

**IMPACT OF MERGER AND ACQUISITION ON FINANCIAL
PERFORMANCE OF NEPALESE COMMERCIAL BANKS**

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

Submitted by

Pragya Rupakheti

Shankar Dev Campus

Class Roll No.: 3306/075

Exam Roll No: 13713/019

T.U. Regd. No: 7-727-91-2014

Putalisadak, Kathmandu

2024

CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **Impact of Merger and Acquisition on Financial Performance of Nepalese Commercial Banks**, 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.

.....

Pragya Rupakheti

Shankar Dev Campus

Class Roll No.: 3306/075

Exam Roll No: 13713/019

T.U. Regd. No: 7-727-91-2014

REPORT OF RESEARCH COMMITTEE

Pragya Rupakheti has defended research proposal entitled **Impact of Merger and Acquisition on Financial Performance of Nepalese Commercial Banks**. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and vice-voce examination.

Asso. Prof. Dr. Kapil Khanal
Dissertation Supervisor
Signature.....

Dissertation Proposal Defended Date

.....

Dissertation Submitted for Date

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department
Signature.....

Dissertation Viva Voce Date

.....

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **Impact of Merger and Acquisition on Financial Performance of Nepalese Commercial Banks** presented by Pragya Rupakheti candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva-Voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

.....
Asso. Prof. Dr. Kapil Khanal
Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeed Kumar Shrestha
Chairperson Research Committee

.....
Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

ACKNOWLEDGEMENTS

First of all, I would like to thank Tribhuvan University for giving chance to prepare the thesis for a partial requirement to the fulfillment of Master Degree of Business Studies program held under Tribhuvan University. After many months of hard work and sincere effort from my side, this research has been conducted.

I would like to acknowledge the following notable personalities who have contributed their valuable efforts in different ways in creation of this research. I would express my profound gratitude to my thesis supervisor Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus for his valuable guidance and kind support to me all the way through this thesis his co-operation in the revision of this thesis has precisely helped me to groom and bring it in this form. I also owe deep gratitude to all reputed authors whose writings have provided me the necessary guidance and invaluable materials for the enrichment of my research papers in all possible ways. My special appreciation goes to my colleague and to all my family members, teachers and friends for their continuous encouragement and help to complete this work directly or indirectly.

Perfection is anything can hardly be thought of knowing the universal fact "Human is Error", I Have taken utmost care to avoid errors, but I know they are inescapable, so I shall be obliged if they are forgiven.

Pragya Rupakheti
Shankar Dev Campus

TABLE OF CONTENTS

<i>Title Page</i>	<i>i</i>
<i>Certificate of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figure</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>
CHAPTER I: INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 An Introduction of Selected Company	4
1.2 Problem Statement	5
1.3 Objectives of study.....	8
1.4 Rationale of the Study	8
1.5 Limitation of the Study	8
CHAPTER-II: LITERATURE REVIEW	9
2.1 Theoretical Review	9
2.1.1 Synergy Theory	9
2.2 Empirical Review	13
2.2.1 Review of Article & Journal.....	13
2.2.2 Review of National Articles	20
2.3 Research Gap.....	24
CHAPTER-III: RESEARCH METHODOLOGY	26
3.1 Research Design.....	26
3.2 Population and Sample.....	26
3.3 Sampling Design	26
3.4 Nature and Sources of Data.....	26
3.5 Instrument of Data Collection.....	27
3.6 Methods of Analysis.....	27
3.6.1 Financial tools.....	27

3.6.2 Statistical tools.....	27
3.7 Research Framework.....	28
3.8 Definition of Variables.....	29
CHAPTER-IV: RESULTS AND DISCUSSION.....	31
4.1 Financial Indicators of Banks before and after the Merger.....	31
4.2 Discussion	36
CHAPTER-V: SUMMARY AND CONCLUSION	39
5.1 Summary	39
5.2 Conclusion.....	39
5.3 Implications.....	40
References	
Appendix	

LIST OF TABLES

Table 1	Empirical Summary tables	18
Table 2	Review of Nepalese Article Summary.....	22
Table 3	Variables of Global IME Bank Limited.....	32
Table 4	Variables of Prabhu Bank Limited	32
Table 5	Variables of NIC Asia Bank Limited.....	33
Table 6	Correlation Analysis	34
Table 7	Regression Analysis.....	35

LIST OF FIGURE

Figure 1: Conceptual Framework Models	28
---	----

ABBREVIATIONS

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

ABSTRACT

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

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

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Banks and financial institutions (BFIs) change their policy decisions in response to changes in the structure of the banking market. One of the issues that arise in this context is the phenomenon of banks spreading all over the world. The number of merger transactions is particularly pronounced in developed and developing countries. However, in the case of Nepal, mergers and acquisitions of financial institutions are a relatively new phenomenon. Bank mergers can have a significant impact on changes in banks' lending behavior because the market structure may change as a result of the merger. Bank consolidation in the form of merger is one of the regulations initiated by Nepal Rastra Bank to improve the ability of the banking system to provide financial intermediation between depositors and borrowers and restore public confidence. Merger activities around the world have the same objectives, so the most common objectives of mergers are to increase efficiency and reduce costs (Shrestha, 2009).

