tests. The results show that after mergers, the commercial banking industry's liquidity and leverage ratios significantly improved. Nevertheless, there were inconsistent or negligible effects on profitability and shareholder wealth ratios. Individually, the findings for chosen banks were equally varied, exhibiting both positive and equivocal implications on their financial measures post-consolidation.

Adhikari et al. (2023) investigated In order to strengthen their capital basis, grow their operations, and attain financial stability, banks and financial institutions (BFIs) in Nepal are combining via mergers and acquisitions (M&A), which have become a potent strategic weapon. This study uses a paired sample t-test and twelve accounting measures to evaluate how M&A affected the financial performance of two commercial banks between 2013 and 2020. The first bank's statistics show that the merger had a mixed effect on financial performance measures, with considerable gains shown in profits per share, return on assets, and net interest margin. In contrast, the second bank's study shows that, save from dividends per share (DPS) before and after M&A, the effect of M&A on financial parameters is negligible.

Maani and Rajkumar (2024) investigated the world's economy, supporting expansion, providing crucial financial services, and guaranteeing the stability of the financial system. It works in a very dynamic setting where organizations are always looking for ways to get an edge. One such tactic is mergers and acquisitions (M&A), which entails combining operations by purchasing or merging with other banks in order to accomplish certain objectives. Using bibliometric analysis, this study thoroughly examines M&A transactions in the banking sector to examine their technological drivers, importance, and effects. It also makes recommendations for future research along thematic and methodological lines. Using techniques such as bibliographic coupling, coauthorship analysis, co-occurrence analysis, and citation analysis, the study looks at 616 research publications that were taken from the Scopus database between 1994 and 2022. It highlights significant nations, prominent authors, publishing patterns, and premier journals in the subject. The study synthesizes

insights into the significance, impacts, and performance evaluation of M&A in banking by methodically evaluating highly cited works. It provides insightful advice for scholars and researchers to make significant contributions to future research in this area.

Nagh and Prataph (2024) examined the effect of a merger on Canara Bank's financial results in light of the substantial modifications made to India's banking sector as a result of globalization and increased competition in international markets. Using the CAMEL analysis approach, the main goal is to evaluate the operational, financial, and profitability changes that were seen between the pre-merger and post-merger periods. This entails analyzing five crucial ratios that correspond to each CAMEL characteristic and creating a composite index using the results of these analyses. The study's conclusions show that CAMEL performed well overall and in terms of profitability after the merger; but, operational performance fell short of expectations. Customers, depositors, borrowers, and investors are among the stakeholders for whom the study aims to deliver insightful information. It provides a thorough evaluation of the merger's effects on Canara Bank's financial standing and strategic orientation.

Bhandari et al. (2024) investigated the effect of mergers and acquisitions on Nepalese commercial banks' performance, with an emphasis on the dependent variables of operating and gross profit margins. Return on equity, return on assets, debt-to-equity ratio, non-performing loans, and return on operating costs are examples of independent variables. Using secondary data from 13 commercial banks between 2010/11 and 2019/20, the study analyzes 106 observations from the Banking and Financial Statistics, Nepal Rastra Bank's Quarterly Economic Bulletin, and the banks' annual reports using regression models and correlation coefficients. The results show that gross and operational profit margins are favorably impacted by return on equity and return on assets, indicating that higher returns boost profitability. On the other hand, non-performing loans have a negative effect on margins, while the debt-to-equity ratio and return on operating expenditures have a positive effect on gross and operating profit margins. This suggests that greater financial performance after a merger is a result of increased leverage and operational efficiency.

Table 1*Summary of Literature Matrix*

Source	Variables	Methodology	Findings
Nagh and prataph (2024)	Profitability, operational performance, financial performance using CAMEL.	CAMEL analysis of Canara Bank's pre- and post-merger performance.	Favorable profitability and overall CAMEL performance post-merger, though operational performance lagged behind expectations.
Maani and Rajkumar (2024)	Performance assessment of M&A, technical motivations.	Bibliometric analysis.	Identified key trends and research areas in M&A, highlighting the importance of strategic planning.
Bhandari et al. (2024)	Dependent Variables: Gross Profit Margin, Operating Profit Margin Independent Variables: Return on Assets (ROA), Return on Equity (ROE), Non-Performing Loans (NPL), Debt-to-Equity Ratio, Return on Operating Expenses (ROOE).	Secondary data analysis of 13 commercial banks (2010/11 - 2019/20) Correlation coefficients and regression models	ROA and ROE positively influence profit margins, enhancing profitability. - NPL negatively impacts margins. - Debt-to-Equity Ratio and ROOE positively affect margins, indicating higher leverage and efficiency improve financial performance post-merger.
Hampson et al. (2023)	Profitability, liquidity, leverage, shareholder wealth.	Analysis of financial ratios and paired sample	Significant improvements in liquidity and leverage

		t-tests on seven commercial banks in Nepal.	ratios post-merger; mixed or insignificant results for profitability and shareholder wealth.
Adhikari et al. (2023)	Variables: Various financial ratios, including ROA, Net Interest Margin, Earnings per Share, Dividends per Share.	Analysis of two commercial banks (2013 - 2020) Paired sample t-test using twelve accounting ratios.	First bank shows improvements in ROA, Net Interest Margin, and Earnings per Share post-merger. - Second bank shows insignificant impact on most financial ratios, except for Dividends per Share.
Adhikari et al. (2023)	ROA, net interest margin (NIM), earnings per share (EPS).	Paired sample t-tests of accounting ratios from 2013 to 2020	Significant improvements in ROA, NIM, and EPS for one bank, while another showed minimal changes.
Patel (2017)	ROE, ROA, net profit ratio, earnings per share.	Ratio analysis of Indian banks.	Mixed results post-merger, with improvements in some metrics but negative impacts in others.
Shah and Khan (2017)	Profitability, liquidity, capital stability.	Analysis of 18 transactions involving acquirer banks listed on the Karachi Stock Exchange.	Decline in profitability ratios post-merger, significant deterioration in liquidity ratios and capital stability.
Shah and	Operational ratios.	Secondary data	Mergers did not

Dwa (2017)		and statistical tests on operational performance of commercial banks.	significantly improve performance in most cases, except for specific examples.
Chalise (2017)	ROA, capital adequacy.	CAMEL Criteria and financial analysis of Global IME Bank in Nepal post-merger.	Significant positive changes in financial performance post-merger, including ROA improvements.
Shrestha et.al (2017)	Profitability, loan quality, performance of larger/smaller banks.	Comparative study of merged banking and financial institutions in Nepal.	Mergers positively impacted performance when larger and more stable parties acted as bidders, but smaller mergers often led to adverse effects.
Ghosh and Dutta (2015)	Performance of HR and financial parameters.	Pre- and post-merger comparison of Indian banking M&A.	No significant change in performance post-merger
Dhakal (2015)	Post-merger impact on employees, customers, shareholders.	Mixed-methods analysis of merged banks in Nepal.	Significant improvement in banks' overall performance, increasing shareholders' wealth.
Joash and Njangiru (2015)	Shareholders' value, profitability.	Data collection and analysis from 14 banks in Kenya.	Mergers and acquisitions increased shareholders' value.

