EFFECT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

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Certification of Authorship

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

Gita Kumari Khadayat

Report of Research Committee

Mrs. **Gita Kumari Khadayat** has defended her research proposal entitled "**EFFECT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS OINNEPAL**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor **Mrs. Bimala Manandhar** submits the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled **"EFFECT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**" presented by **Gita Kumari Khadayat** for the degree of **Master of Business Studies.** We hereby certify that the dissertation is acceptable for the award of degree.

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Abbreviations

BFI's	Bank and Financial Institutions
BOD	Board of Directors
BOKL	Bank of Kathmandu Limited
CAMEL	Capital adequacy, Asset quality, Management, Earnings, and Liquidity
CAR	Capital Adequacy Ratio
CBS	Central Banking System
CD Ratio	Credit to Deposit Ratio
CEO	Chief Executive Officer
EPS	Earning per Share
GBIME	Global IME Bank Limited
M&A	Mergers and acquisitions
MoU	Memorandum of Understanding
MPS	Market Price per Share
NICA	NIC Asia Bank Limited
NPA	Non-Performing Assets
NPAT	Net Profit After Tax
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
PCBL	Prime Commercial Bank Limited
ROA	Return on Assets
NIBL	Nepal Investment Bank
S.D.	Standard Deviation

Abstract

Merger and Acquisition is a strategy adopted by the organizations globally to meet the needs of dynamic business environment. This strategy also has much importance in Nepal mostly in banking sector. After Nepal Rastra Bank implemented new merger and acquisition bylaws in 2011 and monetary policy in 2015, there has been an increase in the number of mergers and acquisitions in Nepalese Banking sector. Therefore, the objective of the study is to assess the impact of M&A on the financial performance of banks in Nepal. The accounting and financial data of 5 commercial banks were used in this study. Data was taken from the financial statement of selected BFI's & Nepal Rasta Bank from the period of 2070-2080.

For the analysis of pre- and post-merger and Acquisition performance 4major financial ratios i.e. Return on Assets, Capital Adequacy Ratio, Non-Performing Loan & Return on Equity were used in the study. To compare the results sample T-Test was used to measure the significant increment/reduction in ratios after M&A. The overall results show that there is no significant increment in financial performance such as ROA, CAR & ROE after merger. Also, there was no significant reduction in NPL after M&A. Thus, the merger should not be viewed as a sure-fire way to address market difficulties. Key factors that determine success in mergers and acquisitions should also be established in order to provide critical insight to the merging and acquiring organizations before, during and after the process. This would be important since this study revealed that there is a percentage of organizations, though small, whose financial performance did not improve after the merger and acquisition. Intensive and extensive feasibility studies should be carried out before the merging or acquiring process is undertaken.

CHAPTER I
INTRODUCTION

1.1 Background of the study

Mergers and acquisitions (M&A) represent the coming together or integration of companies or significant parts of their operations through financial deals between them. A merger involves the consolidation of one or more companies into another entity, often resulting in the disappearance of the original company, whereas an acquisition entails the purchase of shares or assets of a company by another, effectively transferring ownership (Lajoux, 2019). Investors inclined towards such actions are more prone to uphold the trademark of the acquiring entity. In the context of a merger, the entities being acquired typically cease to function independently according to law (DePamphilis D. , 2018).

An acquisition entails one company buying either the assets or stocks of another company, which can involve obtaining the entire business or just a specific segment. These strategic maneuvers are typically undertaken to achieve goals like expanding market reach, broadening product offerings, gaining access to new technologies or markets, or achieving cost savings through synergies. On the other hand, a merger involves combining two or more companies, where each entity involved holds an equal number of shares and assumes distinct roles within the newly established organization. In contrast, an acquisition occurs when one company buys another entity, a business division, or its assets (Snow B. , 2011).. Both acquiring and acquired firms' human resource managers encounter significant challenges due to the merger activities. Maintaining employee satisfaction is crucial for preserving an organization's favourable standing. Job satisfaction plays a vital role in motivating employees to pursue long-term positions (Ijigu, 2015) Improving employee satisfaction and integration post-merger or acquisition is vital for optimal organizational performance. Many strategies can be employed to achieve this. According to a survey, the majority of employees prioritize certain measures. Specifically, 23 percent emphasized the importance of providing comprehensive training and development opportunities. Another 13 percent highlighted the significance of offering fair career advancement paths. Additionally, 11 percent stressed the necessity of simplifying work procedures, fostering a flexible organizational culture, and promoting transparent communication between employees and management. Notably, 10 percent expressed satisfaction with the notion of fostering healthy competition among colleagues. Conversely, 8 percent emphasized the need for a flexible organizational culture and clear guidance from supervisors. Lastly, 6 percent emphasized the importance of closely monitoring employee sentiment to ensure their needs are addressed effectively. (Shrestha & Devkota, 2021).

Merger and Acquisition is considered to be a widely used business strategy for reconstructing and strengthening banks to ensure long-term existence with considerable profitability, strengthening the capital base, having cost rationalization, expanding branch networks, and exercising economies of scale and manpower efficiency. To find out factors affecting merger and acquisition decisions in the Nepalese banking sector, factors are categorized into internal motives and external motives based on the study conducted by (Smirnova, 2014).

Merger and Acquisition

A merger is defined as the combination of two companies to form a new company in a merger transaction, a new company is formed by two companies through complete absorption of a target firm by the acquirer. Generally, companies of the same size undergo the process of merger.

Acquisition means purchasing only a portion of another firm. In other words, it is defined as acquiring a company by obtaining a majority stake in an acquired firm that does not involve a change in name or change in its legal structure. Due to globalization, competition, and dynamic markets, the world economy has changed significantly. Many banks and financial institutions have merged to expand into new markets, avoid competition, maximize profit, incorporate new technologies, and to adjust dynamic environmental change. Mergers and acquisitions have played a crucial role in the Nepalese banking sector. They have assisted in improving the overall performance of the banks and financial institutions. Mergers and acquisitions activities are taking place rapidly with the assumption that they give synergic results.

Financial Performance Analysis

Financial statement analysis is the process of evaluating the relationships between various parts of financial statements in order to acquire a better understanding of a company's position and performance. It focuses on key figures in financial accounts and their noteworthy linkages. Initially, the financial analyst's duty includes extracting relevant information from all of the financial statements. The data is then organized to show key linkages. Finally, interpretation and inference drawing are the final phases. In essence, financial analysis entails selection, correlation, and evaluation. As a result, financial performance analysis comprises determining the financial abilities and shortcomings of a business by developing correlations between items on the balance sheet and profit and loss statement. This procedure comprises meticulously selecting data from financial statements to forecast the company's financial health. This is achieved by examining.

The main factors contributing to this occurrence include a decline in competitiveness within the banking industry and an increase in interest rates surpassing acceptable thresholds. After mergers, banks have been observed engaging in activities ranging from anti-competitive behaviours to instances of misconduct. This investigation aims to distinguish between the financial performance before and after mergers in commercial banks, examine the correlation between influencing factors and the financial performance of the commercial banking sector, and assess the outcomes of mergers in the Nepalese Banking Industry. To achieve these research goals, this study has considered variables such as net profit margin, return on assets, and return on equity.

Evolution of Bank Mergers and Acquisitions in Nepal

In a developing economy like Nepal, mergers and acquisitions to banking and financial institutions have started recently but have gained wide-scale popularity. It has been demanded by the market and also recommended by the Nepal Rastra Bank. The policy of the central bank to liberalize the opening of banks and financial institutions resulted in the mushrooming of banking and financial institutions in Nepal. There were only two commercial banks till 1984 A.D. and the services and facilities of Nepalese banks were mainly of traditional type. As the government adopted the economic liberalization policy in 1984, the banking sector started growing and this led to the development of modern banking services. The policy of economic liberalization initiated the opening of joint venture banks. Some of these banks were established with 50 percent joint venture and some others were established with less equity stake in paid-up capital. At present some of the joint venture banks have upgraded their stake from 50 percent. Along with the growing number of commercial banks, the flexible policy encouraged the establishment of development banks, and finance companies to improve the banking service quality as well as to enrich the banking access for the maximum number of people. Initially, the merger regulations failed to make an immediate impact in the banking sector. However, the momentum towards consolidation through merger regulations surged notably between 2011 and 2013, catalyzed by the merger of Himchuli Finance and Birgunj Finance, resulting in the formation of H&B Development Bank. The merger regulations introduced by the Nepal Central Bank in 2011 have proven successful, with approximately one-fourth of financial institutions opting for mergers

This study aims to investigate the influence and consequences of the merger policy implemented by the Nepal Rastra Bank (NRB). The research entails examining the financial statements of the banking and financial institutions (BFIs) engaged in merger activities. It involves comparing the performance of BFIs before and after mergers to assess the impact of the merger policy. In Nepal, the banks have not gone for acquisition so far. The Banks and Financial Institutions Acquisitions By law came into practice only in 2014 (Nepal Rastra Bank Allows Acquisitions of Financial Institutions, 2014).

Overview of mergers and acquisition of selected commercial banks

For our study purpose, we took 5 Commercial Banks as a sample which are listed below:

- **Kumari Bank Limited and Deva Bikas Bank limited**

Kumari Bank commenced joint transactions after its successful acquisition of Deva Bikas Bank on Asad 28, 2077. The event commemorating this collaboration was held at Kumari Bank's Tangal headquarters, featuring a joint inauguration led by Mr. Amir Pratap JB Rana, Chairman of Kumari Bank, and Mr. Bajra Gurung, the former Chairman of Deva Bikash Bank. The newly restructured bank deposit collection figure of Rs 124 billion, credit disbursement of Rs 112 billion, a paid-up capital of Rs 12.52 billion, in addition to its network of 201 branches and extension counters, along with 138 ATMs. (Sharesansar2020).

- **Global IME bank & Janata Bank Limited**

Global IME Bank (GBIME) with Janata Bank Nepal (JBNL), joint operations were initiated on Mangsir 20, 2076. As part of this transition, system/data migration was deemed necessary to facilitate seamless transactions. Consequently, evening counter services were suspended on Mangsir 18, 2076. Additionally, ATM services, credit card services, mobile banking, internet banking, and branchless banking services were temporarily halted from Mangsir 18, 2076, 6 PM, to Mangsir 18, 2076, 12 PM. Furthermore, all banking services were suspended for Mangsir 19, 2076, with full functionality resuming on Mangsir 20, 2076. It's noteworthy that the revenue management information system (RMIS) for government revenue counters operated without interruption throughout this period. (Sharesansar, 2019).