Mergers and Acquisitions represent a facet of corporate strategy, corporate finance, and management, encompassing the acquisition, sale, divestiture, and consolidation of various companies and organizations to facilitate rapid growth within an industry. The advantages of such activities are manifold. Economies of scale can enhance cost efficiency, bolster sales via expanded market share, yield tax advantages, and diminish the cost of capital.

The terms "merger" and "acquisition" are often used interchangeably, although they actually have slightly different meanings. When a company buys another company and establishes itself as the new owner, it is called an acquisition. From a legal perspective, a target company exists only if the buyer takes over the business and the buyer's shares continue to trade while trading in the target company's shares is suspended (Gaughan, 2011).

A merger refers to two companies of approximately the same size joining forces and moving forward as one new company, rather than being owned and operated separately. This action is called a "merger of equals." The shares of both companies will be forfeited and new shares of the company will be issued in their place. If both CEOs agree that a merger is in the best interests of both companies, an acquisition agreement is also known as a merger. Unfriendly transactions

where the target company does not want to be acquired are always considered acquisitions. Acquisition transactions are therefore classified as mergers or acquisitions, depending on whether the acquisition is friendly or hostile and how it is announced. In other words, the difference lies in how the deal is communicated to the target company's board, employees, and shareholders. For example, Nestlé has made many acquisitions recently (Straub, 2007).

Merger transactions, acquisitions may involve one company acquiring another company for cash, stock, or a combination of both. Also, in small transactions, one company often acquires all of the assets of another company. Company will become a mere shell, and will eventually be liquidated or moved to other businesses. Another acquisition transaction, known as a "reverse merger," allows privately held companies to go public in a relatively short period of time. A reverse merger occurs when a private company with strong prospects and an interest in raising capital acquires a publicly traded shell company with no legitimate business operations and limited assets. Conversely, a private company can merge with a public company to form an entirely new public company with traceable stock. Companies need to be well aware of the issues and challenges before and after a merger. Therefore, the purpose of this study is to analyze the merger and suspicions of NIC Asia Bank. This study is an attempt to analyze various factors influencing the merger of NIC Asia Bank Ltd. Mergers are necessary, what is the scope of mergers in Nepal's BFI, what is the rationale for mergers, and whether mergers will be successful in a developing country like the company, Nepali scholars and researchers is the main concern. That is the active support and condemnation in Nepal that is motivating the company to merge, what are the factors driving the merger, and what potential impact it could have on the banking sector. This leads to the question of whether there is a gender.

Creating an efficient banking system is an important goal of banking regulators. Therefore, the central bank, as a regulator, should always strive to maintain the integrity of the banking sector. For this purpose, the central bank develops and implements various financial instruments/policies to deal with imperfections. The level of competition in the banking sector determines the effectiveness of policy instruments. In this context, it is extremely important for regulators like Nepal Rastra Bank to determine the level of competitiveness of the banking sector. This just shows the lack of expectations on the part of political decision makers. Raging market regulation and frequent short-term measures to control interest rates, cash reserve ratios,

spread rates, and credit flows in free market economies are just the aftermath of unclear measures. For example, through monetary policy in 2072/2073, the NRB suddenly quadrupled the paid-up capital of BFIs without considering the impact on the stock market. The debate is not whether the policy was wrong; no, it was not. However, policymakers were unable to prevent the BFI from issuing rights and bonus shares to accumulate the necessary paid-up capital.