Mungai (2015).	Financial performance.	Multi-variate regression analysis and correlation	Mergers and acquisitions had a significant impact on the financial performance of Kenyan financial institutions.
Singh and Gupta (2015)	Net profit margin, operating profit margin, ROCE, ROE, gross profit margin, debt-equity ratio, earnings per share.	Ratio analysis and comparison of pre- and post-merger metrics	Significant differences in net profit margin, operating profit margin, ROCE, and ROE post-merger; non-significant differences in other financial ratios.
Chellasamy and Ponsabariraj (2014)	Return on assets, return on equity, profitability ratios, current ratios.	Paired t-test to analyze pre- and post-merger financial performance in Indian bank	No significant changes in financial performance after mergers.
Adhikari (2014)	Paid-up capital, operational areas, competition reduction.	Primary and secondary data analysis.	Mergers led to an increase in paid-up capital, expanded operations, and reduced competition.
Kivindu (2013)	Profitability.	Analysis of profitability post-merger in Kenyan commercial banks.	Post-merger profitability increased, though the impact was not significant.
Joshua	Gross earnings, profit	Financial analysis	Improved financial

(2011)	after tax.	using t-tests through SPSS of Nigerian banks.	performance post-merger; mergers made Nigerian banks more efficient.
Bakari (2011)	ROA, ROE, profitability.	Analysis of return on assets and equity of Kenyan commercial banks pre- and post-merger.	Mergers led to increased profitability over five years.
Kemal (2011)	Profitability, liquidity, asset management, leverage.	Accounting ratios to evaluate post-merger performance at Royal Bank of Scotland in Pakistan.	Mergers did not enhance profitability, liquidity, asset management, or leverage in the case of RBS.
Ndora (2010)	Profitability ratios, solvency ratios, capital adequacy ratios	Analysis of financial performance for five years before and after mergers among Kenyan insurance companies.	Significant improvements in profitability and solvency ratios post-merger, with an overall positive impact on financial performance indicators.
Mantra et al. (2008)	Operating profit margin, net profit margin, return on capital employed.	Paired t-test analysis of pre- and post-merger performance across different types of mergers.	Horizontal mergers led to a significant decline in operating performance, conglomerate mergers also saw decreases, though overall

			shareholder value increased.
Altunbas and Marques (2008)	Strategic relatedness, returns on capital.	Analysis of European Union bank mergers	Improved returns on capital post-merger, especially in cross-border mergers; strategic relatedness between merging partners led to enhanced performance.
Wangui (2007)	Market share, financial performance.	Review of mergers among Kenyan.	Increased market share and financial position, though some pre-merger institutions.

2.4 Research Gap

Mergers and acquisitions (M&A) have become key tactics in Nepal's banking industry's transformation, changing the institutional dynamics and financial environment. There are still gaps in the literature despite the increasing popularity of M&A operations meant to strengthen capital bases, broaden market reach, and improve operational efficiency. This calls for more thorough research into their overall effects on financial performance measures. A comprehensive analysis that incorporates a wider range of financial indicators, including profit per employee, business per employee, expand productivity ratio, ratios for profitability, leverage ratios, and liquidity position, is essential, even though previous studies have focused on particular aspects like ROA, ROE, EPS, profit margin, and asset quality. When taken as a whole, these indicators provide a sophisticated picture of how mergers affect Nepalese commercial banks' overall financial stability and operational effectiveness.

In order to capture the most recent market dynamics and regulatory changes and provide updated insights into the changing effects of mergers in the Nepalese banking sector, it is essential to extend the research period beyond 2016 to include fiscal year

2017/18. Furthermore, Machhapuchhre Bank Limited and Siddhartha Bank Limited were chosen as the study sample, which deviates from other studies and provides distinct viewpoints on the effects of mergers on institutions in Nepal with varying sizes and operating scopes. The complex nature and varied results of M&A transactions are highlighted by the fact that some research indicate positive increases in productivity gain after the merger, while others show mixed or insignificant benefits. This variation emphasizes the need of determining the key success elements that promote positive post-merger performance, whether via improved market competitiveness, efficient regulatory compliance frameworks, or synergistic operational integration.

In addition to assisting stakeholders in making strategic decisions, addressing these complexity helps to improve regulatory standards that support stability and long-term development in Nepal's banking industry while continuous consolidation initiatives are underway. This study intends to provide important insights into improving merger strategies for attaining long-term profitability and resilience in Nepal's dynamic banking environment by clarifying the complex link between M&A operations and financial performance measures.

CHAPTER III

RESEARCH METHODOLOGY

In order to further research on mergers and acquisitions (M&A) in Nepal's banking industry, this section outlines the theoretical and quantitative analytical technique used in the study. In addition to supporting the theoretical frameworks used, the selected research technique guarantees replicability, allowing other researchers to conduct the study with the same design and compare their results. This section lays the groundwork for an in-depth examination and interpretation of the study's findings by explicitly stating the research design philosophy.

Additionally, methodological problems and other difficulties are noted and thoroughly examined. To improve the study's dependability and preserve its integrity, solutions to these problems are suggested. This comprises a thorough justification of the reasoning behind the use of certain methods and approaches for the identification, selection, processing, and analysis of information. This openness strengthens readers' trust in the research results and conclusions by enabling them to evaluate the study's overall validity and dependability critically.

This research intends to significantly add to the body of knowledge on the effects of M&A in the banking industry in Nepal by highlighting these methodological issues. In addition to advancing scholarly understanding, it aims to provide useful information that may help stakeholders, regulators, and legislators in the banking sector make strategic decisions.

Examining the link between productivity increase as the dependent variable and mergers and acquisitions (M&A) as independent variables is the main goal of the research framework created for this study. Using descriptive and analytical approaches, the study evaluates the significant levels of changes in financial health based on prior research comparing the operational performance of Siddhartha Bank and Machhapuchhre Bank before and after the merger. The findings suggest that the banking industry has a variety of consequences, some of which are favorable and some of which are harmful.

3.1 Research Design

Motivated by study goals, a research design is a series of predetermined choices that create a comprehensive strategy outlining the techniques and steps for gathering and evaluating the required data. Since it dictates the kind of data required, data collecting methods, sample strategy, and budget, a suitable study design is crucial. Given how important a good research design is to accomplishing research goals, this study's design has been carefully considered. Both descriptive and causal research approaches are used in this study to investigate how mergers affect commercial banks' financial performance.

The degree of mergers and acquisitions, merger regulations, and bank and financial indices are all determined using the descriptive and causal study approach. It seeks to provide a thorough and accurate account of the circumstances. Numerous survey formats, comparison analyses, and other techniques are used in descriptive research. To make a critical appraisal of the material, analytical research, on the other hand, entails critically analyzing facts or information that are already accessible. It gathers information and other pertinent facts using critical thinking, then analyzes them to support a concept or validate a hypothesis. This study successfully investigates the connection between mergers and bank productivity by using both descriptive and causal research techniques. It also identifies the elements that influence this relationship and offers a thorough explanation of how mergers affect financial performance.

3.2 Population and Sampling Design

The three commercial banks that amalgamated after the Merger and Acquisition Law of 2011 AD make up the population for this study. By mid-July 2019, 171 banking and financial institutions (BFIs) have completed the merger/acquisition procedure, in accordance with the 2019/20 AD monetary policy and the Merger & Acquisition Policy. Since the licenses of 128 of these institutions were withdrawn, 43 institutions two of which are commercial banks were created. The study's population consists of these two combined commercial banks.

Two Machhapuchhre Bank Limited and Siddhartha Bank Limited (SBL), two of the twelve combined commercial banks, were merged in 2012 and 2015 AD. They were

chosen as the study's sample using systematic random selection. By dividing the population size by the sample size, the study's sample size is two, with a sampling interval of five. Beginning at a random position in the population frame, each fifth element in the population is selected.

Table 2

List of Banks Merged

S.N	Bank After Merger	Bank of Merger
1	Siddhartha Bank Limited	I. Siddhartha Bank Limited II. Universal Development Bank
2	Machapuchare Bank Limited	I. Machapuchare Bank Limited II. Standard Finance

Siddhartha Bank Limited (SBL)

Siddhartha Bank Limited (SBL), one of Nepal's steadily expanding banks, was founded in 2002. Promoted by well-known individuals from a variety of industries, the bank gains from the business savvy and priceless experiences of its backers, which support its ongoing development and improvement. After a horizontal combination with Business Universal Development Limited in 2015 AD, Siddhartha Bank Limited carried on as Siddhartha Bank Limited.