- **Prime Commercial Bank & Kailash Bikash Bank Limited**

  Prime Commercial Bank officially commenced joint operations following the successful completion of the acquisition of Kailas Bikash Bank on Falgun 29, 2076. The event celebrating the joint operation was attended by Mr. Rajendra Das Shrestha, Chairman of the combined entity, along with the CEOs and Board of Directors of both former banks, as stated in the media release. Post-acquisition, the bank's paid-up capital has surged to Rs 13.98 billion, with deposit collections totalling Rs 130 billion, loan disbursements reaching Rs 114 billion, and a network of 200 branches nationwide. (Sharesansar, 2020).

- **NMB Bank & OM Development Bank**

  NMB Bank and Om Development Bank commenced joint operations on Ashwin 11, 2076, following the successful merger process. After the merger, the bank's paid-up capital stands at Rs 11.53 billion, with reserves totalling Rs 8.62 billion. Post-merger, the restructured NMB Bank operates 44 branches in Province III and 39 in Gandaki Province, totalling 163 branches, alongside 128 ATM terminals and 5 extension counters. The joint operation event witnessed the presence of various dignitaries, including Gandaki Province Minister Mr. Kiran Gurung and Dr. Dilli Ram Pokhrel, Director of NRB Pokhara, among others (Sharesansar, 2017).

  Nepal Investment Bank Ltd & Ace Development Bank

  Nepal Investment Bank Limited (NIBL) successfully finalized the acquisition of Ace Development Bank (Ace). Their joint transaction (after Acquisition) in the name of Nepal Investment Bank Limited from 29th Ashad, 2074. NIBL's total paid-up capital surged to 9.24 billion rupees, securing its position as the leading private sector commercial bank in Nepal in terms of paid-up capital. The bank's aggregate deposits and loans stand at 124 billion and 107 billion rupees, respectively. Presently, Nepal Investment Bank Limited (NIBL) and Mega Bank Limited have amalgamated to establish 'Nepal Investment Mega Bank (NIMBL) Limited'. (Sharesansar, 2017).

1.2 Problem Statement

NRB had brought new Merger Bylaws into effect with the motive to improve as well as develop weak and problematic financial sectors at a time when the Nepalese banking sector was going through a critical phase. Previously, the liberal licensing policy adopted by NRB had given rise to the commencement of the number of banks and financial institutions. This has created low financial stability. Therefore, NRB introduced Merger Bylaws 2068 to attempt the promotion of financial stability. The increasing trend of mergers and acquisitions was seen after the implementation of the Merger Bylaws Policy in 2011 by Nepal Rastra Bank. Due to the requirement of NRs. 2.5 million paid-up capitals from NRs. 640 million paid up capital in case of national level development banks and requirement of NRs. 8000 million paid-up capitals from NRs. 2000 million paid-up capitals in the case of commercial banks of Nepal, the Nepalese banking sector has recently faced major changes. Development banks having branches in 4-10 districts require a paid-up capital of 1200 million and if it has branches in 1-3 districts then a paid-up capital of 500 million is required. This has given rise to the merger and acquisition of more than half of the development banks (Nepal Rastra Bank, 2017). These changes have led to reshaping of bank ownership structure, increased competition, and higher concentration. Finance Minister Yuvraj Khatiwada strongly suggests that a forceful merger would not be a desirable option to raise the capital of banks and financial institutions. So, he provided some time to banks and financial institutions so that they could raise their paid-up capital. There is no guarantee that all mergers will be fruitful for the economic development of the country (Khatiwada, 2019). This research study will try to explain the relationships of various factors affecting merger and acquisition decisions of Nepalese banks and also the impact of merger and acquisition in the Nepalese banking sector.

Based on the above problems, this study will try to address the following research questions:

i. Is there a significant increment in the Return on Assets of BFIs post-merger entities?
ii. Is there any significant increment in the Capital Adequacy Ratio of BFIs post-merger entities?

iii. Is there a significant reduction in Non-Performing Loan of BFIs post-merger entities?
iv. Whether there is a significant increment in Return on Equity of selected BFIs of post-merger entities?

1.3 Objectives of the Study

The main purpose of the study is to find out the impact of mergers and acquisitions on financial performance in selective commercial banks. The specific objectives are as follows:

i. To examine the significant increment in return on assets financial performance of commercial banks in Nepal.
ii. To analyze and quantify the extent of increase in the Capital Adequacy Ratio (CAR) within Bank and Financial Institutions (BFIs) post their merger.
iii. To analyze the significant reduction in non-performing loans of Bank and Financial Institutions (BFIs) post-merger entities.
iv. To evaluate the significant increment in the Return of Equity of Banks and Financial Institutions (BFIs) post-merger entities

1.4 Rationale of the Study

This research study plays a crucial role in finding out factors that lead to merger and acquisition decisions in the Nepalese banking sector. Besides this, it helps to analyze the financial indicators of banking institutions before and after the merger. This is fruitful to planners and policy makers for maximization of value of concerned stakeholders based on merger and acquisition strategy. Practitioners can update themselves through the information obtained to adjust themselves to dynamic environmental changes. Moreover, it will also contribute to looking after information regarding banks and financial institutions for researchers. The study would have significance to investors and firms in NSE to collect knowledge on the understanding of the importance of mergers and acquisitions while analyzing the performance of the company. Besides this, it would also benefit other firms in competitive industries and others not listed at NSE. In addition to this, this study can assist the Central Bank of Nepal in deciding whether to promote and encourage the merger in the upcoming days or not.

1.5 Limitations of the Study

i. This study was based on secondary data taken from articles, publications, audit reports, and journals are the main source
ii. Five commercial banks were selected for the study.
iii. This study is based on five (Kumari Bank Limited, global IME, Prime Commercial, and Nepal Investment Mega Bank Limited) merged commercial banks of Nepal.
iv. The period following the merger is short, the results may be biased when concluding, as merger benefits take years to manifest.
v. Only four ratios (ROE, ROA, CAR & NPL) have been calculated and other different performance ratios have been excluded for pre-merger and post-merger comparison.
vi. Sample data used for the study is relatively small as data of only a few merged entities has been considered for the study.
vii. Since the findings of this research study are only based on the financial sector, the findings cannot be generalized to manufacturing and trading enterprises.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Review

A conceptual framework serves as the foundation for a study, delineating the pre- and post-merger comparison of the Bank of Kathmandu through diverse ratios. Literature review involves synthesizing prior research on a subject, providing a basis for describing, summarizing, and critically assessing each source, while also pinpointing research gaps for further exploration. While 'merger' and 'acquisition' are often used interchangeably, scholars note distinctions aiding in categorization. Mergers and acquisitions encompass various forms, though they are commonly perceived as akin. A merger denotes the amalgamation of multiple firms into a larger entity, whereas an acquisition involves one company gaining effective control over another. Weston, Chung, and Hoag (1990) distinguish mergers and acquisitions as two types of combinations and Machiraju (2003) considers mergers a broad term encompassing acquisitions as two of its forms. The motivations behind mergers and acquisitions are influenced by diverse strategic and financial objectives. Typically, a merger denotes a voluntary amalgamation to form a larger entity, whereas an acquisition entails one organization purchasing another, and gaining control over it. In a merger, both entities pool resources to achieve shared goals, whereas in an acquisition, one firm acquires controlling ownership, select assets, and legal subsidiaries of the other. The study's dependent variable is bank performance, while mergers and acquisitions serve as independent variables. Various metrics such as liquidity, solvency, and profitability ratios gauge bank performance.

2.2 Theoretical Review

M&A cannot be separated from the main theory of investment. Investment theory was first developed by Williams (1930) in his journal entitled "The Theory of Investment Value". In conducting M&A, the company or the buyer's management have various motivations behind their actions. Research on this motivation has been carried out for a long time and has produced several well-known theories in academia. However, no theory can explain the overall motivation of M&A to date (Wangerin, 2011)Popular M&A theories include:

Portfolio Theory

introduced Portfolio Theory, which delineates the portfolio selection process into two distinct stages. The first stage termed the observation stage, involves drawing from past experiences or data to ascertain trust in existing portfolios. Subsequently, in the second stage, this trust guides the selection of the optimal portfolio. Markowitz's research posited that investors primarily consider two factors: the level of risk and the return on investment. Investors consistently prioritize investments offering high returns coupled with low levels of risk.

Agency theory

Agency theory is concerned with the separation of interests between company owners and managers. The main assumption of agency theory is that principals and agents are all rational and wealth-seeking individuals who are tryingto maximize their utility functions. In the context of corporate governance, the principal is the shareholder and the agent is the director's senior management. A basic agency model proposes that due to information imbalances and self-serving motives, principals have little incentive to trust their agents. Consequently, principals aim to address these apprehensions by implementing measures to align the interests of agents with their own and to mitigate the potential for information disparities and opportunistic conduct. Agents' objectives may differ from those of principals. They may be impacted by factors like as financial benefits, labor market prospects, and relationships with other parties not directly related to the founders (Ross S. , 1973; Jensen & Meckling, 1976; Lane, , Cannella, , & Luba, 1998).

Efficiency Theory

The efficiency theory, initially proposed by (Eugene F, 1970) in the context of capital markets, posits that a market is considered efficient when publicly available information is swiftly reflected in stock prices. Consequently, stock prices adjust in response to new information becoming available to the general public categorizing efficient markets into three tiers:

- Weak efficient market
- Semi-strong efficient market
- Strong efficient market

This theory has been extended to M&A transactions, notably by (Manfredo, 2011) who argues that M&A activities yield benefits such as access to a skilled and competent workforce, proficient management, advanced technology, and opportunities for innovation and product development. M&A transactions create synergies by combining complementary assets and also help in reducing transaction costs. For instance, if a coal mining company aims to venture into gold mining but lacks the necessary expertise, acquiring an established gold mining firm would be a feasible option. This approach provides access to experienced management and experts in the gold mining sector.

Market power theory

Another perspective posits that mergers are often pursued to bolster the market share of the firm. By expanding their market share, acquiring companies aim to gain greater influence in the market. However, the notion of augmenting market power through mergers is met with skepticism, as it could result in industry consolidation. Such consolidation may lead to either monopolistic dominance or heightened competition. Intense competition typically arises among the largest firms in concentrated industries, impacting various aspects such as pricing, output, product types, and service quality. The market power theory contends that as firms grow in size, their market power increases. In the case of horizontal mergers, a reduction in the number of firms intensifies mutual interdependence, potentially fostering collusion among the remaining firms in the industry (DePamphilis D. , 2018).

Free cash flow theory

Free cash flow and agency costs are closely intertwined as merger motives. According to (Jensen M. , 1986), free cash flow refers to the surplus cash beyond what is necessary to finance projects with positive net present values at the applicable costs of capital. Jensen contends that agency costs, stemming from conflicts between managers (agents) and shareholders (principals) over the utilization of free cash flow, are a significant driver of takeover activities. In situations where agency costs are substantial, takeovers can mitigate these costs by redistributing the free cash flow to shareholders rather than allowing it to accumulate. Distributing cash to shareholders diminishes managerial control over resources, prompting them to pursue new investment opportunities.