So Instead of witnessing major mergers and acquisitions, the stock market became inundated with BFI (Bank and Financial Institutions) stock. This has resulted in outcomes that align with the current expectations of the Nepal Stock Exchange. Stocks that were valued at Rs 3,000 are now trading at less than Rs 600. Without a culture of weighing the pros and cons before making policy decisions, the repercussions could be detrimental for both the industry and the country. The Nepal Rastra Bank (NRB) is poised to announce its 2075-2076 monetary policy, and Governor Chiranjibi of Nepal has advised BFIs to seek suitable and agreeable partners for large-scale mergers, carefully analyzing both the positive and negative aspects. Since the current governor assumed office, merger negotiations have been rife in Nepal's financial market. Some economists and policymakers suggest that Nepal should ideally have no more than 15 commercial banks, yet there are currently 20. However, such assertions lack solid research support. To truly grasp the benefits of mergers, it's essential to first comprehend the challenges prevalent in the banking industry. A significant issue in Nepal's financial market is the abundance of urban BFIs with low paid-up capital. In 2075, there were 151 such BFIs. Given the size of the economy, this figure is unnecessarily high. Challenges faced by economies with numerous small BFIs in the market include unhealthy competition in loan collection and disbursements, limited capacity to finance large projects, heightened interest rate sensitivity, and an increased influx of non-performing loans.

Similarly, interest rate sensitivity is another issue faced by banks due to their small capital base. The performance of small banks is highly flexible to changes in interest rates. Therefore, these banks cannot lower interest rates even if they want to because small changes in interest rates cost them a lot of money. And if the affected companies try to do this, it will lead to a significant drop in profitability, and the effects will be felt in the stock market and the economy as a whole. Privately held companies can go public in a relatively short period of time through merger. A reverse merger occurs when a private company with strong prospects and an interest in raising

capital acquires a publicly traded shell company with no legitimate business operations and limited assets.

Conversely, a private company can merge with a public company to form an entirely new public company with traceable stock. Companies need to be well aware of pre- and post-merger issues and challenges. That mergers are necessary, what is the scope of mergers in Nepal's BFI, what the rationale for mergers is, and whether mergers will be successful in a developing country like our country, Nepali scholars and researchers is the main concern. Positive incentives for mergers and acquisitions in Nepal, what motivates companies to merge, what factors are important in mergers, and what potential impact it has on the banking sector. It was giving rise to questions. Therefore, the interest of this study lies in the impact of mergers and acquisitions on the financial performance of the sampled commercial banks.

1.1.1 An Introduction of Selected Company

NIC Asia Bank Limited

NIC ASIA Bank was originally established on July 21, 1998, under the name Nepal Industrial and Commercial Bank. However, on June 30, 2013, it underwent a significant transformation, merging with Asia Nepal Bank and adopting the new name NIC ASIA Bank. This merger marked a historic event, being the first of its kind in the commercial banking sector. Following this merger, NIC ASIA Bank received notable recognition, being honored with the "Bank of the Year 2013 Nepal" award by The Banker magazine, a publication under the UK Financial Times. Remarkably, this was the second time the bank received such prestigious acclaim, with the first instance occurring in 2007. As the bank celebrates its 21st anniversary, it stands as a testament to its enduring success.

Currently, NIC ASIA Bank boasts wholly owned subsidiaries including NIC Asia Capital Limited and NIC Asia Laghubittiya Sanstha Limited. With an extensive network comprising 358 branches, 473 ATMs, 70 extension counters, and 81 branchless banking services, NIC ASIA Bank holds the distinction of being the largest bank in terms of physical presence and an ever-expanding customer base, coupled with a substantial balance sheet size.

Global IME Bank Limited

Global IME Bank Limited emerged as a leading class "A" commercial bank in Nepal upon its establishment in 2007, providing a wide range of commercial banking services. At its inception, the bank boasted the largest capital base in the country, with a paid-up capital of 1 billion Nepalese Rupees. Subsequently, this capital was augmented to reach 4.14 billion Nepalese Rupees. The bank's shares are publicly traded on the Nepal Stock Exchange, categorized as a class 'A' company.

Aligned with the government's liberal economic policies, the majority of commercial banks have established their headquarters in the valley. Global IME Bank has nurtured communication ties with 74 international banks across various countries, facilitating international trade, remittances, and other cross-border services. Leveraging correspondent banking relationships, the bank provides services in major currencies worldwide. Additionally, the bank extends its reach beyond Nepal, with branches in India and the Middle East, aiding Nepali workers in sending money abroad. Plans are underway to expand these services to South Korea.

Presently, Global IME Bank Limited operates 94 branches and 6 extension counters throughout Nepal, all functioning as full-service branches. The bank further enhances accessibility through its network of 103 ATMs strategically located across the country.