Machapuchare Bank Limited

Machhapuchchhre Bank Limited began its banking activities in Pokhara in 2000 after being registered in 1998 as the first regional commercial bank from the western part of Nepal. Prominent nonresidential Nepalese businessmen and industrialists have pushed the bank with the goal of offering the greatest financial services in the most effective and courteous way possible. Standard Finance and Machapuchare Bank Limited amalgamated in 2012, and the combined company is now known as Machhapuchchhre Bank Limited.

3.3 Nature and Source of data

This study examines how mergers affect commercial banks' productivity gains, with a particular emphasis on Machhapuchchhre Bank and Siddhartha Bank Limited. Insights on the idea of buying and selling in Nepal's banking industry were gained via

conversations with representatives of Siddhartha Bank Limited. Financial statements from the chosen banks, spanning the years 2011–2020 for Siddhartha Bank and 2008–2017 for Machhapuchchhre Bank, were used as secondary data. In order to separate the study into pre-merger and post-merger periods, the years 2015 and 2012 were used as the basis years for Sidhartha Bank and Machhapuchchhare Bank, respectively. Data from the annual reports of Siddhartha Bank Limited and Machhapuchchhre Bank Limited were the only sources of information used in the pre-merger financial performance study; information from other financial institutions participating in their separate mergers was not included. On the other hand, the merged entities created after the mergers became the main focus during the post-merger era. According to the research, the banks' different productivity indicator ratios should show gains in the post-merger era as compared to the pre-merger period.

3.4 Method of Analysis

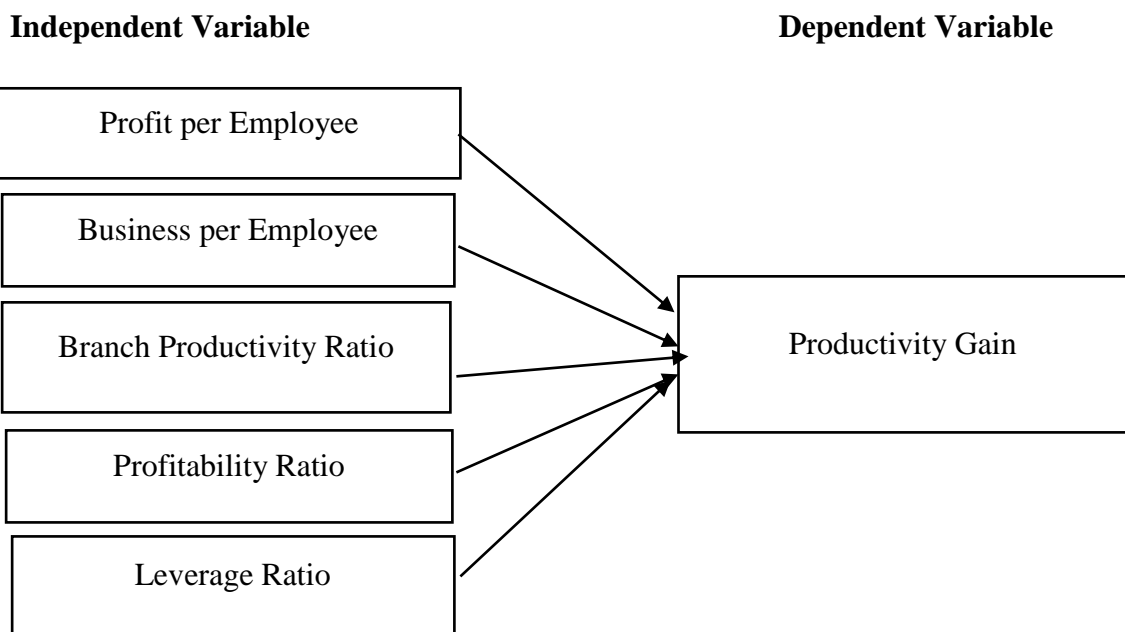
This research analyzes the average performance of the banks five years before to (T-5, T-4, T-3, T-2, and T-1) and five years after (T+1, T+2, T+3, T+4, and T+5) the merger in order to evaluate the effect of mergers. To lessen the impact of merger expenses, the year of the merger, represented by T0, is not included in the performance assessment. The research focuses on assessing Bank of Machhapuchchhare Bank Limited's and Siddhartha Bank Limited's productivity gains during the pre-merger era using accounting ratios. The focus switches to the merged institution's performance for the post-merger phase. It is possible to determine changes in productivity gain after a merger or acquisition by comparing the pre-merger average data with the post-merger average data. The research uses a number of statistical methods, which are described in the next section, to examine the data that was gathered.

3.5 Research Framework and Definition of the Variables

Examining the link between productivity increase as the dependent variable and mergers and acquisitions (M&A) as independent variables is the main goal of the research framework created for this study. Using descriptive and analytical approaches, the study evaluates the significant levels of changes in financial health based on prior research comparing the operational performance of Siddhartha Bank and Machhapuchchhre Bank before and after the merger. The findings suggest that the

banking industry has a variety of consequences, some of which are favorable and some of which are harmful.

The conceptual framework demonstrates how the research contrasts several financial ratios between the selected institutions' pre-merger and post-merger periods. Productivity increase is the dependent variable, whereas branch productivity ratios, profitability ratios, leverage ratios, liquidity ratios, and profit per employee are the independent variables. This methodology, which aims to provide a thorough examination of how mergers and acquisitions affect the financial condition and operational efficiency of commercial banks, forms the basis of the research.



(Source Gupta & Sing 2015)

Figure 1 Research Framework

The definition of each of these variables is as follows:

Profit per Employee:

The amount of profit a business makes per employee is measured by its profit per employee (PPE). It is a technique for evaluating a company's profitability and productivity on an individual employee level. The strategic use of human resources and operational effectiveness may be reflected in PPE.

$$\text{Profit per Employee} = \frac{\text{Net Profit}}{\text{Total No Of Employees}}$$

Where:

The entire profit after all costs, taxes, and other financial commitments have been subtracted is known as the net profit. It is often located at the bottom of the income statement for the business.

Total Employees: The number of full-time equivalent (FTE) workers at the conclusion of a certain time frame, usually the fiscal year.

Business per Employee

One important performance metric that gauges the effectiveness and productivity of a bank's personnel is business per employee. It shows how much business each employee in the company generates (in terms of revenue or profit). This measure is essential for evaluating operational efficacy and guiding strategic workforce management choices.

$$\text{Business per employees} = \frac{\text{Total deposit \& Advances}}{\text{Total no of employees}}$$

Branch Productivity Ratio

A performance statistic called the Branch Productivity Ratio evaluates how well a bank branch generates income in relation to its operating expenses. It gives information on a branch's overall operational performance by showing how successfully it makes use of its assets, including personnel and infrastructure, to generate revenue.