History of Mergers and Acquisitions

The history of mergers began in the U.S. long before the 1900s. This period includes the six big waves of M&A throughout the last century. The first merger wave began following the 1883 drop, peaked between 1898 and 1902, and ended in 1904, affecting largely the mining and manufacturing industries. Several industries consolidated during the second merger wave. Instead of monopolies, the result was often an oligopolistic industry structure. The third merger wave saw record merger activity. A strong economy has influenced this. During this period, known as the big merger period, it was normal for smaller enterprises to look into purchases of larger companies. The pace of M&A slowed again in 1982 due to the economy's downturn, but a major merger wave had taken hold by 1984.The fourth wave is distinguished by the significant role of hostile mergers. The fifth wave of M&A began in 1992 and lasted till 2001. Large deals, some of which were similar in size to those that occurred in the fourth merger wave, began to occur again in the fifth wave. The sixth merger wave, which lasted four years from 2004 to 2007, was comparable to the fifth wave and outperformed the fourth wave (Gaughan P. , 2007).

M&A transactions have surged notably over the past few decades, hitting a climax in 2000. This upsurge coincided with the onset of the economic and financial downturn, prompting Asian markets to mirror the approaches of the United States and Europe. Additionally, emerging economies like India, China, South Korea, and select ASEAN nations emerged as significant participants in the M&A arena during this period. The (Raju, B R, & Dhakal, 2015).

In the context of Nepal, M & A can be traced back to the late 1980s when Eastern Electricity Corporation merged with the Nepal Electricity Authority (NEA). Following the introduction of a merger by-law in 2011, M&A activities in Nepal experienced a significant upswing. Furthermore, the monetary policy of 2015 provided another approach for the banking sector to embrace M&A by mandating a substantial increase in banks' paid-up capital. Commercial banks were required to raise their paid-up capital from Rs. 2 billion to Rs. 8 billion, and national-level development banks from Rs. 640 million to Rs. 2.5 billion, and national-level finance companies from Rs. 200 million to Rs. 800 million. Presently, banks prioritize the financial aspects of mergers over human factors. The study underscores the impact of M&A on customers, recognizing banks and financial institutions (BFIs) as service providers whose success heavily relies on customer satisfaction (Sharma K. P., 2018).

In the present context, Mergers and acquisitions have been the burning issue in the banking sector, especially after the Merger By-law 2011 imposed by NRB. Most of the banks have been merged while few of them are in the process of merger and acquisition. However, some mergers have failed in the context of Nepal. Recently, two major commercial banks in the country - Nepal Investment Bank Ltd and Himalayan Bank’s merger halted because the former shareholders rejected the proposal. The actualization of the merger between the two would have made it the biggest commercial bank in the history of the Nepali banking industry in terms of paid-up capital. However, the plan suffered a setback following HBL's shareholders' reluctance to go into a merger (The Himalayan Times, 2022).

Similarly, Prime Commercial Bank & OM Development Banks both signed the MOU. However, the banks were not in the mood to reconsider the merger process. Both banks have decided not to send the final application for the merger process so the merger has been officially revoked. However, Nepal Rastra Bank has decided to punish these banks. NRB says "Other banks and mergers will replicate the process and will not be taken as a serious matter. Thus, we are forced to punish these banks. NRB will listen to both sides and analyze which bank deserves what kind of punishment. NRB will probably restrict these banks to announce their dividend, halt expansion of branches or so forth".

Types of Mergers and Acquisitions

Economists have classified merger and acquisition into three groups i.e. horizontal, vertical, and conglomerate.

a) Horizontal Merger

A horizontal merger refers to a merger where two or more companies operate in the same field and in the same stages of the process of attaining the same commodity or service. In the case of horizontal mergers, different firms sell substitutable products within overlapping geographic markets. The objective of a horizontal merger is to eliminate a competitor company, maximize profit, increase market shares, and buy up surplus capacity. It has the drawbacks of restricting new entries into the market and harming outsiders because of diminishing competition. These kinds of mergers are typical in industries with a smaller number of firms, as competition tends to be more intense, and merging firms can realize greater synergies and potential increases in market share. Horizontal merger occurs frequently because larger companies attempt to create more efficient economies of scale.

b) Vertical Merger

A vertical merger involves the combination of two or more companies that handle various aspects of the supply chain for a shared product or service. Typically, such mergers aim to enhance synergies, exert greater control over the supply chain, and expand business operations. As a result, vertical mergers often lead to cost reductions, as well as heightened productivity and efficiency.

c) Conglomerate Merger

The conglomerate merger takes place when two companies operate in completely different industries, regardless of the stage of production. The objective behind conglomerate mergers is to diversify into other industries that assist in reducing risks. Conglomerate mergers can be classified into pure and mixed. In the case of pure conglomerate mergers, firms have nothing in common while in the case of mixed conglomerate mergers, firms are looking for an extension of a product or market. Unrelated enterprises are combined in conglomerate mergers. Firms are combined that compete in different product markets and are located at different production stages of the same or similar products.

Motives of Mergers and Acquisitions in Banking Sector

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies. The factors affecting mergers change with their changing legal, political, economic, and social environments. Firms engage in merger and acquisition activity for different economic reasons. The most common motives of firms for mergers and acquisitions are discussed below:

Synergy

There are many motives behind mergers and acquisitions. However, the underlying factor in all these motives is the concept of synergy. Synergy states that the interaction or cooperation of two or more organizations, substances, or other agents produce greater effects in combination than the sum of their separate effects. Synergy is based on the principle that a combination of firms is more valuable than the sum of the individual combining firms. The term synergy is the most commonly used word in the case of merger and acquisition for increasing performance and reducing the cost of operations by combining business activities. Firms merge when they have complementary strengths and weaknesses. The process of merger and acquisition seems to increase in the present context as it was observed that the firms were not performing up to their full potential when operated individually. So, mergers and acquisitions of firms were encouraged to create synergies.

Economies of Scale

In the case of mergers and acquisitions, the size of the firm plays a crucial role. At the time of the merger, a larger company achieves more benefits in the form of cost reduction in comparison to a small company. Due to the merger and acquisition of banks, they can achieve significant growth in their operations and also minimize their expenses to a considerable extent. Competition also declines as merger eliminates competitors from the banking industry. There will be increased specialization of labour and management more efficient use of equipment and access to lower price input that may not be possible at the low level of output. Purchasing power and the company's negotiation power improved after the merger.

Economies of Scope

M&A result in economies of scale, where a company can use a single set of resources to offer a broader array of products and services. This efficiency leads to lower production costs due to increased output volume. Economies of scope are more evident in horizontal M&A, where companies can combine complementary resources to enhance their operations. Sometimes, smaller firms possess components that larger firms require, which fosters M&A activity. Thus, larger companies may acquire smaller ones. In the banking sector, economies of scope are particularly important in driving M&A, as banks can share resources to provide a diverse range of services.

Emphasis on Cost Efficiency

Mergers and acquisitions of firms will have synergic results. Synergies reduce costs through the economies of scale in different divisions of the company via research and development, sales and marketing, procurement, manufacturing, distribution, and general administration. Generally, a business will try to merge with another business that has complementary strengths and weaknesses. Cost can be minimized by eliminating unnecessary managerial positions and closure of overlapping branches of banks. As the size of the firm increases, cost decreases due to economies of scale and scope. It provides a cost advantage as the average cost per unit declines when the total level of output increases.

Diversification

Mergers can be beneficial to those companies that want to have rapid growth in size and market share or diversification in their product range. Diversification is said to have existed when a company goes through the process of M&A with a company that is from an unrelated industry. Diversification plays a vital role in reducing the impact of one particular industry on the profitability of a new entity and the other hand, it also reduces risk in terms of dynamic environmental change and cases of change in preference of consumer tastes. A company might be willing to diversify to take leading positions or to take over more profitable firms.

Reduction of Risk

Two or more companies would decide to go for a merger if they are confident that they can be successful by working together. Better human resources as well as capital resources can be obtained through the process of merger and acquisition which leads to security in terms of these areas. In addition to these, the reason behind M&A is to reduce the employment risk of top-level managers. Besides this, M& A widens the area of service as companies being bought have access to a large number of customers after the merger thereby leading to the success of the company. Companies producing complementary goods get merged to divide risk and adjust to dynamic environmental change.

Acquisitions of Specific Assets

It is possible that every company may not have all the resources or strengths required for successful growth and operation. Acquisition of specific assets is one of the reasons for M & The company may want to acquire all competencies and resources that it lacks. That asset may be a source of raw materials, a good management team, or good research and development facilities. It might be easier, faster, and cheaper to acquire new products, new facilities, or a national distribution network by merging with a company that has developed such assets. A large company may purchase a company with unique technologies and develop a competitive edge which is essential in the competitive market.

Growth

Another important motive for the merger is growth. There is no doubt that a company can have internal growth but due to time perspective, external growth through the process of merger and acquisition is preferred by companies. As opined by Weston, Chung, and Hoag (1990), some factors favour external growth. There is a high possibility of achieving objectives promptly through an external acquisition. M & A. reduces risk, lowers costs, and gets tax advantage. Acquisition may be highly preferable as the commencement of a new organization involves high costs. There may be effective utilization of assets or management after M & A. activities.

Shareholder Gains

Another reason behind M&A is shareholder gains. Shareholder gains mean an increase in the market value of the firm. The market value of the firm can be increased by increasing profits. Profit can be maximized by reducing costs, efficient operation, and enhancing market power. An increment in the value of a firm provides direct benefits to its owners (shareholders). The merger is considered to be successful only if it can generate profits for shareholders.

Tax Advantages

There are many ways by which companies may lower their taxes through merger and acquisition activity. A state government and its corporate bodies provoke companies to undergo the process of merger and acquisition by imposing a flexible tax rate system. Companies that have net operating losses wish to go for merger and acquisition as the combined firm will have reduced tax liabilities than two firms operating separately.

Increase Market Share and Revenue

Revenue can be maximized by the process of merger and acquisition. Value can be created through acquisition. Market power is the ability of a market participant or group of participants to control the price, quantity, or nature of products that have been sold, leading to generating extra-normal profits. An increase in the power of the new entity in the market leads to an increase in market share. This improves the investment opportunities of the firm. Zheer & Souder (2004) state that an increase in market power and revenue can be achieved through horizontal M & A as market power may give rise to the formation of monopolies or oligopolies. Horizontal integration refers to an increase in market share and market power which finally leads to an increase in price and thus revenues. The size of the company increases after M&A Therefore, to obtain a high position and market share, companies decide to go for M&A.