Prabhu Bank Limited

In the short period since its establishment, the Bank has gone through various stages of its growth process. Prabhu Bank's growth has been phenomenal, especially after the merger of Grand Bank Nepal Limited, Kist Bank Ltd., Prabhu Bikash Bank Ltd., Gaurishankar Development Bank Ltd., and Zenith Finance Ltd. in 2016. A was obtained from Nepal Rastra Bank, the central bank of Nepal. The bank has been in the works for several years since its establishment, and in its early days he has accepted seven different financial institutions. Securing adequate funding is an essential part of starting and running a business, but it alone does not guarantee success. Success will depend on other factors such as the quality of advice and support. Prabhu Bank believes that the bank is successful only when its customers are successful. The bank has 215 branches, 58 extension counters and 189 ATMs across the country.

1.2 Problem Statement

At a time when Nepal's banking sector is suffering and going through a truly difficult phase, the NRB has come up with a new merger law believing that it is the panacea to the entire serious problem as it is the need of the times. It was legislated by the NRA to improve and develop the weak and troubled financial sector. Most experts and analysts believe that Nepal's financial sector is overcrowded with too many small market participants and this problem will worsen if timely action is not taken. Previously, the NRA had adopted a liberal licensing policy, but this has led to a significant increase in the number of BFIs and overcrowding is now negatively impacting the financial sector. With the new merger law, the NRA is effectively revising its previous decision to implement liberal licensing policies. This is because this has led to a huge increase in liberal licensing policies, which has led to a huge increase in the number of BFIs, and now overpopulation is causing harm. Financial sector with the current merger law, the NRA is essentially attempting to modify previous decisions regarding liberal licensing policy. The phenomenal growth and rapid rise of the BFI has not only led to a disregard for banking norms and unfair competition, but has also created a situation in which it is difficult for the NRA itself to take control of the situation by the scruff of its neck.

Manage existing BFIs effectively and efficiently. Considering these facts and circumstances, the proposed work evaluates and presents the merger provisions of NRB and concludes whether the merger provisions serve as the basis for resolving all the issues surrounding the financial sector of Nepal. In recent years, financial institutions in Nepal have been characterized by low sales, high loan interest rates, high profit margins, inefficient management and a lack of project finance institutions such as the Gorkha Development Bank.

Nepal's stock market, capital transactions, and finance were affected by weak supervision and corporate governance failures. In order to implement and evaluate a statutory merger, there is the problem of obtaining adequate information about how the statutory merger will affect the above areas. A merger occurs when two companies combine to form one business entity. Public companies often merge with the stated goal of increasing shareholder value by gaining market share or opening new lines of business. Unlike an acquisition, a merger may result in the two merging companies forming an entirely new company.

Mergers typically combine two companies of approximately the same size. The acquisition of a business by a large company is often referred to as an acquisition. Mergers often involve an exchange of stock rather than cash payments. This result shows that return on assets and return on equity both deteriorated, while earnings per share increased. However, while return on equity was not significantly affected, earnings per share improved significantly and return on equity decreased significantly. Since the economic liberalization of Nepal's financial sector, there has been an unnatural growth of banks and financial institutions, resulting in intense competition among banks and financial institutions for recruitment of institutions, borrowers and individuals.

In addition to commercial banks, the government allowed the opening of development banks and financial companies to improve people's access to financial institutions. Before the introduction of the Merger Act, the BFI insisted on granting simple loans to borrowers in the real estate, land and housing sectors without assessing their financial ability to repay interest or principal. This caused the value of land and buildings to rise rapidly. As prices began to fall, borrowers were unable to repay their debts, creating a liquidity crunch. Nepal's banking sector is going through a painful and truly difficult phase.

The NRA promulgated a new merger ordinance, believing it to be a panacea to this whole serious problem, as it was the need of the hour. Nepal Rastra Bank, as the supervisory and regulatory authority for all BFIs, introduced the Mandatory Merger Act in May 2011. Most experts and analysts believe that Nepal's financial sector is overcrowded with a large number of small market participants and these problems will worsen if timely action is not taken. In this connection, it is important to know the performance of the selected Nepali banks. Therefore, this study aims to analyze and evaluate selected mergers and acquisitions of commercial banks in Nepal and assess the overall safety and soundness of the banks.

Based on above problems this study focuses on the following issues:

- What is the present scenario of merger and acquisition of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited?
- What are the relationship between pre merger and post merger on financial performance of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited?
- What is the impact of merger and acquisition on financial performance of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited?

1.3 Objectives of study

The objective of study is to investigate whether of the financial performance of the selected merger and acquisition commercial banks improve after and before the merger and acquisition.

- To examine the present scenario of merger and acquisition of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited.
- To explain the relationship between pre merger and post merger on financial performance of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited.
- To analyze the impact of merger and acquisition on financial performance of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited.