Credit per Employee

As a productivity indicator for the bank's lending activities, credit per employee shows the average loan amount that each person manages. A greater ratio denotes improved operational efficiency and successful lending operations.

$$\text{Credit per employee} = \frac{\text{Total Loans}}{\text{Number of Employees}}$$

Deposit per Employee

As a productivity metric, this ratio shows the typical volume of deposits that each employee handles. Strong customer acquisition and retention methods are shown in a greater deposit per employee, which indicates improved efficiency in deposit generation.

$$\text{Deposit per employee} = \frac{\text{Total Deposits}}{\text{Number of Employees}}$$

Business per Branch

This ratio calculates the whole amount of business that each employee manages, including loans and deposits. A greater business to employee ratio demonstrates the bank's overall productivity by indicating efficient use of resources and operational effectiveness.

$$\text{Business per Branch} = \frac{\text{Total Business (Deposits + Loans)}}{\text{Number of Employee}}$$

Earnings per Share

EPS gives information about a bank's financial performance by calculating the profitability accessible to each share of common stock. In general, a greater EPS is advantageous and may be a sign of effective profit-making and a promising future.

$$\text{Earnings per Share} = \frac{\text{Net Profit} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

Profitability Ratio:

A financial indicator called the profitability ratio is used to evaluate a bank's capacity to turn a profit in relation to its revenue, equity, assets, and other financial parameters. These statistics are essential for assessing the bank's overall performance over time, operational effectiveness, and financial health.

Gross Profit Margin

Gross profit in banking is usually calculated by subtracting interest expenditures and other costs directly related to producing that revenue from interest income and fees. A greater GPM reflects operational efficiency and the efficacy of a bank's pricing strategy as it shows that the bank keeps a bigger percentage of revenue as profit.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Total Revenue}} \times 100$$

Net Profit Margin

NPM calculates the portion of revenue that is left over as profit after all costs have been paid. A larger net profit margin in the banking industry denotes strong profitability and efficient cost management, which reflects the bank's capacity to turn income into real profit.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}} \times 100$$

Operating Profit Margin

OPM evaluates a bank's basic operations' efficiency without taking taxes and interest into account. A greater OPM indicates the bank's fundamental profitability and

reflects better management of operating expenses and income from routine banking activity.

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Total Revenue}} \times 100$$

Return on Capital Employed (ROCE)

ROCE evaluates how profitably and efficiently a bank uses its capital. A greater ROCE demonstrates the bank's excellent financial health and efficient use of resources by showing that it is making more operational profit per unit of capital invested.

$$\text{Return on Capital Employed (ROCE)} = \frac{\text{Operating Profit}}{\text{Total Capital Employed}} \times 100$$

Return on Equity (ROE)

A bank's profitability in proportion to shareholders' equity is gauged by its return on equity (ROE). A greater return on equity (ROE) indicates that the bank is making effective use of equity capital to produce profits, which is essential for drawing in investment and preserving investor trust.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Average Shareholders Equity}} \times 100$$

Return on Net Worth

RONW shows how well a bank makes money off of its equity. A greater RONW indicates that the bank is providing its shareholders with a decent return, demonstrating effective management and operational efficiency.

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}} \times 100$$

Leverage Ratio:

One financial indicator that shows how much a bank is using its debt to fund its assets is the leverage ratio. It gives information on the bank's risk profile and financial stability in addition to reflecting its capital structure. Greater dependence on debt is indicated by a larger leverage ratio, which may raise risk and possible rewards.

Debt-Equity Ratio

By contrasting a bank's total liabilities with its shareholders' equity, the DER evaluates the bank's financial leverage. While a larger ratio can imply aggressive financing techniques that might expose the bank to more risk, a lower ratio might represent a conservative capital structure, which can signal lesser financial risk.

$$\text{Debt-Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

Interest Coverage Ratio

The ICR calculates how much of a bank's profits may be used to pay interest. A greater ratio lowers the default risk and denotes strong financial stability since it shows that the bank makes enough money to pay interest costs.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

CHAPTER IV

RESULTS AND DISCUSSION

As outlined in Research Methodology, this chapter includes the analysis and presentation of secondary data pertaining to various variables utilizing various techniques. The tools mentioned above are used to display and evaluate the collected data in order to meet the goals outlined in the first chapter. One of the most crucial aspects of research is the presentation and analysis of data. The presentation and analysis of the data gathered from the various sources, as well as the major body of the research, are covered in this chapter. The sample banks aid in determining how M&As affect its stakeholders. Learning about the M&A process, as well as its prospects and obstacles, is also beneficial. The remaining portion covers the study's main conclusions, the company's profitability, and its effects on the economy.

4.1 Impact of M&A on Productivity gain of merged BFIs

This study compares and analyzes the comprehensive pre- and post-merger financial performance of the two borrowed merged banks, Siddharth Bank Limited and Machhapuchre Bank Limited, using various financial and accounting indicators in order to determine the effect of mergers and acquisitions on the productivity gain of BFIs. A technique for analyzing the relative positions of productivity gains across time is comparative statement analysis.

The productivity and profitability measures were used to compare the banks' financial productivity gains before and after the merger. The key financial indicators that gauge productivity gains are the gross profit margin, operating profit margin, return on equity, return on capital employed, earnings every share, debt equity rate, return on net worth, interest coverage ratio, current proportion, quick ratio, credit per staff members, business per employee, and branch per employee. To comprehend the trend link with different statistics that appear in financial statements, a trends analysis was carried out. One way to interpret the trend analysis is as an index number that illustrates the relative changes in the financial data.

4.1.1 Sample Bank I (Siddhartha Bank Ltd.)

A Siddhartha bank has been selected as a sample for the study. In 2015, Universal Development Bank Ltd., a "B" grade development bank, successfully merged to become Siddhartha Bank Ltd.

Table 2

Financial parameters of Siddhartha bank limited pre and post-merger

Ratios	Group	N	Mean	Std Deviation	t-value	p-value
Gross profit margin	Pre	5	91.64659	1.458743	-0.704	.504ns
	Post	5	93.15626	4.583891		
Net profit margin	Pre	5	11.80400	2.395032	-4.185	.004**
	Post	5	17.28500	1.115482		
Operating profit margin	Pre	5	56.90580	4.609662	-2.541	.039*
	Post	5	75.84905	16.118295		
Return on capital employed	Pre	5	1.06177	.137452	-4.808	.002**
	Post	5	1.56308	.176574		
Return on net worth	Pre	5	9.36600	2.254203	-2.532	.039*
	Post	5	12.75750	1.590354		
Debt equity ratio	Pre	5	7.11953	2.433926	.420	.687ns
	Post	5	6.60052	.049815		
Interest coverage ratio	Pre	5	13.28504	.530813	-5.259	.002**
	Post	5	15.47728	.643356		
Return on equity	Pre	5	9.44800	1.689488	-2.830	.030*
	Post	5	13.17000	2.005916		
Current ratio	Pre	5	.10800	.028636	.996	.352ns
	Post	5	.09000	.024495		
Quick ratio	Pre	5	9.79200	5.029783	-.600	.573ns
	Post	5	11.25500	1.880594		
Earning per share	Pre	5	37.31000	4.373928	-1.449	.240ns
	Post	5	58.12250	28.460018		
Deposit per employee	Pre	5	6.08239	1.278938	2.393	.048*
	Post	5	4.52075	.162541		
Credit per employee	Pre		5.60020	1.071473	1.813	.113ns
	Post		4.60590	.168368		
Business per branch	Pre		322.25842	158.391639	1.949	.123ns
	Post		184.17668	3.926609		

Table 4 shows the average gross profit margin before and after the merger (91.64659 and 93.15626 percent), the average net profit margin (11.80400 and 17.28500 percent), the average operating profit margin (56.90580 and 75.84905 percent), the average return on capital employed (1.06177 and 1.56308 percent), the average return on net worth (9.36600 and 12.75750), the average interest coverage ratio (13.28504 and 15.47728), and the average return on equity (9.44800 percent and 13.17000

percent). As a result, during the post-merger era, the financial parameters grew. Prior to the merger, the post-merger is more linked. However, the post-merger mean Dept-Equity Ratio of 6.60052 percent decreased from Siddhartha Bank's pre-merger ratio of 7.11953. Given that the Dept-Equity ratio is .687 with a t-ratio of .420 and the Gross Profit Margin p-value is .504 with a t-ratio of -.704, both of which are greater than the 5 percent level of significance, it can be said that there was no significant difference in the ratios prior to and following the Siddhartha Bank merger. In the meantime, the hypothesis is rejected and it can be concluded that there is a significant difference in the ratios before and after the merger of Siddhartha Bank. The p-values of the bank's net profit margin are as follows: .004 with a t-ratio of -4.185; operating profit margin is .039 with a t-ratio of -2.541; return on capital employed is .002 with a t-ratio of -4.808; return on net worth is .039 with a t-ratio of -2.532; and the interest coverage ratio is .002 with a t-ratio of -5.259; and the return on equity is 0.30 with a t-ratio of -2.830.