Improvement in Efficiency and Profitability

There is a perception that a merger leads to improvement in the efficiency and profitability of a firm. However, this may not be the same case always. Most of the time, the merger gives rise to an increment of efficiency and profitability as well because the combination of firms gives synergic results. The profitability of merged firms rises and efficiency too increases. All mergers may not succeed in achieving their objective in the short period immediately following the merger. Even if an efficient firm takes over a less efficient firm, there is equal possibility that the combined firm may face a difficult period for several years before it attains the previous efficiency level of the bidder.

2.3 Empirical Review

This study examined the motives behind mergers in the Indian banking industry and compared the financial performance before and after mergers. The study utilized financial parameters such as gross profit margin, net margin, return on capital employed, return on equity, and debt-equity ratio, along with statistical tools like the independent t-test. The research spanned six years, three years before and three years after the merger. The findings indicated that following the merger, the financial performance of banks improved (Devarajappa, 2012).

The operating performance and shareholder value of acquiring companies and comparing their performance before and after the merger in the Indian oil and gas sector. They concluded that mergers do not improve financial performance at least in the short term. Sana & Nishat investigated the short-term market response associated with seven M and A in the banking sector of Pakistan. They divided the merger and acquisition transactions into three categories. Their results indicate statistically significant investor reactions around the merger announcements. The combined mean CARs for the target banks group and bidder group are both positiveand statistically significant (Trivedi C. J., 2013).

The article "Merger and Acquisition in the Nepalese Banking sector," highlights the challenges facing the Nepalese banking sector, portraying it as a critical juncture. To address these challenges, the Nepal Rasta Bank (NRB) has mandated banking institutions to pursue mergers and acquisitions, offering various benefits to the merging entities. In response to these incentives, banks and financial institutions in Nepal are increasingly opting for the merger process. The current scenario is characterized by three main factors compelling the Nepalese banking sector to engage in M&A: liquidity crunch, capital requirements, and market openness (Kafle, 2013).

The impact of mergers and Acquisitions on operating performance and shareholder wealth in the Pakistani banking sector. The paper studied the impact of acquiring firms before and after the transaction. They have selected 3 transactions of mergers and acquisitions in the Pakistani banking sector from 2007 to 2010 with both domestic and foreign banks that are operating in Pakistan. They have usedevent study methodology to determine the post- merger impact on operating performance and shareholders' wealth of the bidder firms. The study showed that the ratios of operating performance and shareholder's wealth decreased after the Transaction, which shows the negative effect of M&A transaction on the EPS and shareholder's wealth. Hence the null hypothesis is accepted (Javid, 2016).

This study was undertaken on the effects of mergers and acquisitions on revenue efficiency and the potential determinants: evidence from Malaysian banks. This paper discusses identifying the effects of regulators-guided mergers on production efficiency gains of Malaysian banks as measured by revenue efficiency ratioand capital gearing ratio etc. The paper also examines the potential bank-specific and macroeconomics determinants correlated with revenue efficiency. The study sample consisted of banks that were engaged in mergers during 2002-2009. This study's results that revenue efficiency did not improve after the merger, meanwhile, size, market power,and management quality were shown to be correlated with the revenue efficiency of Malaysian banks (Fakarudin, 2014).

This study was conducted on mergers in service sectors: post-merger financial analysis of ICICI bank. This paper evaluates the perforce of the ICICI bank, after buying the Sangli Bank in April 2007 and the Bank of Rajasthan in May 2010. Thisstudy mainly focused on pre- and post-amalgamation performance and was analyzed based on financial statements of ICICI bank from (2004- 2014) by using various financial ratios such as net profit margin, ROA, ROE, ROI, return on advances, debt/equity ratio, current ratio, quick ratio, and EPS.T-test was applied to the various financial ratios forbefore and after merger data. The results show that, out of the total performance ratios of ICICI Bank half of the ratios have significantly changed after mergers in both sample cases (Singh, 2015).

In his article "The effect of merger and Acquisition on Performance of Commercial bank in Nigeria" " published in the International Journal of Education and Research had found that the bank CAR (Capital adequacy ratio) for theperiod after merger and acquisition is higher than the mean before the exercise. The exercise has improved the performance of the bank in terms of capital adequacy. The bank's ROA (return on asset) has not improved by the exercise after the merger of the bank, which told the management competency had not improved. The mean ratio of profit before tax for the period after the exercise of the merger of the bank was higher. The bank's performance hence in terms of earning efficiency has improved. The mean ratio investment deposit ratio after the exercise of the merger of the bank is higher. The bank maintained and improved liquidity efficiency. That's why; the bank's performance is higher than that of the pre-merger. The bank exercised performance is improved in terms of asset quality due to the mean ratio of performing loans to total loans after exercise ishigher (Anderibom, 2015).

He studied the impact of bank mergers on shareholders' wealth and the post-merger scenario in the Nepalese banking sector. His research aimed to examine the influence of independent variables like cost efficiency, return on assets (ROA), return on equity (ROE), and capital on the dependent variable, earnings per share (EPS), of the merged banks in Nepal. Various statistical methods such as mean, standard deviation, correlation, and regression were utilized to assess the effect of bank mergers on shareholders' wealth. The study focused on banks that underwent mergers between 2011 and 2015. Empirical analysis of these merged banks involved comparing their performance before and after the merger to provide insights into their successes and failures. Quantitative techniques were employed, utilizing financial data from the banks' statements to calculate different financial ratios serving as proxies for measuring shareholder wealth. These ratios included earnings per share, return on assets, return on equity, capital base, and cost efficiency. Correlation and regression analyses were conducted to examine the relationships between variables such as assets and ROA, equity and ROE, and determine their respective trends of increase or decrease (Bhatt, 2016).

Her studied on This study focused onoverall seven years of performance data two years considered as pre-merger performance (2010/11 to 2011/12) and the remaining two years considered as post-merger performance (2012/13 to 2014/15), to measure the impact of M&A of shareholders wealth of Machhapuchchhre bank and NIC ASIA bank using different profitability ratio, Liquidity ratio and financial ratio which shows banks can perform better after merger with other banks and concluded that post-merger performance is better compared to the pre-merger performance of both selected banks (Shahi, 2018).

This study focused on examining how mergers affect the operational performance of acquiring companies, with a sectoral analysis approach. The study aimed to evaluate the influence of acquisitions on the acquiring firm. Various ratios were chosen, and a paired t-test was utilized to achieve the study's objectives. Data was gathered from audited balance sheets, profit and loss accounts of relevant companies, the CMIE database, as well as the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The hypothesis posited that acquiring companies exhibit improved operational performance following mergers and acquisitions compared to their performance before the mergers (Gupta & Mishra, 2020).

Summary of Literature Review

The summary of articles, journal, and academic thesis are as follows:

Author	Title	Methodology	Major Findings
(Fields, 2007)	The viability of bank combinations for US and non-US mergers between 1997 and 2002	Seven banks were selected assamples through random sampling method and analysis using correlationand regression methods.	Found positive gain and no significant risk shift for shareholders of bidding firms, and that higher CEO stock ownership results in less positive gains for shareholders.
(Boubakri, 2008)	Effect of Merger and Acquisitions on the long run performance in the property-liability insurance industry	Three insurance companies as a sample merged during the period from 2000 to 2008. Different type of ratios was used to analyze data and a paired sample t-test was applied to test the hypotheses.	The study showed that mergers and acquisitions create value in the long run as buy-and-hold abnormal returns are positive and significant after 3 years.

(Natarajan & K., 2011)	Implications of Merger and Acquisitions on the financialpositions of banks	This study compared five years pre and five years post-merger on the operating performance of banks, taking private and public sector banks as samples. Paired sample t-test was used as a test of the hypothesis.	The study showed that private sector banks were better in the pre-period as compared to their performance in the post-merger but public banks showed positive changes in the post-merger period.
(Trivedi a. , 2013)	Impact of merger on operating performance andshareholder's value of Acquirer Company in IndianOil and gas Sector.	The study used mean, and standard deviations and was considered as a sample oftwo companies merged from 2000 to 2012.	The study concluded that mergers do not improve financial performance at least short term but in the long run, the result indicates statistically significant investor reactions around the merger announcements.
(Kayani Javid, Javed, , & Majed, 2013)	Impact of Merger and Acquisitionsin Nepalese Banking Sector.	To evaluate the impact ofM&A three domestic and foreign banks were selectedas a sample merger period from 2007 to 2010. Event study methodology was used.	The study showed that the operating performance and shareholders' wealth decreased after the merger period.
(Fakarudin, 2014)	Effect of merger and acquisitions on revenue efficiency and the potential determinants: evidence from Malaysian banks.	The study was analyzed through the revenue efficiency ratio. The sample was selected and engaged in a merger during2002 -2009. An Independent t-test was	The result of the study found that revenue efficiency did not improve after the merger period.

		used.	
(Singh , 2015)	Merger and its impact in the service sector: post-merger financial analysis of ICICI bank.	Various financial ratios were used such as NPM, ROA, ROI, EPS, etc. Six years of data were taken to analysis ratios by using an independent t-test technique.	The study showed that out of the total performance ratios of ICICI bank, half of the ratio significantly changed after the merger in both samplecases.
(Anderibom, 2015)	The effect of merger and acquisition on performance of commercial bank in Nigeria.	Data were analyzed through different statistical tools and financial ratios. They used the regression method to analysis the effect of mergers and acquisitions.	All the parameters and ratios were positively improved in the past-merger period compared to the pre-merger period. The study concluded that mergers and acquisitions affect positively the performance of commercial bank in Nigeria.
(Joash, 2015)	The effect of mergers and acquisitions on financial performance of banks (A survey of commercial banksin Kenya)	The study was a census of which all the 14 banks that have merged in the period from 2000 to 2010 data were investigated. Data was collected by use of questionnaires with both open and closed-ended questions. Using SPSS, co- efficient of correlation obtained was used to determine the effect.	The study found that the mergers and acquisitions raised the shareholder value of the acquiring banks in Kenya.

(khan, 2016)	Impact of merger on Shareholderswealth in the Indian bankingindustry.	The sample comprised of five mergers banks taking mergers from 2002 to 2010. The study used standard risk-adjusted event methodology.	The study showed the expectations of shareholders of target and bidder banks unable to earn abnormal returns neither before nor after the announcement of M&A.
(Pathak, 2016)	Post-merger effect on operating performance of financial institutions.	All 50 financial intuitions that had been merged till 2013 attempted as a sample to find the effect of the merger through various financial indicators. T-test has been used to test SPSS and Excel has been used to analyze the data.	The study showed that merger effect positively on operating performance after the merger period compared to before period in financial intuitions.
(Kiesel, 2017)	Impact of Mergers and acquisitions on shareholder's wealth in the logistics service industry.	The study was analyzed by taking a sample of 826 transaction announcements that took place between 1996 and 2015. The regression method was used as methodology.	The study showed positive abnormal returns on shareholders' wealth after the merger period in the logistics service industry.