1.4 Rationale of the Study

This study highlights important factors in mergers and acquisitions of financial institutions in Nepal. The results of this study may satisfy the curiosity of students, professionals, academicians, and investors regarding the important factors in mergers of financial institutions in Nepal. Additionally, the results of this survey will serve as a reference for management for financial institutions that have already concluded merger agreements and financial institutions that will conclude merger agreements in the future.

1.5 Limitation of the Study

The major limitations of this study are listed as under.

- The study is limited to only three commercial banks i.e. NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited among the twenty commercial banks.
- This study is based on secondary data taken from annual financial report of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited.
- This study covers the nine years time period from 2013/014 to 2021/022.
- Only limited financial tools i.e. ROA, EPS, MPS, NPL, DPS, P/E, DPR, DY, EY, ROE and statistical tools, i.e. correlation and regression are used for analysis.

CHAPTER-II

LITERATURE REVIEW

This chapter reviews relevant conceptualizations that influence the variables of the study. Additionally, various empirical studies on dependent and independent variables are reviewed and the theoretical framework of the study is developed. A literature review is an overview of academic sources on a particular topic. It provides an overview of the current state of knowledge and allows us to identify relevant theory, empirical validation, and gaps in existing research.

2.1 Theoretical Review

There are various M&A theories that explain the different motivations for companies to undertake M&A transactions. Synthesizing previous research on merger theory aims to provide insight into the potential benefits of mergers.

2.1.1 Synergy Theory

Synergy is a concept primarily associated with natural sciences, but not with finance or economics (Dertwinkel-Kalk & Wey, 2016). It refers to the type of reaction that occurs when two elements interact to produce an effect that is often greater than the individual effects of the elements acting individually (Dertwinkel-Kalk & Wey, 2016). In mergers and acquisitions, synergies bring companies together to create an entity that is more effective, efficient, and profitable when combined than when operating separately (Bearman & Dawson, 2013; Marks & Mirvis, 2015). Synergy theory posits that firms use different categories of resources and technological capabilities to create value (Gohlich, 2012).

Hinkir, Rauch, and Umber (2011) point out that there are three types of synergy. First, there are production costs that create operational synergies, capital costs that create financial synergies, and price-related costs that create collaborative synergies. According to Hinkir et al. (2011), synergy provides an explanation for M&A, in which bidding firms leverage the synergies of M&A to increase future cash flows and increase firm value. Operational synergies are achieved by combining the procedures and processes of individual units and transferring capabilities (Hellgren, Lowstadt & Werr, 2011).

Gohlich (2012) points out those synergies also arise from the potential for increased sales through cross-selling and up-selling, and cost reduction through consolidated profits. Financial

synergies result from lower costs of capital. For example, a provider may reduce systematic risk by investing in companies unrelated to its core business, or increase the size of the company to reduce its cost of assets. Hankill et al. (2011) pointed out that financial synergies can occur through financial engineering, liquidity constraints, and tax avoidance.

2.1.2 Agency Theory

This theory is related to Jensen and Meckling (1976). This theory is based on the separation of the interests of a company's shareholders and managers. Jensen and Meckling (1976) assumed that shareholders (principals) and management (agents) are rational and aim to maximize their utility. Neoclassical economic theory assumes that a firm's focus is solely on profit maximization (Schmitz, 2013). However, behavioral economists have discovered that the goal of management is to satisfy its own interests, not to maximize the company's profits.

Modern companies have diverse and dispersed ownership structures. Management is often to blame. Employers strive for more control, higher salaries, and better working conditions (Hongxia, 2011). Gault (2016) states that it is very difficult and costly to effectively monitor management in modern organizations. One of his solutions to the agency problem is to use incentives, such as allocating a certain number of company shares at a predetermined price at the beginning of the period.

Management is assumed to work hard to increase the value of the stock so that it can sell it at a higher price (Pink, 2009; Krakel & Scotter, 2012). However, empirical studies have shown that this approach does not always work due to information asymmetries (Garrone & Grilli, 2013). Managers can manipulate data and reports to increase value for their company. This is called adverse selection and indicates information asymmetry in the market. This problem is further exacerbated by moral hazard (Peleg & Ravi, 2019). Another solution to the agency problem is acquisition through M&A. Carpenter et al. (2009) point out that resistance to takeovers is usually in the interests of managers rather than shareholders or owners, because this deal could lead to job losses. Gohling (2012) argues that a company's management is reflected in its market price, and that companies with good management are likely to have high stock prices. Poorly managed companies become takeover targets as their stock prices decline and bidders realize the profit

potential of improving the company's management. Mergers and acquisitions add value because they instill discipline in corrupt executives.