The mean values of earnings per share (37.31000 and 58.12250) and the quick ratio (9.79200 and 11.25500) before and after the merger were both higher in the post-merger period. However, the post-merger era had no effect on the mean values of the current ratio (.10800 and .09000), deposit per employee (6.08239 and 4.5207), credit per employee (5.60020 and 4.60590), and business per employee (322.25842 and 184.17668). The effect of the post-merger is to have a stronger correlation than before the merger. The hypothesis is accepted because the p-values for the Current Ratio (.352 with a t-ratio of .996), Quick Ratio (.573 with a t-ratio of -.600), Earnings per Share (.240 with a t-ratio of -1.449), Credit per Employee (.113 with a t-ratio of 1.813), and Business per Branch (.123 with a t-ratio of 1.949) are all within the 5 percent level of significance. The hypothesis is rejected and it is determined that there was a significant difference in the ratios before to and after the merger of Siddhartha Bank. The p-values for Deposit per Employee are approximately .048 and t-ratio is 2.393, both of which are below the five percent threshold of significance.

4.1.2 Sample bank II (Machhapuchhare Bank Ltd.)

Machhapuchhre Bank Ltd. is another sample bank that the researcher has chosen for the study. In 2012, Standard Finance (C class finance) and Machhapuchhre Bank Ltd. (A class commercial bank) combined.

Table 3*Financial parameters of Machhapuchhere Bank Pre and Post-merger*

Ratios	Group	N	Mean	Std Deviation	t-values	p-values
Gross profit margin	Pre	5	84.03835	2.715647	-1.394	.212ns
	Post	5	85.95999	1.460481		
Net profit margin	Pre	5	11.31400	.728444	2.840	.022*
	Post	5	9.04400	1.632002		
Operating margin	Pre	5	52.08567	5.304309	-1.808	.108ns
	Post	5	52.08567	5.472130		
Return on capital employed	Pre	5	.90164	.059567	1.779	.113ns
	Post	5	.77145	.152397		
Return on net worth	Pre	5	15.86600	2.190589	2.406	.043*
	Post	5	12.52600	2.198609		
Debt equity ratio	Pre	5	14.36650	1.553604	.165	.873ns
	Post	5	14.22435	1.135362		
Interest coverage ratio	Pre	5	15.11675	1.046719	.784	.460ns
	Post	5	14.68668	.638119		
Return on equity	Pre	5	16.53600	1.640649	2.189	.060ns
	Post	5	13.85600	2.191194		
Current Ratio	Pre	5	.05000	.012247	1.581	.153ns
		5	.04000	.007071		
Quick Ratio	Pre	5	5.74000	.658901	-5.099	.005**
		5	11.13000	2.269901		
Earnings Per Share	Pre	5	100.40800	26.141687	-2.959	.018*
		5	157.39600	34.216749		
Deposit Per Employee	Pre	5	2.53000	.763250	-4.485	.002**
		5	4.91800	.913712		
Credit Per Employee	Pre	5	1.81600	.684054	-4.461	.002**
		5	4.12000	.930376		
Business Per Branch	Pre	5	83.75743	19.462686	-4.277	.003**
		5	136.60435	19.610104		

Table 6 shows the mean gross profit margin values before and after the merger (84.03835 percent and 85.95999 percent), and the mean operating profit margin values (52.08567 percent and 52.08567 percent) show a rise after the merger. The post-merger period has seen a decline in the mean values of the following: the net

profit margin (11.31400 percent and 9.04400 percent), the return on capital employed (.90164 percent and .77145 percent), the return on net worth (15.86600 and 12.52600), the debt-equity ratio (14.36650 and 14.22435), the interest coverage ratio (15.11675 and 14.68668), and the return on equity ratio (16.53600 percent and 13.85600 percent). As a result, the financial parameters dropped after the merger. Prior to the merger, the influence of the post-merger was more connected. It can be concluded that there is no significant difference in the ratios before and after Machachhapuchhare Bank's merger because the p-values of the Gross Profit Margin are .212 with a t-ratio of -1.394, the Operating Profit Margin is .108 with a t-ratio of -1.808, the Return on Capital Employed is .113 with a t-ratio of 1.779, the Dept-Equity ratio is .873 with a t-ratio of .165, and the Interest Coverage ratio is .460 with a t-ratio of .784. In the meantime, the hypothesis is rejected and it can be concluded that there was a significant difference in the ratios prior to and following the merger of Machhapuchchhre Bank based on the p-values of net profit margin (.022 with t-ratio 2.840) and return on net worth (.043), both of which are less than the five percent level of significance. Quick Ratio mean values before and after the merger were 5.74000 and 11.13000, Earnings per Share were 100.40800 and 157.39600, Deposit per Employee was 2.53000 and 4.91800, Credit per Employee was 1.81600 and 4.12000, and Business per Employee was 83.75743 and 136.60435. All of these ratios have increased. As a result, the post-merger financial parameters grew.

Prior to the merger, the post-merger was raised to be more comparable. However, the post-merger mean value of the current ratio decreased .04000 in contrast to Machhapuchhre Bank's .05000 before to the merger. The hypothesis is accepted as the present ratio's p-value is .153 and its t-ratio is 1.581, both of which are more than the five percent significance limit. This suggests that the ratios before and after Machhapuchhre Bank's merger were not significantly different. However, the hypothesis is rejected and it is determined that there is a significant difference in the ratios prior to the merger of Machhapuchhre Bank. The p-values of the Quick ratio are .005 with t-ratio -5.099, Earnings per Share of State Bank of India is .018 with t-ratio -2.959, Deposit per Employees is .002 with t-ratio -4.485, Credit per Employee is .002 with t-ratio -4.461, and Business per Branch is .003 with t-ratio -4.277.

4.2 Discussion

The purpose of the research was to evaluate the effects of mergers on Nepal's commercial banks based on employee happiness and profitability. Five years' worth of data from two Nepali commercial banks were used as the basis for the research. Siddhartha Bank Limited and Machhapuchhre Bank Limited were the two commercial banks that were chosen. The study covers the fiscal years 2016–17 for MBL and 2020–21 for SBL. Numerous academic studies have been conducted by various researchers, but the majority of the earlier research focused on whether or not it is necessary, whether or not the commercial banks' productivity gain was satisfied, and whether there was room or a gap to investigate and examine other parameters. The study is centered on measuring productivity using the productivity ratios of individual sample banks.

Descriptive and informal comparison analysis served as the foundation for the study, and convenience sample size and secondary data sources from the internet were taken into consideration. Numerous statistical and financial tools are used as analysis tools. (Gaughan, 2002). “An acquisition is a deal in which a person or business, referred to as the offeror (or acquirer), obtains control over the assets and management of another business, referred to as the offeree (or target), either directly by acquiring the shares or indirectly by taking ownership of the assets.