(Shahi, 2018).	Effect of merger and acquisitions on shareholder's value at sample banks in terms of pre-merger and post-merger analysis.	Two years pre and Two years post data were analyzed using different profitability ratios, liquidity ratios, and financial ratios. Independent t-test was used to analyze the effect of M&A.	The study showed that banks can perform better after a merger with other banks and concluded that post-merger performance is better compared to pre – merger.
(Gupta,2019)	Impact of merger on operating performance of acquiring firms: sectoral analysis.	Various ratios were chosen, and the study's objectives were pursued using a paired t-test.	The study proposed that acquiring companies demonstrate improved operational performance after M&A compared to their performance Before the M. A

2.4 Research Gap

Research gap refers to the study of gap-related studies made previously. The study aims to find out the pre-merger and post-merger performance of Bank of Kathmandu Limited, Prime Commercial Bank Limited, Global IME Bank Limited & NIC Asia Bank Limited. Various statistical as well as financial tools have been used in this study. The history of mergers and acquisitions in the international market began long before the early 1900s which has led to various studies examining the post-merger profitability, transaction cost analysis involved during the process of merger and acquisition, and other topics related to cultural clashes and so on. At present, M&A is an increasing trend as it improves the competitiveness of companies by gaining a greater share of the market, entering into new markets, broadening the portfolio to minimize business risk, capitalizing economies of scale, etc.

In the context of Nepal, the history of mergers dates back to the late 80s when Eastern Electricity Corporation merged with the Nepal Electricity Authority (NEA). Merger and acquisition activities seem to have been an increasing trend since 2011, especially in the banking and financial sectors. Many attempts were made to find out past studies regarding reviewing the literature on mergers and acquisition but only a few studies have been done on such topics. Only a few studies regarding mergers and acquisition and their survival in the future have been done. Due to the introduction of the Merger Bylaw 2011, a drastic change has been seen in Nepalese BFIs.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

Research design is defined as the specification of methods and procedures for obtaining the information required for a study. The research design used for the study is descriptive and analytical. It defines the structure and strategy of the research.

In this research, the researcher was used quantitative method to fulfill the overall objective. This study is based on a descriptive and comparative research design to address the various issues raised in studies related to the pre-merger and post-merger performance of banks.

3.2 Population and sample of the study

There are 20 commercial banks in Nepal. The basis of the sample to represent the banking sector is mergers and acquisitions of commercial banks. The study found that 5 commercial banks were taken as a sample. KBL, GBIME, PCBL, NIMBL, and NMB were selected as samples for the present study due to the easy availability of data. This research study aims to study the merger and acquisition aspect of selected commercial banks concerning KBL, GBIME, PCBL, NIMBL, and NMB for which the relevant data from five years before the merger and five years after the merger has been analyzed.

3.3 Nature and Sources of Data Collection

Mainly, this study is conducted based on the Secondary sources of data. The necessary data for analysis is sourced from the balance sheets, profit and loss accounts, and audited annual reports of KBL, GBIME, PCBL, NIMBL, and NMB spanning the relevant period. Additional data and information were obtained from financial statements such as the Statement of Financial Position, Statement of Comprehensive Income, and Statement of Cash Flow for various years before and after the merger period. Furthermore, supplementary data from books, publications, relevant documents, and journals were also utilized. The collected data were utilized to assess the profitability of NPL, ROA, ROE, and CAR using the published financial statements and reports of the merged banks.

3.4 Method of Data Collections

The main objective of this study is to assess the impact of mergers and acquisitions on the Nepalese banking industry. Different sources will be explored for the collection of data and information on variables. Some of the sources that will contribute to for collection of data and information on the variables are as follows:

- Websites of sample bank.
- Website of Nepal Rastra Bank.
- Annual report of banks.

Various data that had been collected during the study were used for interpreting the data. Those collected data were then coded and tabulated in a required manner. Tabulated data were processed and then analyzed systematically by classifying them into different headings and sub-headings to meet the objectives of the research. Different statistical tools like mean and standard deviation were used. Software like MS Excel and MS word was also used.

Method of Data Analysis Tool

The researcher used SPSS for statistical analysis and interpretation, while MS Word was employed for documentation and presentation of tables.

Financial Tools

A. Returns on Assets

This ratio shows the relationship between Net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio indicates the ability to generate profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for the return expected on future purchases of assets. A higher ratio shows more efficient operating management and a lower ratio shows thelow efficient operating management. It is calculated as follows:

Return on Assets (ROA) = (Net Income after Tax)/ (Total Assets) *100

B. Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) is set by the regulatory authority and is used to test the health of the banking system. It ensures that the bank can absorb a reasonable number of losses. It is the ratio of a bank's capital to its risk. In the case of the banking sector, the Capital adequacy ratio is set by the regulatory authority. It reflects the inner strength of the bank and is used to provide security to depositors and promote the stability and efficiency of financial systems around the world. It is calculated as

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital Fund}}{\text{Total Risk−Weighted Assets}} * 100$$

C. Non-Performing Loan (NPL) to Total Loan

A non-performing loan is defined as an amount borrowed that the borrower has not made a scheduled payment for a specified period. Gross debt to non-performing loans is the value of loans divided by the total value of the total loan portfolio. An increase in non-performing loans to total loans indicates a risk to the asset, while a lower ratio indicates a lower probability of default. It is calculated as: ***Non-performing Loan (NPL) to Total Loan***$=\frac{\text{Non−Performing Loan}}{\text{Total Loan}} * 100$

D. Return on Equity

Return on equity (ROE) is a financial performance metric determined by dividing net income by shareholders' equity. As shareholders' equity is the difference between a company's assets and liabilities, ROE represents a return on net assets. This metric is utilized to assess a corporation's profitability and its effectiveness in generating profits. ROE is typically presented as a percentage and can be computed for any company when both net income and equity are positive figures. Net income is calculated before distributions to common shareholders but after dividends to preferred shareholders and interest to creditors.

$$\boldsymbol{Return\ on\ Equity}(\boldsymbol{ROE}) = \frac{\text{Net Income}}{\text{Average Shareholders}'\text{Equity}}$$

Statistical Tools

Statistical tool measures the relationship between two or more variables. It helps to present data and show the relation as well as deviations of variables of organizations. To conclude once the data had been collected, different statistical tools like arithmetic mean, multiple bar diagram, and tabulation were used to obtain results after analysis of data.

A. Arithmetic mean

The arithmetic mean, also known as the simple mean, of a set of observations is calculated by adding up all the values and then dividing the total by the number of observations. In simpler terms, it represents the average value of the data set. This statistical measure is particularly valuable when the cumulative sum of the values carries significance. It is calculated as:

$$\text{Mean } (\overline{x}) = \frac{X1 + X2 + X3 + \cdots \ldots\ldots\ldots\ldots Xn}{n}$$

$$= \frac{\Sigma X}{n}$$

Where,

$\overline{x}$ denotes arithmetic mean, n denotes the no. of periods and $X1_{,} X2 \ldots \ldots \ldots Xn$

X is the individual observations.

B. Standard deviation (σ)

Standard deviation is the measure of dispersion of a set of data from its mean. It is defined as the root-mean-square deviation as it is the square root of means of the squared deviations from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation and the greater will be the magnitude of the deviation of the values from their mean. The main objective of standard deviation is to know how spread out a data set is. A small standard deviation denotes a high degree of uniformity of the observations as well as homogeneity of a series and vice-versa. It helps to analyze the quality of data regarding its variability. It is calculated as

$$\textbf{Standard Deviation (S.D.)} = \sqrt{\frac{\sum(X-\overline{X})^2}{n}}$$

Where,

X=	each value
$\overline{x}$=	the average of all values
n=	the number of values
t=	Student's t-test
$\bar{x}$=	mean
μ=	Population Mean
s=	standard deviation
{n}=	variable set size

C. Correlation coefficient:

The correlation coefficient serves as a gauge of how variables move together, indicating their mutual relationship. It quantifies the degree of linear association between two or more variables, with values ranging from -1 to +1. In mathematical terms,

Correlation Coefficient: $$\frac{N\sum XY-(\sum X)(\sum Y)}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$$

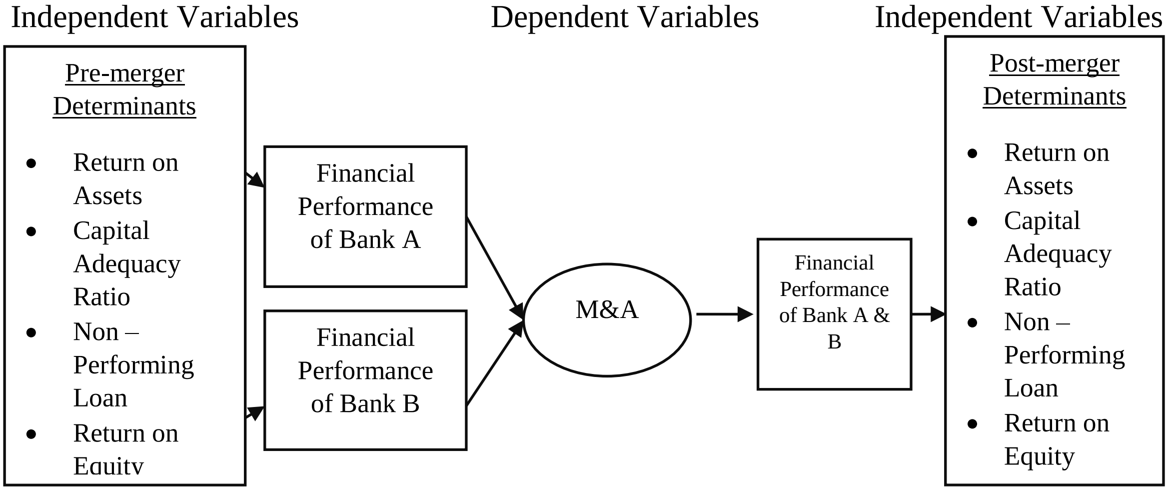
D. Regression:

Regression analysis is a statistical method that examines the typical connection between two or more variables within the context of the original data units. Simple regression analysis specifically delves into the typical relationship between just two variables, gauging change per unit. Multiple regressions, on the other hand, expand upon simple linear regression by incorporating two or more independent variables to predict the values of a dependent variable.

Y = a + bX
a = Constant
b = Beta coefficient

3.5 Research Framework and Define of Variable

The Research framework of our study is shown below:



Source: Research framework developed by (Shrestha, Thapa, & Phuyal, 2017).

Define Variables

A. Returns on Assets

This ratio shows the relationship between net profit and total assets and determines how effectively the management has used the total assets. This ratio indicates the ability to generate profit per rupee of total assets. It evaluates the current return on total assets as a guide to the expected return on future purchases of assets. A higher ratio indicates more efficient operational management and a lower ratio indicates less efficient operational management

B. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is set by the regulatory authority and is used to test the health of the banking system. This ensures that the bank has a reasonable number of losses bearing capacity. It is the ratio of a bank's capital to its risk. In the case of the banking sector, the capital adequacy ratio is determined by the regulatory body. It reflects the bank's internal strength and is used to provide security to depositors and promote the stability and efficiency of the financial system around the world.