2.1.3 Value Creation Theory

In the resource-based view (RBV), a firm's resources and capabilities determine its competitive advantage and overall performance (Barney, 1991). Resource-based theory states that the amount of resources a company owns or controls, compared to the availability of resources available in the economy and the opportunities to use those resources, determines the extent to which the company creates value, (Krishnan, Krishnan & Lefanowicz, 2009). Resource-based theory forms the basis for synergistic M&A (Altunbas & Marques, 2008). To ensure a company's competitiveness, company management is constantly restructuring and reconfiguring its resources and capabilities. Therefore, mergers and acquisitions are sites of value creation through the transfer of resources and capabilities between firms, creating new organizations with new technological capabilities (Graebner, Heimeriks, Huy, and Vaara, 2017). In the post-M&A phase, skills can be transferred in one or both directions. Deng (2009) and Luo and Tung (2018) found that acquiring strategic capabilities is the main reason why firms from emerging or less developed countries merge with firms from developed countries. Grime and Heusinger (2007) conducted a comprehensive study of 652 European mergers and acquisitions between 1997 and 2003. They find that technological assets and the need for innovation are important motivations for mergers and acquisitions. Similarly, in a study of pharmaceutical companies, Grimpe (2007) found that large companies tend to acquire smaller companies for innovation. Grime (2007) concludes that smaller businesses tend to have higher levels of creativity and innovation. The sponges reported by respondents support the conclusions of Grime (2007). The knowledge-based view (Grant, 1996; Kogut & Zander, 1992) argues that tacit knowledge is the most important strategic asset for firms participating in cross-border mergers and acquisitions. Businesses will have access to new technologies and skills that are being used by local businesses.

The use of M&A solves the problem of lack of technology, knowledge and skills. Anand and Delois (2002) found that mergers and acquisitions are driven by firms' desire to improve their value's in order to acquire specific assets. Similarly, Bertrand and Zuniga (2006) suggest that M&A can serve as a way to restructure a firm's research and new development, restructure its operational activities, and improve its overall productivity. An emerging trend in mergers and

acquisitions by emerging market companies is the transfer of knowledge and skills to headquarters (Luo & Tung, 2007; Nair, Mehmet, & Kamal, 2015). Rabbiosi and Sangangelo (2013) refer to this type of transfer as reverse knowledge transfer (RKT), where knowledge flows from the target firm to the parent firm. This capability transfer is important because it offsets the latecomer disadvantage faced by firms in developing countries (Demirbag, Sahadev, & Mellahi, 2010; Mudambi, Piscitello, & Rabbiosi, 2014; Rabbiosi & Santangelo, 2013). Acquiring companies from more developed countries allows companies in emerging markets to catch up quickly and allows companies to gain competitive advantage and position in the global market.

2.1.4 Market Power Theory

In market power theory, Feinberg (1985) argues that, all other factors remaining constant, a firm can achieve higher allocation synergies, i.e., the larger the firm, the higher its market power. This market power allows the consolidated companies to achieve higher profits by setting higher prices and increasing the number of customers. Eckbo and Wier (1985) found that horizontal mergers and acquisitions produce firms with greater market power than other types of mergers and acquisitions. This is because horizontal mergers reduce the number of producers of each good or service in the market. With fewer vendors in the market, there is clear visibility into a single vendor's actions and potential non-compliance. The easier it is to detect deviations, the lower the monitoring costs. This increases stability and profitability, making the cartel more attractive.

2.1.5 Behavioral theory

Behavioral theories or their hypotheses focus on the correlation between merger activity and stock market valuations. According to behavioral theory, mergers and acquisitions occur due to market overvaluation and managerial timing. The behavioral hypothesis posits that merger waves are the result of market overvaluation and managerial timing (Eckbo, 2010). Here, management timing refers to the period during which management makes decisions on mergers and acquisitions. According to Shleifer and Vishnu (2003), the high bidder stock should be set for a shorter time period and therefore should be accepted by the target's management. Similarly, Kropf and Viswanathan (2004) find that such high-bid stocks are accepted by the target's management in the short term given synergies. Such overvaluation and timing lead to merger

activity. There is research on the behavior patterns of decision-making bodies regarding merger activities. According to an empirical study by Millender and Tate (2005) using a sample of Forbes 500 companies from 1980 to 1994, Overconfident chief executive officers (CEOs) it was found that are likely to pursue a merger. On average, overconfident CEOs have a higher purchasing propensity, suggesting that overconfidence is an important factor for merger activity. Furthermore, the effect of overconfidence primarily arises from an increased likelihood of making diversified acquisitions. Previous literature suggests that merger diversification is unlikely to create value for the acquiring firm. Therefore, it is consistent with the theory that overconfident managers are particularly likely to engage in such behavior. Second, it was found that the association between overconfidence and merger likelihood is strongest when CEOs are able to avoid equity financing for companies with the least dependence on equity capital. Overconfident CEOs prefer cash- or debt-financed mergers to stock deals unless their companies appear overvalued by the market. M&A transactions are characterized by greater irrational behavior, fewer bidders, less transparency, and larger spreads between negotiated prices. Heuristics and biases such as herding behavior, anchoring, confirmation traps, framing effects, regret avoidance, and commitment escalation play unique roles in corporate M&A activities.