The results of these studies show that, when all factors are taken into account, the sample banks' total productivity growth is fairly good. The operational profit margin, ROCE, ROE, EPS, debt-to-equity ratio, which is also liquidity deposit per staff member, and business per employee all improved over the prior period, indicating that Siddhartha Bank's post-merger EPS was significantly greater than its pre-merger EPS. However, the return on net worth and net profit margin both showed significant declines. Nonetheless, we may draw the conclusion that Siddhartha Bank's productivity rose after the merger based on important factors. The Machhapuchhre Bank metric and its impact on profits have increased after the merger. Our analysis revealed positive indications of growth for both institutions.

In light of this, we can say that the ratios analysis method is regarded as a crucial instrument for determining a bank's financial power and vulnerability. Through the

identification of potential vulnerabilities and the recommendation of essential remedial actions, this research serves to enhance the bank's overall productivity. In comparison to the pre-merger period, banks' average business per staff member, profit per staff member, NPM, EPS, ROCE, debt equity ratio, operational profit margin, gross profit margin, and ROE are much greater.

The decision-making staff of banks and other financial organizations, academic and non-academic investigators, investors, students, and everyone else with an interest in the financial industry may all benefit from this study. Since the main results of the earlier research are comparable to those of this study, it can be said that this study validates earlier research. According to a 2017 research by Gupta and Shrestha on the effect of mergers on banking performance, the bank had a number of difficulties and complications in Gautam 2013. Since the main goal of a merger is to increase corporate operations, this variance may be resolved after the merger. Nonetheless, mergers and acquisitions made throughout the recession and steady firm earnings support this and lead to the conclusion that all signs adhere to the Ross et al. sample and analytical techniques, which distinguishes this study from earlier studies. Siddhartha Bank showed improvements in productivity metrics, while Machhapuchchhre Bank struggled with profitability despite productivity gains.

This is in line with Wangui (2007) and Adhikari et al. (2023), who discovered that productivity gains differed based on the post-merger organizational synergy and integration strategy.

Following the merger, Siddhartha Bank's profitability indicators, such as Return on Assets (ROA), increased, whilst Machhapuchchhre Bank saw decreases. Similar conflicting results were reported by Joash and Njangiru (2015), who highlighted increased shareholder value in Kenyan banks, however only with strategic integration initiatives, and Shah and Khan (2017), who saw decreases in profitability ratios.

While Machhapuchchhre Bank saw only modest advances in operational efficiency, Siddhartha Bank saw significant improvements.

Kemal (2011) discovered that certain mergers fail to enhance operational efficiency because of integration issues, whereas Joshua (2011) observed that Nigerian banks became more efficient after the merger.

Although Machhapuchchhre Bank's capital stability decreased after the merger, its liquidity increased. In a similar vein, Shah and Khan (2017) noted that although mergers might raise liquidity, they can also result in problems with capital stability because of higher debt levels and integration expenses.

Siddhartha and Machhapuchchhre Banks' levels of success differed greatly, demonstrating that mergers may not always result in better financial results. Successful results vary and rely significantly on integration strategy, regulatory backing, and merging entity compatibility, according to studies by Bhandari et al. (2024) and Sharma (2018).

After the merger, Machhapuchchhre Bank had trouble maintaining steady profitability. This difficulty is consistent with research by Chellasamy and Ponsabariraj (2014), who found that Indian banks did not see any appreciable increases in profitability after mergers. This suggests that attaining profitability might be difficult in the absence of efficient integration.

The productivity increases at Siddhartha Bank imply that economies of scale were attained. Similar results were documented by Joash and Njangiru (2015) and Bakari (2011), who found that economies of scale via mergers improved the operational efficiency and financial stability of Kenyan and Nigerian banks.

The RBV is supported by Siddhartha Bank's improved operational performance, where resource alignment after a merger may provide competitive advantage. According to the RBV hypothesis, which was emphasized by Barney (1991) and Karki (2022), mergers may boost performance when resources are efficiently integrated. This explains why some organizations, such as Siddhartha Bank, exhibit better results.

According to the report, Nepal Rastra Bank's merger rules' regulatory assistance had a significant role in promoting bank mergers.

As noted by Baniya and Shah (2016) and Hampson et al. (2023), who stressed the impact of government policy in encouraging mergers and enhancing financial resilience in Nepalese and foreign banks, regulatory influence is important in other markets as well.

Similar findings were obtained by Dhakal (2015), who demonstrated that depending on how well the merger and integration procedures worked, stakeholders including shareholders and employees may encounter a range of effects after the merger.

The complexity of mergers and their effects on bank performance are shown by these comparisons, which show how your results on productivity, profitability, and operational efficiency after the merger either agree with or deviate from other studies.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter provides a concise overview of the whole research and emphasizes its key conclusions. Furthermore, a distinct portion of this chapter discusses the main results, which are followed by some consequences and suggestions pertaining to the merger and performance of the banking industry in Nepal. The chapter concludes by outlining the scope of upcoming studies in the same area.

5.1 Summary

Additional sources of data have been employed in order to measure the different statements made by banks on mergers and bank productivity gains. With an emphasis on Siddhartha Bank Limited and Machhapuchhre Bank Limited, this paper examines how mergers and acquisitions affect productivity improvements in the banking sector of Nepal. The research compares the financial performance before and after the merger based on a number of important factors, such as productivity ratios, liquidity, profitability, and leverage.

The results show that the effects of the two banks' respective mergers were different. Important profitability indicators, such as Net Profit Margin, the Operating Profit Margin, Return on capital invested (ROCE), Return on Net Worth (RONW), and Return on Equity (ROE), showed notable increases in Siddhartha Bank's profitability ratios. These modifications show improved operational effectiveness and profitability after the merger. Although liquidity measures like the current ratio and quick ratio did not alter much, they did stay steady, indicating that the bank was still able to cover its short-term commitments. Concerns about operational efficiency were highlighted by a drop in Deposit per Employee, which pointed to areas that still needed work.

Rates of Machhapuchhre Bank Limited's profitability On the other hand, Machhapuchhre Bank saw a drop in a number of important profitability metrics, such as return on net worth, return on capital used, and net profit margin. This implies difficulties sustaining profitability after the merger. The Quick Ratio showed considerable improvement, while the Current Ratio remained steady, demonstrating

stronger liquidity management post-merger. Ratios of Productivity Deposit per Employee, Credit per Employee, and Company per Employee all showed significant increases, indicating improved operational efficiency.

In general, mergers have a complex effect on productivity increases in the banking industry in Nepal. After the merger, Siddhartha Bank Limited showed notable increases in profitability, a sign of effective integration and improved operations. Machhapuchhre Bank Limited, on the other hand, had difficulties making money but shown notable gains in its liquidity and productivity ratios.

5.2 Conclusion

The idea of mergers and acquisitions is becoming more popular in Nepal as a way for one bank to provide all financial services. In order to ensure the sustained growth of Nepalese BFIs, Nepal Rastra Bank, the organization that oversees and monitors them, introduced it in May 2011.

In light of the growing trend of industry consolidation, this research looked at how mergers and acquisitions affected productivity improvements in the banking sector of Nepal. This study offered insightful information on the financial effects of such strategic choices by thoroughly examining Siddhartha Bank Limited and Machhapuchhre Bank Limited.

The results show that although mergers may result in significant gains in a number of financial indicators, the degree of these gains differs from institution to institution. After the merger, Siddhartha Bank Limited's profitability measures showed a significant improvement. Significant gains were seen in key profitability metrics, including Returns on Capital Employed (ROCE), Return on Net Worth (RONW), Operating Profit Margin, Net Profit Margin, and Return on Equity (ROE). This implies that Siddhartha Bank's operational efficiency and profitability were successfully increased by the merger, enabling it to take advantage of synergies created by the combination of resources and clientele. Siddhartha Bank has effectively managed the merger process, streamlining its processes and setting itself up for long-term development in a cutthroat market, as seen by the notable increase in these ratios.