C. Non-Performing Loan (NPL)

A non-performing loan is defined as an amount borrowed that the borrower has not made a scheduled payment for a specified period. Gross debt to non-performing loans is the value of loans divided by the total value of the total loan portfolio. An increase in non-performing loans to total loans indicates a risk to the asset, while a lower ratio indicates a lower probability of default.

D. Return on Equity (ROE)

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity equals the company's assets minus its debt, ROE is considered a return on net assets. ROE is considered a gauge of a corporation's profitability and how efficient it is at generating profits. ROE is expressed as a percentage and can be calculated for any company if both net income and equity are positive numbers. Net income is calculated before payments to common shareholders after dividends to preferred shareholders and interest to creditors.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Data Presentation and Analysis

The data collected from the annual reports of the banks underwent analysis using T-tests. To assess the effects of mergers on the financial performance of KBL, GBIME, PCBL, NIMBL, and NMB, comparisons were made before and after the mergers by calculating different financial and accounting ratios such as ROA, CAR, NPL, and ROE. Ratio analysis, which involves comparing information from financial statements to gain insights into a company's liquidity, operational efficiency, and profitability, was utilized. This method aids in providing information about a company's financial position. The study employed various ratios and data from both pre-merger and post-merger periods to understand the impacts of mergers and acquisitions on banks in the Nepalese banking industry.

Pre-& Post-M & A Data of KBL, GBIME, PCBL, NIMBL &NMB Bank

Table 1: Financial Data of Kumari Bank Limited

Status	Year	ROA	CAR	NPL	ROE
Pre- Merger	2070/71	1.10	11.81	4.03	28.68
	2071/72	1.06	10.84	2.49	23.42
	2072/73	1.69	12.95	1.15	22.01
	2073/74	1.29	14.50	1.86	24.61
	2074/75	1.26	13.36	1.05	13.68
	2075/76	1.17	11.75	1.01	14.85
Post-Merger	2076/77	0.76	15.35	1.39	15.39
	2077/78	1.04	13.71	0.96	26.13
	2078/79	1.00	12.63	1.11	14.05
	2079/80	0.74	9.69	2.75	18.67

Source: *from the annual report of Kumari Bank Limited*

In the above table, Pre- Merger, the Return on Assets (ROA) fluctuates mildly, starting at 1.1 and reaching a peak of 1.69 before declining. Capital Adequacy Ratio (CAR) remains relatively stable, ranging from 10.84% to 15.35%. Non-performing loans (NPL) start at 4.03% and decrease, reaching as low as 1.01%. Return on Equity (ROE) begins at 28.68% and decreases over time. Post-merger, ROA decrease sharply to 0.76% in the first year, gradually increasing afterward. CAR shows an initial increase. NPL increases initially, then decreases, while ROE starts lower than pre-merger levels, rises, and then decline again.

The merger seems to have impacted some financial indicators. There's a noticeable decrease in ROA and ROE post- Merger, possibly indicating challenges in maintaining profitability. NPL initially increases post- Merger, suggesting potential integration issues or changes in risk management. Further analysis could explore the reasons behind these trends and their implications for the merged entity's financial health and strategic direction.

Table 2: Financial Data of Global IME Bank Limited

Status	**Year**	**ROA**	**CAR**	**NPL**	**ROE**
	2070/71	1.62	12.38	2.55	15.90
	2071/72	1.39	12.69	2.23	13.06
	2072/73	1.58	12.35	1.89	16.99
Pre- Merger	2073/74	1.75	11.37	1.6	19.33
	2074/75	1.67	11.47	0.77	16.19
	2075/76	1.82	12.31	0.55	14.47
	2076/77	1.06	12.48	1.76	12.88
	2077/78	1.21	13.20	1.41	13.53
Post – Merger	2078/79	1.38	12.67	1.28	13.93
	2079/80	1.30	13.34	3.15	14.19

Source: *from the annual report of Global IME Bank Limited*

In the above table, Pre- Merger, ROA exhibited slight fluctuations, with the highest in 2073/74 at 1.75% and a decline afterward. CAR remained relatively stable, hovering around 12%. NPL showed a decreasing trend, reaching its lowest at 0.55% in 2075/76, indicating improved asset quality. ROE peaked in 2073/74 at 19.33% but decreased in subsequent years.

Post-merger, ROA decreased notably to 1.06% in 2076/77 and slightly recovered afterward. CAR remained relatively steady. However, NPL surged to 3.15% in 2079/80, signifying deteriorating asset quality post-merger. ROE fluctuated but generally remained lower compared to pre- Merger levels. The data suggests that while the Merger may have affected ROA and NPL negatively, other metrics like CAR remained relatively unaffected. The declining trend in ROE indicates potential challenges in optimizing returns for shareholders post-merger, possibly influenced by increased NPL. Further analysis of operational and strategic changes post-merger would provide deeper insights into these trends.

Table 3: Financial Data of Prime Commercial Bank Limited

Status	**Year**	**ROA**	**CAR**	**NPL**	**ROE**
Pre- Merger	2070/71	1.46	12.4	2.43	15.30
	2071/72	1.63	12.16	1.83	17.21
	2072/73	2.05	11.60	1.23	20.65
	2073/74	1.89	13.28	0.88	15.68
	2074/75	1.82	12.24	0.85	15.40
	2075/76	2.15	12.76	1.00	16.40
Post – Merger	2076/77	1.48	13.84	1.48	10.97
	2077/78	1.72	14.82	0.99	13.65
	2078/79	1.33	13.12	1.77	17.74
	2079/80	0.47	12.28	4.23	36.81

Source: *from annual report Prime Commercial Bank Limited*

The data presents financial metrics over several years pre- and post- M & A, focusing on Return on Assets (ROA), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Return on Equity (ROE). Pre-merger, ROA gradually increased from 1.46% in 2070/71 to 2.15% in 2075/76, indicating improving asset utilization. CAR remained relatively stable, while NPL decreased from 2.43% to 1% over the same period, suggesting improved loan quality. ROE fluctuated but generally showed an upward trend, indicating increasing profitability relative to shareholder equity.

Post- Merger, ROA dipped slightly to 1.48% in 2076/77 but then rose to 1.72% in 2077/78. CAR increased noticeably, indicating enhanced financial strength. NPL initially increased post-merger, then decreased, possibly indicating transitional challenges in managing loan quality. ROE initially dropped post-merger but showed signs of recovery by 2077/78.

However, incomplete data for 2078/79 and 2079/80 limits a comprehensive analysis. These missing data points could be crucial for understanding the long-term effects of the - M & A on financial performance and stability. Further analysis would require completing the dataset and considering broader economic and industry factors impacting the bank.

Table 4: Financial Data of Nepal Investment Mega Bank Limited

Status	Year	ROA	CAR	NPL	ROE
Pre- Merger	2070/71	2.30	11.27	1.77	27.6
	2071/72	1.90	11.90	1.25	24.80
	2072/73	2.00	14.92	0.68	26.00
	2073/74	2.10	13.02	0.83	19.10
	2074/75	2.13	12.66	1.36	14.71
Post - Merger	2075/76	1.79	13.26	2.78	13.00
	2076/77	1.19	13.54	2.91	8.90
	2077/78	1.58	14.71	2.46	11.00
	2078/79	1.55	15.96	1,49	11.10
	2079/80	0.83	13.32	4.54	6.69

Source: *from the annual report of Nepal Investment Mega Bank Limited*

In the above table, the data presents financial metrics over several years, including Return on Assets (ROA), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Return on Equity (ROE). From 2070/71 to 2075/76, ROA remains relatively stable at around 2%, indicating consistent profitability. CAR fluctuates between 11.27% and 14.92%, suggesting the bank's capital adequacy is generally healthy. NPL starts at 1.77% in 2070/71, and rises to 1.36% in 2074/75, indicating a worsening loan quality. Meanwhile, ROE fluctuates between 19.1% and 27.6%, showing decent returns on equity. After a - M & A in 2075/76, there's a significant drop in ROA to 1.79%, and CAR remains relatively stable. However, NPL rises sharply to 2.78%, indicating potential challenges post-merger. ROE decreases to 13%, signalling lower profitability. Subsequent years show mixed performance with decreasing ROA and fluctuating CAR. NPL remains high, reaching 4.54% in 2079/80, indicating a continued struggle with loan quality. ROE remains relatively low, suggesting challenges in generating returns for shareholders. Overall, the data highlights the importance of monitoring NPL and post- Merger integration for sustained financial health.

Table 5: Financial Data of NMB Bank Limited

Status	**Year**	**ROA**	**CAR**	**NPL**	**ROE**
	2070/71	1.36	10.75	0.55	15.32
	2071/72	1.21	11.13	0.42	15.86
	2072/73	1.92	10.98	1.81	21.96
Pre-Merger	2073/74	1.82	13.61	1.68	16.49
	2074/75	1.8	15.75	0.88	13.54
	2075/76	1.83	15.45	0.82	13.32
	2076/77	1.09	15.08	2.68	8.94
	2077/78	1.31	15.09	2.27	12.01
Post – Merger	2078/79	1.35	13.59	1.45	12.45
	2079/80	1.19	13.33	2.75	11.65

Source: *from the annual report of NMB Bank Limited*

From the above table, the data provided presents financial metrics pre- and post- Merger, spanning a decade. Pre- Merger, Return on Assets (ROA) fluctuated mildly, peaking at 1.92 in 2072/73. Capital Adequacy Ratio (CAR) remained relatively stable, indicating robust financial health. Non-performing loans (NPL) experienced a notable spike in 2072/73, potentially indicating increased credit risk. Return on Equity (ROE) surged to 21.96% in 2072/73 before stabilizing.

Post-Merger, ROA increased, 1.31% in 2076/77, potentially signalling operational challenges. CAR remained steady, suggesting continued financial stability. However, NPL sharply rose, reaching 2.75 in 2079/80, indicating heightened credit risk post-Merger. ROE fluctuated but generally increased, indicative of potential efficiency challenges or increased costs.

Overall, the merger appears to have impacted financial performance, particularly in terms of NPL and ROA. Further analysis, including factors like integration challenges, market conditions, and strategic shifts, would provide deeper insights into the merger's effects on the company's financial health and operational efficiency.

4.2 Inferential Analysis of Variables

Result of Paired T-test

T-tests is to determine the significance of differences in individual ratios, while paired sample t-tests were utilized to analyze the overall pre- and post- Merger financial performance. Specifically, the paired two-sample t-test for means was employed, computing the average of pre- and post- Merger performance to ascertain significant differences at a 5% level of significance across all ratios for the sampled banks. The P-value (two-tailed) for each pre- and post- Merger financial ratio served as an indicator of significance, with values below 0.05 signifying significant differences and values above 0.05 indicating insignificant disparities between pre- and post- Merger financial ratios. Mean results were also examined for each ratio.