2.2 Empirical Review

2.2.1 Review of Article & Journal

Chiaromonte, Pisera, and Khan (2022) investigated “*mergers and acquisitions in the financial industry: bibliographic review and future research directions.*” The increasing use of bibliographic checking in the financial industry and the ongoing integration process between companies and nations motivated this study on mergers and acquisitions (M&A) in the financial industry. Starting with an initial number of approximately 4,500 articles, it narrow down the database according to keywords and journal quality and review a final sample of 174 articles. By combining bibliographic and content analysis, it was identify the key journals, countries, institutions, authors, papers, and related research questions that have contributed most to the field. Additionally, this study provides a keyword/map analysis that identifies five major research streams and their evolution over time, which discuss in detail. Finally, it was summarize important questions suggested in the literature to facilitate future research.

Richard & Apolinaris (2022) analyzed “*The impact of mergers and acquisitions on abnormal returns and financial performance of banks listed on the Indonesia Stock Exchange*”. This study investigated the stock market performance of Indonesian banking companies that conducted mergers and acquisitions (M&A) in 2019. The purpose of this study is to investigate the impact of his M&A agreements on the performance of acquiring banks. This study investigated a total of three companies involved in M&A deals in 2019. This study investigates the impact of M&A using two methods: an event research method based on a market model approach and an accounting approach-based method. The results showed that abnormal returns measured using CAR did not improve after M&A, and the financial performance indicators of ROA, ROE, BOPO, gross non-performing gains and losses, and LDR also performed worse after M&A. However, after mergers and acquisitions, firm size increased and became statistically significant.

Gorman et al. (2021) investigated the “*impact of media coverage on target firms*”: deal activity and liquidity associated with domestic takeover announcements: evidence from the UK. This study investigates the impact of news media coverage on the target firm's stock trading activity and liquidity in the context of acquisition announcements. The number of articles published in the four major UK newspapers is used as an indicator of media coverage. This dataset contains 350 UK domestic acquisition deals from 1996 to 2014. The analysis shows that media coverage has a positive relationship with target firms' trading activity and stock liquidity. This is consistent with the fact that the media plays an important role in reducing information asymmetry in financial markets. This study contributes to the literature on stock market reactions to acquisition announcements by examining the impact of media coverage on trading activity and stock liquidity beyond price appreciation, which has traditionally received less attention than the U.S. market. It provides further insight into the UK market.

Stunda (2019) published an article on “*The impact of mergers and acquisitions on acquiring companies.*” Previous research has examined acquiring firms that undergo mergers and acquisitions and the impact of these events on the firms' security prices. These studies have yielded mixed results. Some point to a negative impact on stock prices, while others conclude that there is a positive impact. This study extends these previous studies by increasing both the number of companies and valuation years covered. The first result is that when comparing acquiring companies and companies that have not conducted M&A, the stock price effect of acquiring companies is significantly negative, while that of companies that have not conducted

M&A is significantly positive. When evaluating acquiring companies by industry, we find that companies conducting M&A activities in all industries evaluated have a significant negative impact on stock prices, with the exception of the oil and gas industry and the banking and financial services industry. These two industries were found to have a significant positive impact on stock prices. These findings are important because they provide investors, managers, and others with further insight into the effects of mergers and acquisitions on security prices from the acquiring company's perspective. This study shows that companies in certain industries can be more positively impacted from a stock price perspective than companies in other industries.

Mehrotra & Sahay (2018) published an article on “*On the financial performance of mergers and acquisitions in India*”. Liberalization in 1991 was followed by a wave of mergers and acquisitions (M&A). Liberalization policies include the revocation of industrial licenses and the repeal of the Monopoly Restrictive Trade Practices Act (MRTP). This strategy has led to the emergence of a new scenario in which corporate consolidation becomes an appropriate tool to counter intense competition through better governance in India. The purpose of this article is to review the previously published literature on the financial performance of post merger acquirers. The study found that this research primarily focused on transactions conducted in developed countries, where mergers and acquisitions were prevalent in the late 19th century. Moreover, most of them were related to announcements. This review highlights research gaps in emerging markets. This article aims to help researchers understand the issues surrounding mergers and acquisitions and recommend avenues for future research.