On the other hand, Machhapuchhre Bank Limited saw a drop in RONW and Net Profit Margin, two important profitability indicators. The bank's capacity to sustain profitability after the merger is called into question by this drop. According to the results, Machhapuchhre Bank encountered difficulties that impeded the expansion of its profitability, even if the merger may have offered chances for operational efficiency. Issues with operational interruptions, cultural integration, or insufficient management of combined resources are a few examples of these difficulties. The drop in profitability emphasizes how difficult the merging process is and how careful preparation and execution are required to get the desired financial results.

The investigation showed notable gains in liquidity and productivity ratios notwithstanding Machhapuchhre Bank's difficulties. The bank's capacity to satisfy its short-term commitments depends on improved liquidity management, as shown by the Quick Ratio's considerable improvement. Additionally, the bank improved its operating efficiency after the merger, as seen by the notable increases in the Deposit per Employee, Credit per Employee, and Business per Employee ratios. These results imply that while profitability could have suffered, Machhapuchhre Bank was able to enhance its operational skills and optimize resource allocation as a result of the merger.

The two banks' divergent results emphasize how crucial successful post-merger integration tactics are. The importance of strong leadership, a clear integration goal, and corporate culture congruence is shown by Siddhartha Bank's achievement in raising profitability ratios. On the other hand, Machhapuchhre Bank's difficulties highlight the possible drawbacks of mergers and the need of cautious integration process management to prevent operational interruptions and guarantee that the merger's expected advantages are realized.

Additionally, this thesis advances our knowledge of how mergers and acquisitions affect the banking sector in Nepal. Stakeholders as including bank management, regulators, and investors, must understand the ramifications of these strategic choices as the sector continues to change via consolidation. According to the research, mergers present serious risks that need to be properly handled even if they might provide enormous chances for efficiency and development.

In summary, the effects of mergers and acquisitions on the growth in productivity within the banking industry in Nepal are intricate and multidimensional. Machhapuchhre Bank Limited's experience serves as a warning about the difficulties and dangers connected with mergers, whereas Siddhartha Bank Limited is a prime example of the possibility for significant increases in profitability via effective integration. The variables impacting the results of mergers in the banking industry should be further investigated in future studies, with an emphasis on the roles played by organizational culture, managerial practices, and market circumstances. By doing this, stakeholders would have a better understanding of how to use mergers as a strategic instrument to improve performance and efficiency in the ever-changing banking sector in Nepal.

The chance for merging by legislation to be implemented is the stakeholders' dedication. One of the finest solutions for maintaining the capital provision is M & As, and the Nepal Rastra Bank's strong regulation for increasing the capital of BFIs is also an opportunity. The danger of merging by legislation is a result of the poor coordination and corporate governance condition. It demonstrates that mergers are a more effective way to maintain Nepal's banking industry. Over time, the customer will become disengaged with the bank's services and offerings. The best merger and acquisition practices among the sample banks are Siddhartha Bank and Machhhepuchchhre Bank. Following mergers and acquisitions, all banks see a rise in overall productivity.

5.3 Implications

Strategic Planning for Mergers: The study's conclusions highlight the need of careful strategic planning and evaluation before to merger and acquisition activities. Banks should carry out thorough due diligence, taking into account operational and cultural compatibility between merging firms in addition to financial data. This will make it more likely that the expected synergies will materialize and that both businesses will be able to function efficiently after the merger.

Focus on Post-Merger Integration: To fully realize the potential advantages of mergers, effective integration following the merger is essential. Siddhartha Bank Limited and Machhapuchhre Bank Limited's divergent results show that a merger's success is mostly determined by how successfully the integration process is handled.

In order to improve overall performance, banks should give priority to integration methods that connect their objectives, optimize operations, and cultivate a cohesive corporate culture.

Emphasis on Profitability and Productivity Metrics: The need of ongoing monitoring of these indicators is shown by the notable variations in profitability and productivity ratios that followed the mergers. To find opportunities for development and maintain their competitiveness in a market that is changing quickly, banks should routinely assess their operational effectiveness and financial performance.

Regulatory Considerations: The conclusions have ramifications for regulatory agencies that keep an eye on the financial industry. The long-term effects of mergers on consumer welfare and market competitiveness should be taken into account by regulators. By creating rules that encourage openness, responsibility, and efficient integration techniques, merger risks may be reduced and a stable financial environment can be maintained.

Stakeholder Communication: Effective communication with all parties involved—including staff, clients, and investors—is essential to successful mergers. Throughout the merger process, banks should aggressively include stakeholders by clearly communicating changes, advantages, and anticipated results. In the end, this may increase the likelihood that a merger will succeed by fostering trust and facilitating easier transfers.

Implications for Future Researchers

Exploration of Contextual Factors: The contextual elements that affect the success or failure of mergers in the banking sector should be the subject of future studies. Examining how economic, regulatory, and external market variables influence merger outcomes is one way to do this. Both practitioners and academics may benefit from an understanding of these processes.

Comparative Studies: Comparative research across various financial institutions or geographical areas may improve knowledge of how certain traits—like management practices, organizational culture, and leadership philosophies—affect merger results. These kinds of research may point out frequent problems and effective practices in the merger process.

Longitudinal Studies: Deeper understanding of the long-term effects of mergers on productivity and profitability may be gained by longitudinal studies that monitor the

performance of combined organizations over time. Researchers may use this method to find trends, patterns, and the long-term viability of merger-related benefits.

Qualitative Research: Understanding the human aspects of mergers may be improved by using qualitative research techniques like case studies and interviews. A more thorough understanding of the benefits and difficulties brought about by mergers may be obtained by looking at employee experiences, perceptions, and resistance to change.

Broader Industry Perspectives: Future studies might look at mergers and acquisitions in other businesses in Nepal or abroad, in addition to the banking industry. This more comprehensive viewpoint may highlight sector-specific patterns and the ways in which different sectors handle mergers in different ways.

Impact of Technology and Innovation: Future studies should examine the effects of technical developments on merger results as the banking industry increasingly incorporates digital solutions and technology. Examining how technology might improve customer satisfaction and operational effectiveness after a merger could provide important information for practitioners and scholars alike.

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APPENDICES

APPENDICES 1

	Before merger				After merger					
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
PGR	67.201	58.753	53.871	81.752	73.751	43.546	71.891	35.742	45.541	65.131
GP	85.210	86.744	83.561	79.590	89.214	84.463	92.354	87.358	90.146	92.361
NPG	10.25	14.40	19.72	19.83	26.28	18.61	16.70	15.49	12.48	15.77
OPM	51.254	54.264	50.201	55.364	63.254	55.241	56.324	55.245	51.254	56.145
ROCE	0.890	1.021	0.995	1.235	1.201	1.364	1.245	1.365	1.023	1.830
RONW	12.854	7.235	8.123	10.25	11.23	13.25	12.2	14.52	11.23	13.25
DER	10.412	5.235	5.112	5.670	6.840	6.325	6.453	6.321	6.213	6.739
CR	12.365	11.803	12.313	13.652	14.251	15.632	14.235	15.636	14.256	15.698
ROE	10.850	8.890	9.023	8.653	6.852	6.325	6.354	5.890	6.324	6.258
CR	0.036	0.123	0.042	0.632	0.125	0.165	0.032	0.036	0.145	0.036
QR	5.366	6.120	6.325	5.236	13.258	15.362	13.256	11.235	12.30	13.254
EPS	20.41	29.80	38.63	37.77	41.53	26.60	26.44	23.07	19.55	26.04
DPS	5.694	4.235	5.235	6.321	5.254	6.321	7.561	6.325	6.265	7.321
CPE	5.365	5.361	5.214	6.325	4.356	4.256	5.2326	3.251	4.256	5.023
BPB	632.32	536.21	632.01	407.32	236.25	304.25	420.36	521.23	320.24	436.33

Source: Annual report of respected banks.