Table 6: Result of Paired t-test of variables

Ratio		Mean	Variance	t- value	p-value
ROE	Pre	4.85	28.34	-2.129***	0.006***
	Post	12.25	29.91		
ROA	Pre	0.90	2.17	-1.246	0.24
	Post	1.84	7.88		
CAR	Pre	14.553	14.87	0.77805	0.47
	Post	18.768	19.56		
NPL	Pre	6.57	35.16	0.558	0.59
	Post	5.05	16.25		

(**Significance at 5% level of significance, ***Significance at 10% level of significance)

In above table, the merger's impact on sample bank performance was evaluated, demonstrating notable changes in pre- and post- financial performance. For instance, the mean ROE increased significantly from 4.85% to 12.25%, supported by a t-value of -2.129, indicating substantial improvement post-merger. Similarly, the mean ROA rose from 0.90% to 1.84%, with a t-value of -1.246, signalling significant enhancement following the merger. Conversely, the NPL to total loan ratio decreased from 6.57% to 5.05%, albeit with a t-value of 0.77805, suggesting a less pronounced change.

Additionally, the CAR declined from 16.65% to 14.55%, supported by a t-value of 0.55, indicating a decrease in capital adequacy post- M & A.

Regression Analysis

The study used a multiple regression model to examine the impact of independent variables on the performance of pre-merger banks, which was assessed through various ratios including ROE, ROA, NPL, and CAR.

Before Merger and Acquisition

The strong Multiple R-values of 0.8026 in Table 7 indicates a significant link between the independent variables and the dependent variable. This strengthens the study's credibility, suggesting a meaningful relationship between the factors studied.

Table 7: Regression Output of Before M & A

Model	Intercept	ROA (x1)	NPL (x2)	CAR (x3)
Coefficients	-13.157	-0.949	-1.681	-1.205
t Stat	-0.470	-0.324	-2.695	-2.512
P-value	0.657	0.758	0.0432	0.0539
Multiple R			0.802	
R Square			0.644	
F			2.26	

The provided regression analysis sheds light on the relationship between the dependent variable and the predictor variables. While the intercept and the coefficient for ROA (x1) exhibit non-significance with p-values of 0.657 and 0.758 respectively, indicating they may not significantly contribute to the model, the coefficients for NPL (x2) and CAR (x3) are statistically significant, with p-values of 0.0432 and 0.0539 respectively. This suggests that Non-Performing Loans (NPL) and Capital Adequacy Ratio (CAR) indeed have a discernible impact on the dependent variable. The model demonstrates a moderate-to-strong fit, as evidenced by the Multiple R of 0.802 and R Square of 0.644, implying that approximately 64.4% of the variance in the dependent variable can be explained by the independent variables. However, the overall significance of the model, indicated by the F-value of 2.26, is not statistically significant. This implies that while individual predictors are significant, collectively, they may not adequately explain the variability in the data. Further exploration and refinement of the model may be necessary to enhance its reliability and predictive power.

After Merger and Acquisition

The strong Multiple R-values of 0.737 in Table 7 indicates a significant link between the independent variables and the dependent variable. This strengthens the study's credibility, suggesting a meaningful relationship between the factors studied.

Table 8: Regression Output of After - M & A

	Intercept	ROA (x1)	NPL (x2)	CAR (x3)
Coefficients	4.7880	0.5397	-0.803	-0.9076
t Stat	0.322	0.9095	-1.893	-1.6308
P-value	0.760	0.4043	0.116	0.1639
Multiple R		0.737		
R Square		0.5438		
F		1.490		

Table 8 illustrates that a 1% change in ROA corresponds to a 0.53% change in ROE, while a 1% change in NPL results in a 0.80% change in ROE. Similarly, a 1% change in CAR leads to a 0.90% change in ROE, and a 1% change in Ratio yields a 0.30% change in ROE. However, it's important to note that there are additional factors influencing changes in return on equity beyond the four independent variables studied here. The specific model is outlined below:

$$= 4.788 + ROA0.53 \; + \; NPL\,(-0.80) + CAR\,(-0.90) + \; e$$

The Multiple R-values of 0.73 for the post-merger model indicates that 73% of the variation in ROE can be explained by the three independent variables.

Correlation Analysis

The coefficient of correlations displayed in Table 9 delineates the relationships among the independent variables.

Table 9: Coefficient of Correlations

		ROE	**NPL**	**ROA**	**CAR**
Correlations	ROE	1.000	0.33	0.150	-0.609
	NPL	-	1.000	-0.211	0.242
	ROA	-	-	1.000	0.063
	CAR	-	-	-	1.000

From the above table, ROE and NPL: A moderate positive correlation of 0.33 suggests that as ROE increases, NPL tends to increase slightly. This implies that higher returns might be associated with a slightly higher level of non-performing loans. ROE and CAR: A strong negative correlation of -0.609 indicates a significant relationship between ROE and CAR. As ROE increases, CAR tends to decrease. This suggests that higher returns are associated with lower capital adequacy, which may reflect aggressive leveraging or riskier investments. NPL and ROA: There's a weak negative correlation (-0.211) between NPL and ROA, suggesting that as non-performing loans increase, the return on assets may slightly decrease. CAR and ROA: There's a weak positive correlation (0.063) between CAR and ROA, indicating a slight tendency for higher capital adequacy to be associated with higher return on assets. Overall, these correlations provide valuable insights for financial analysis and decision-making, highlighting potential trade-offs between profitability, asset quality, and capital adequacy.

4.3 Discussion

Mergers have been undertaken for various motives including cost efficiency, revenue enhancement, capital position consolidation, economies of scale and scope, and so on. The study was carried out to find whether the financial performance of Banks and Financial institutions has improved after the merger or not. To determine whether the financial performances of BFI’s were improved or not T-test and regression models were used. T-test is one of the important to compare the mean of two groups. If you want to compare more than two groups, or if you want to do multiple pairwise comparisons, another test such as an ANOVA test or a post-hoc test needs to be used. To know whether one population mean is greater than or less than the other, a one-tailed t-test was used. In our study major three financial indicators i.e. Return on Assets, Capital Adequacy Ratio & Return on Assets were decreased after the merger. Similarly, Non-Performing Loans were also increased after the merger. Thus, the merger of big commercial banks doesn't seem to be fruitful. A discussion of our results with past studies is shown below:

In his research article "Impact of Merger and Acquisitions on Financial Performance of Private Sector Banks", has tried to assess the impact of mergers on financial performance based on variables like CAR, NPAs, Interest Expenditure, operating expenditure, Interest income, Provisions and Contingencies, Spread, Gross Profit, Net profit as percentage to total assets through pre-merger and post-merger comparison. The research concluded that there is an increasing tendency in NPAs while a decreasing tendency in spreads of the target bank. In our study as well, there was no significant decrease in NPA after the merger. However, changes in spread after the merger were not measured in our study (Laxman B, 2021).

Another journal entitled "Mergers and Acquisitions: Post-Merger and Acquisition Integration Strategies" published in the International Journal of Economics, Finance, and Management in July 2016, aimed at finding strategies that are appropriate in all kinds of situations. The study also revealed that the success of M&A is achieved by doing things right from the very beginning and getting the human factor right. The post-merger and acquisition stage is considered the most important part of the whole M&A process. Various things have to be considered before selecting the type of strategy to be adopted. It was finally concluded that there is no strategy that is appropriate for all situations as strategy is influenced by various factors like the type of deal, cultural differences, human resources, motives for M&A, sizes of the firms, competition, compatibility, etc. Neupane (2013) conducted a study to examine critical factors in the Merger and acquisition of Nepalese financial institutions. From the study, he concluded that merger and acquisition may improve the productivity of employees as well as the performance of banks as merger leads to the integration of information and communication technologies packages and good corporate governance. In addition to these, he also pointed out the fact that merged firms increase the ability to attract loans, increment in productivity of employees, and growth in net assets which was evident in the Nigerian banking industry. However, in our study employee's productivity before and after was not measured.

The article entitled "Merger and Acquisition as an Indispensable Tool for Strengthening Nepalese Banking and Financial Institutions" to find out the impact of ongoing M&A and to assess whether M&A helps to strengthen Nepalese BFIs. The study was used to find out the impact of the merger on employees, shareholders, and consumers of merged entities and made use of earnings per share (EPS) and market value per share (MPS) to evaluate the financial position of merged entities. It was concluded that only a few of the sampled financial institutions are technically efficient in giving more returns to shareholders. Based on analysis of the post-merger trend, there is the possibility of producing more returns to shareholders shortly by sampled banks. Here in our study, we concluded that sample banks were not able to provide better returns to their shareholders (Adhikari P. R., 2022). Kamel has used accounting ratios to analyze the financial performance of the Royal Bank of Scotland to find out whether the merger of the banks improves the profitability of a firm or not. He analyzed financial statements for four years from 2006-2009 by using 20 vital ratios that include ratios from profitability, liquidity, market value, etc. The study showed that the financial performance of the bank was unable to improve after the merger. Since the study was based on the Royal Bank of Scotland, other banks may or may not show improvement in financial performance after the merger period. However, the Royal Bank of Scotland was unable to improve its financial performance after the merger activity. In our study also we concluded that the financial performance of the bank was unable to improve after the merger (Kemal, 2011).

CHAPTER V
SUMMARY AND CONCLUSION

5.1 Summary

The major findings from t-test analysis**,** and regression analysis are presented below:

- ROA of all five selected BFIs has been decreased after the merger. The ROA of KBL before the merger was 1.17 which decreased to 0.76. after merger. The ROA of GBIME before the merger was 1.81 which decreased to 1.06 after the merger. The ROA of PCBL before the merger was 2.15 which slightly decreased to 1.48 after the merger. ROA OF NIMBL before the merger was 1.79 which decreased to 1.19 after the merger. The ROA of NMB before the merger was 1.83 which also decreased to 1.09 after the merger.
- CAR of KBL, GBIME, and PCBL NIMBL bank was increased after the merger. CAR of NMB was slightly decreased after the merger. CAR of KBL before the merger was 11.75 which increased to 15.35 after the merger. CAR of GBIME before the merger was 12.31 which increased to 12.48 after the merger. CAR of PCBL before the merger was 12.76 which slightly increased to 13.84 after the merger. CAR OF NIMBL before the merger was 13.26 which increased to 13.54 after the merger. CAR of NMB before the merger was 15.45 which also decreased to 15.08 after the merger.
- NPL of all five selected BFIs has been increased after the merger. NPL of KBL before the merger was 1.01 which increased to 1.39 after the merger. NPL of GBIME before the merger was 0.55 which increased to 1.76 after the merger. NPL of PCBL before the merger was 1.18 which slightly increased to 1.24 after the merger. NPL of NIMBL before the merger was 2.78 which drastically increased to 2.91 after the merger NPL of NMB before the merger was 1.14 which drastically increased to 2.48 after the merger.
- ROE KBL bank was increased, after the merger. However, GBOIME, PCBL, NIMBL.NMB decreased after the merger. The ROE of KBL before the merger was 14.85 which decreased to 15.39 after the merger. The ROE of GBIME before the merger was 14.47 which decreased to 12.88 after the merger. The ROE of PCBL before the merger was 16.40 which decreased to 10.97 after the merger. The ROE of NIMBL before the merger was 13 which drastically decreased to 8.9 after the merger. The ROE of NMB before the merger was 13.432 which decreased to 8.94 after the merger.