Table 2

Financial Performance Indicator of Machhapuchchhre Bank Limited

	Before merge					After merge				
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PGR	71.154	61.264	62.201	55.364	63.254	54.241	59.324	57.245	58.254	55.145
GP	89.56	82.36	86.21	79.25	92.36	88.35	75.36	78.56	71.35	79.25
NPG	10.25	14.40	19.72	19.83	26.28	18.61	16.70	15.49	12.48	15.77
OPM	42.36	43.56	48.63	50.25	55.21	46.32	45.32	41.56	44.25	48.56
ROCE	1.36	1.89	1.54	1.36	1.25	1.45	1.42	1.46	1.36	1.25
RONW	16.521	14.26	12.63	12.365	14.256	13.256	15.236	14.25	17.26	15.26
DER	14.36	15.36	17.26	18.63	13.56	14.25	16.32	15.26	12.10	15.24
CR	14.25	15.26	14.26	18.26	13.56	14.36	12.36	15.36	14.36	14.36
ROE	1.265	1.365	1.256	1.426	1.564	1.265	1.423	1.521	1.351	1.69
CR	0.36	0.45	0.36	0.25	0.42	0.165	0.365	0.423	0.156	0.25
QR	3.56	5.36	4.265	6.325	8.36	6.325	7.2656	9.365	4.26	8.36
EPS	20.41	29.80	38.63	37.77	41.53	26.60	26.44	23.07	19.55	26.04

DPS	1.69	1.423	3.962	3.621	4.521	3.65	4.25	5.362	5.98	7.59
CPE	1.36	1.96		1.35	1.695	2.653	3.25	4.25	4.25	6.325
BPB	59.64	65.36	80.36	85.62	112.36	113.25	145.25	150.25	156.36	158.36

Source: Annual report of respected banks.

APPENDICES 3

Ratios	Group	N	Mean	Std Deviation	t-value	p-value
Gross profit margin	Pre	5	91.64659	1.458743	-.704	.504ns
	Post	5	93.15626	4.583891		
Net profit margin	Pre	5	11.80400	2.395032	-4.185	.004**
	Post	5	17.28500	1.115482		
Operating profit margin	Pre	5	56.90580	4.609662	-2.541	.039*
	Post	5	75.84905	16.118295		
Return on capital employed	Pre	5	1.06177	.137452	-4.808	.002**
	Post	5	1.56308	.176574		
Return on net worth	Pre	5	9.36600	2.254203	-2.532	.039*
	Post	5	12.75750	1.590354		
Debt equity ratio	Pre	5	7.11953	2.433926	.420	.687ns
	Post	5	6.60052	.049815		
Interest coverage ratio	Pre	5	13.28504	.530813	-5.259	.002**
	Post	5	15.47728	.643356		
Return on equity	Pre	5	9.44800	1.689488	-2.830	.030*
	Post	5	13.17000	2.005916		
Current ratio	Pre	5	.10800	.028636	.996	.352ns
	Post	5	.09000	.024495		
Quick ratio	Pre	5	9.79200	5.029783	-.600	.573ns
	Post	5	11.25500	1.880594		
Earning per share	Pre	5	37.31000	4.373928	-1.449	.240ns
	Post	5	58.12250	28.460018		
Deposit per employee	Pre	5	6.08239	1.278938	2.393	.048*
	Post	5	4.52075	.162541		
Credit per employee	Pre		5.60020	1.071473	1.813	.113ns
	Post		4.60590	.168368		

Business per	Pre	322.25842	158.391639	1.949	.123ns
branch	Post	184.17668	3.926609		

APPENDICES 4

Year	Before merge					After merge				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PGR	71.154	61.264	62.201	55.364	63.254	54.241	59.324	57.245	58.254	55.145
GP	89.56	82.36	86.21	79.25	92.36	88.35	75.36	78.56	71.35	79.25
NPG	10.25	14.40	19.72	19.83	26.28	18.61	16.70	15.49	12.48	15.77
OPM	42.36	43.56	48.63	50.25	55.21	46.32	45.32	41.56	44.25	48.56
ROCE	1.36	1.89	1.54	1.36	1.25	1.45	1.42	1.46	1.36	1.25
RONW	16.521	14.26	12.63	12.365	14.256	13.256	15.236	14.25	17.26	15.26
DER	14.36	15.36	17.26	18.63	13.56	14.25	16.32	15.26	12.10	15.24
CR	14.25	15.26	14.26	18.26	13.56	14.36	12.36	15.36	14.36	14.36
ROE	1.265	1.365	1.256	1.426	1.564	1.265	1.423	1.521	1.351	1.69
CR	0.36	0.45	0.36	0.25	0.42	0.165	0.365	0.423	0.156	0.25
QR	3.56	5.36	4.265	6.325	8.36	6.325	7.2656	9.365	4.26	8.36
EPS	20.41	29.80	38.63	37.77	41.53	26.60	26.44	23.07	19.55	26.04
DPS	1.69	1.423	3.962	3.621	4.521	3.65	4.25	5.362	5.98	7.59
CPE	1.36	1.96		1.35	1.695	2.653	3.25	4.25	4.25	6.325
BPB	59.64	65.36	80.36	85.62	112.36	113.25	145.25	150.25	156.36	158.36

IMPACT OF MERGER & ACQUISITION ON PRODUCTIVITY ...

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ABSTRACT With a focus on Siddhartha Bank Limited and Machhapuchhre Bank Limited, this study examines how mergers and acquisitions (M&A) affect productivity improvements in Nepal's banking industry. The goal is to evaluate improvements in productivity, profitability, liquidity, and operational efficiency after the merger, as prompted by Nepal Rastra Bank's 2011 merger policy. In particular, this research looks at liquidity ratios, staff productivity, and profitability measurements, adding to financial theory and real-world banking management in Nepal. The research employs a descriptive and analytical research design, relying on secondary data extracted from financial statements covering five years before and after each merger. Key financial ratios such as Return on Equity, Operating Profit Margin, and Liquidity Ratios were used to evaluate changes in performance across both banks. The sample consists of two merged entities selected through systematic random sampling from a population of twelve commercial banks involved in mergers, specifically focusing on Machhapuchhre Bank (merged in 2012) and Siddhartha Bank (merged in 2015). This sampling provided a representative view of the sector-wide impact of mergers on operational and financial metrics. Findings reveal that Siddhartha Bank demonstrated considerable improvements in profitability ratios and operational efficiency post-merger, with significant gains in Return on Capital Employed and Earnings per Share. However, Machhapuchhre Bank faced challenges in profitability post-merger, despite gains in liquidity and productivity metrics such as deposits and business per employee. This study underscores the complex nature of mergers, emphasizing that outcomes vary based on integration strategies and resource management. These insights offer valuable guidance for Nepalese bank managers and policymakers working to enhance merger success and sustain productivity in an evolving financial landscape. Keywords: mergers and acquisitions, Nepalese banking sector, Siddhartha Bank, Machhapuchhre Bank, productivity gains, profitability, liquidity, operational efficiency. i CHAPTER I INTRODUCTION 1.1 Background of the Study In the corporate world, mergers, acquisitions, acquisitions, and combining have long been essential. The main goal of businesses in the current dynamic economic climate is to maximize shareholder value. Businesses may get a competitive advantage and eventually increase shareholder value via mergers and acquisitions. In a