The before Merger Regression Model estimated the equation of ROE =-13.1578+ ROA (-0.94) + NPL (-1.680) +CAR (-1.20) + ROE 0.5868+e, which is changed to the equation of ROE = 4.788+ ROA0.53 + NPL (-0.80) +CAR (-0.90) + ROE 0.3069+e.

The Multiple R-values of 0.73 for the post-merger model indicates that 73% of the variation in ROE can be explained by the three independent variables.

Overall, these correlations provide valuable insights for financial analysis and decision-making, highlighting potential trade-offs between profitability, asset quality, and capital adequacy.

5.2 Conclusion

The banking sector in Nepal is experiencing rapid growth, transitioning from a sluggish entity to a vibrant industry. Its growth rate is noteworthy, making it the preferred choice for stakeholders. Nepalese banking is expanding at a remarkable pace, with mergers and acquisitions emerging as a new trend. Within this sector, mergers represent a form of horizontal integration, where merging entities are engaged in similar activities. This study aimed to assess whether post-merger performance has improved as a result of these mergers. Acquiring companies share the common goal of enhancing post-merger performance through these transactions.

Numerous studies worldwide have explored the impact of M&A on the performance of banking and financial institutions (BFIs). However, M&A remains a relatively new concept in our country. With the implementation of new M&A bylaws by the Nepal Rastra Bank in 2011 and monetary policies in 2015, there has been a noticeable rise in M&A activities within the Nepalese banking sector. Therefore, this study aims to evaluate the influence of M&A on the financial performance of banks in Nepal. Accounting and financial data from five commercial banks were utilized for this analysis, sourced from the financial statements of selected BFIs and the Nepal Rastra Bank from the period 2070-2080. This study addresses a notable gap in the understanding of M&A in Nepal. It seeks to assess the impact of M&A on the financial performance of banks through two statistical techniques: firstly, by analyzing pre- and post-M&A financial ratios, and secondly, by employing a sample t-test. The findings of the study indicate that there is no significant difference in the financial performance of banks between pre- and post-M&A periods, suggesting that the performance of banks does not improve following M&A. Key ratios such as Return on Assets (ROA), Capital Adequacy Ratio (CAR), Non-Performing

Loans (NPL), and Return on Equity (ROE) were examined to evaluate the financial performance of BFIs. There was no noteworthy increase in ROA, CAR, or ROE following the merger, and NPLs did not decline either. This study suggests that M&A does not seem to generate synergistic effects. While mergers are undertaken for various reasons such as cost savings, revenue enhancement, capital consolidation, economies of scale and scope, the attainment of merger objectives may vary after the merger.

Big mergers and force mergers have become the subject of discussion in Nepal. There are different news and views about mergers and acquisitions in media. However, many seem to lack a clear understanding of the merger and acquisition process. Mergers and acquisitions are tools to enhance organizational capacity. Merger involves the consolidation of two or more organizations into one with common objectives. Acquisition involves the takeover of one organization by another. Both operations have the same objective of enhancing organizational efficiency, which includes, among other things, reduction in cost, smoothness in operation, and rise in profitability of companies. Mergers and acquisitions are expected to generate a synergy effect and add value to the organization. However, during our study, we didn't find a significant impact of M&A on the financial performance of BFI's. Thus, Nepal's banking industry needs to be enlarged. But this does not mean it should be done randomly without proper consideration. They need to consider many different factors while initiating and accomplishing the process. There should be a series of deliberations between banks and regulators on this matter. Banks and regulators need to demonstrate a certain degree of flexibility. The government should play a supportive role and introduce some incentives to encourage the banks to go for mergers and acquisitions. Rather than being forced into it, M&A should be done because it is necessary. The merger should not be viewed as a sure-fire way to address market difficulties. Furthermore, before completing the merger, BFIs should make enough evaluations to select the right partners before executing the merger.

5.3 Implications

Based on various analyses, the researcher came out with the following implication.

- It is recommended that further study should be carried out on the effect of mergers and acquisitions on the financial performance of different sectors such as manufacturing and processing industries to enable drawing a parallel with the effects in the banking sector.

- Key factors that determine success in mergers and acquisitions should also be established to provide critical insight into the merging and acquiring organizations before, during, and after the process. This would be important since this study revealed that there is a percentage of organizations, though small, whose financial performance did not improve after the merger and acquisition.
- Intensive and extensive feasibility studies should be carried out before the merging or acquiring process is undertaken.
- Only a sample t-test was used to make a secondary analysis. Many other statistical tools can be used by future researchers like regression analysis, correlation, etc. to obtain more accurate results and conclusions.
- To evaluate the performance of the merged bank, the NRB carry out frequent appraisals and reappraisals. It helps to know the financial status which will assist in formulating new merger bylaws policies.
- Understanding the human side of merger and acquisition is not considered in our study. Thus, these research gaps can be considered by another researcher for further study.
- The study considers very few BFIs only. So, it is recommended to extend the analysis to other banks.

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Appendix

Table 1: Financial Data of Kumari Bank Limited

Status	Year	ROA	CAR	NPL	ROE
Pre- Merger	2070/71	1.10	11.81	4.03	28.68
	2071/72	1.06	10.84	2.49	23.42
	2072/73	1.69	12.95	1.15	22.01
	2073/74	1.29	14.50	1.86	24.61
	2074/75	1.26	13.36	1.05	13.68
	2075/76	1.17	11.75	1.01	14.85
Post-Merger	2076/77	0.76	15.35	1.39	15.39
	2077/78	1.04	13.71	0.96	26.13
	2078/79	1.00	12.63	1.11	14.05
	2079/80	0.74	9.69	2.75	18.67

Table 2: Financial Data of Global IME Bank Limited

Status	**Year**	**ROA**	**CAR**	**NPL**	**ROE**
Pre-Merger	2070/71	1.62	12.38	2.55	15.90
	2071/72	1.39	12.69	2.23	13.06
	2072/73	1.58	12.35	1.89	16.99
	2073/74	1.75	11.37	1.6	19.33
	2074/75	1.67	11.47	0.77	16.19
	2075/76	1.82	12.31	0.55	14.47
Post – Merger	2076/77	1.06	12.48	1.76	12.88
	2077/78	1.21	13.20	1.41	13.53
	2078/79	1.38	12.67	1.28	13.93
	2079/80	1.30	13.34	3.15	14.19

Table 3: Financial Data of Prime Commercial Bank Limited

Status	Year	ROA	CAR	NPL	ROE
Pre-Merger	2070/71	1.46	12.4	2.43	15.30
	2071/72	1.63	12.16	1.83	17.21
	2072/73	2.05	11.60	1.23	20.65
	2073/74	1.89	13.28	0.88	15.68
	2074/75	1.82	12.24	0.85	15.40
	2075/76	2.15	12.76	1.00	16.40
Post – Merger	2076/77	1.48	13.84	1.48	10.97
	2077/78	1.72	14.82	0.99	13.65
	2078/79	1.33	13.12	1.77	17.74
	2079/80	0.47	12.28	4.23	36.81

Table 8: Financial Data of Nepal Investment Mega Bank Limited

Status	Year	ROA	CAR	NPL	ROE
Pre-Merger	2070/71	2.30	11.27	1.77	27.6
	2071/72	1.90	11.90	1.25	24.80
	2072/73	2.00	14.92	0.68	26.00
	2073/74	2.10	13.02	0.83	19.10
	2074/75	2.13	12.66	1.36	14.71
	2075/76	1.79	13.26	2.78	13.00
Post - Merger	2076/77	1.19	13.54	2.91	8.90
	2077/78	1.58	14.71	2.46	11.00
	2078/79	1.55	15.96	1,49	11.1-
	2079/80	0.83	13.32	4.54	6.69

Table 5: Financial Data of NMB Bank Limited

Status	**Year**	**ROA**	**CAR**	**NPL**	**ROE**
Pre-Merger	2070/71	1.36	10.75	0.55	15.32
	2071/72	1.21	11.13	0.42	15.86
	2072/73	1.92	10.98	1.81	21.96
	2073/74	1.82	13.61	1.68	16.49
	2074/75	1.8	15.75	0.88	13.54
	2075/76	1.83	15.45	0.82	13.32
Post - Merger	2076/77	1.09	15.08	2.68	8.94
	2077/78	1.31	15.09	2.27	12.01
	2078/79	1.35	13.59	1.45	12.45
	2079/80	1.19	13.33	2.75	11.65

Table 6 Result of Paired t-test of variables

Ratio		Mean	Variance	t- value	p-value
ROE	Pre	4.85	130.34	2.129***	0.006***
	Post	12.25	29.91		
ROA	Pre	0.90	2.17	1.246	0.24
	Post	1.84	7.88		
CAR	Pre	14.553	14.87	2.456	0.47
	Post	18.768	19.56		
NPL	Pre	6.57	90.16	0.557	0.59
	Post	5.05	16.25		

(**Significance at 5% level of significance, ***Significance at 10% level of significance)

Table 7 Regression Output of Before Merger

	Intercept	ROA (x1)	NPL (x2)	CAR (x3)
Coefficients	-13.157	-0.949	-1.681	-1.205
t Stat	-0.470	-0.324	-2.695	-2.512
P-value	0.657	0.758	0.0432	0.0539
Multiple R		0.802		
R Square		0.644		
F		2.26		

Table 8: Regression Output of After Merger

	Intercept	ROA (x1)	NPL (x2)	CAR (x3)
Coefficients	4.7880	0.5397	-0.803	-0.9076
t Stat	0.322	0.9095	-1.893	-1.6308
P-value	0.760	0.4043	0.116	0.1639
Multiple R		0.737		
R Square		0.5438		
F		1.490		

Table 9: Coefficient Correlations

		ROE	NPL	ROA	CAR
	ROE	1.000	0.33	0.150	-0.609
	NPL	-	1.000	-0.211	0.242
Correlations	ROA	-	-	1.000	0.063
	CAR	-	-	-	1.000

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