Pachulia (2018) published an article “*The Impact of Mergers and Acquisitions on Corporate Performance*”. In this article, the researcher uses financial reporting data to investigate the impact of mergers and acquisitions on the financial performance of Georgian companies. This paper provides a literature review on mergers and acquisitions and presents an example from a Georgian company. This article introduces and analyzes JSC Silkne's merger and acquisition strategy, industry selection, and new acquisition targets. Based on portfolio analysis, the merits of mergers and acquisitions are determined. Therefore, for JSC Silknet, product diversification is one of the strategies to expand its business portfolio. Additionally, the study suggests trends in financial performance based on return on equity, return on assets, and return on sales. This result

indicates whether financial performance has changed in the company's favor as a result of the new company's merger or acquisition.

Walsh (2018) published an article on *“Merger Policy and its Impact on Nepal Bank”*. The purpose of the investigation is to assess the situation, its impact on management, customer and employee motivation, and identify the issues being addressed. A published audited report consisting of primary and secondary data from 10 lines and her 200 respondents was used for the search analysis. The analysis found a positive impact on bank officials, employees and consumers.

Michaels & Spector (2016) published an article on *“Impact and Challenges of Mergers and Acquisitions in Banks in Nepal”*. Therefore, commitment to the M&A firm and organization appears to be a key element for successful cultural transformation and integration.

Goyal & Vijay (2016) published an article on *“Mergers and Acquisitions in the Banking Industry”*. The purpose of this study was to determine the impact of mergers and acquisitions on net profit margin and return on equity, and the impact of mergers and acquisitions on return on assets and return on equity. Research has shown that employees are less afraid of losing their jobs and are more satisfied with their jobs and working conditions. It was feel that the work is very demanding and interesting, the changes have been successfully implemented, the company's future is bright, and the strategy and policies are positive. Still, they are likely to choose another organization. On the other hand, factors related to workplace culture can also cause stress. These factors include the technology used in the company, reporting systems, working hours, and relationships with supervisors and supervisors.

Banerjee (2015) published an article on *“The Impact of Mergers and Acquisitions on Financial Performance: Evidence from Selected Companies in India”*. This article examines the impact of mergers on profitability and liquidity conditions. It was analyzes a company's financial performance for three years before and after a merger. The sample size for this study consists of seven different selected industries where mergers and acquisitions took place between 2006 and 2012. To achieve the objectives of the study, secondary data for three years before and after the merger will be collected from audited financial statements covering the period 2000 to 2015. Various financial indicators were used to assess the earnings and liquidity situation. The analysis is performed using the statistical tool paired test, which SPSS uses to calculate proportions to test

the significance of the study. The results of this study indicate that the financial performance of the acquired companies does not improve after the merger.

Mayer, Davis, and Schoorman (2015), in their article on Mergers and Acquisitions: The Human Factor, state that trust is the expectation that one party will be vulnerable to the actions of another. It was defined as the willingness of the other party to become vulnerable based on A party performs some special action that is important to the trust or independent of its monitoring capabilities. Furthermore, it defines trust as the willingness of an individual, group, or organization to rely on the actions of others in opportunistic or high-risk situations. Kooning 2015 and Maguire and Phillips point out that a lack of trust can foster the emergence of cultural conflicts and identity threats during post-merger integration. Konovsky and Pugh have shown empirically that positive initiation behaviors increase trust, and this increased trust fosters behavioral responses. Aryee, Budhwar, and Chen found that justice increases trust, whereas trust subsequently increases organizational citizenship behavior. Lander's results support a positive relationship between trust in the merger and post merger employees' organizational identification.

Morrell, Loan-Clarke & Wilkinson (2014) published an article on “*Organizational Change and Employee Turnover.*” Job satisfaction is considered to be an important theoretical and practical concept because it can affect an employee's ability to successfully cope with job demands and perform effectively. Because high demands are placed on employees involved in M&A integration, job satisfaction helps maintain good employee performance during times when the company may be vulnerable. At an organizational level, low job satisfaction is linked to increased absenteeism, turnover, poor job performance, and low employee morale.

Table 1

Empirical Summary tables

S.N	Date of Publication	Article	Writers	objectives	Methodology	Findings
1	2022	Mergers and acquisitions in the financial industry: A bibliometric review and future research directions	Chiaramonte, Pisera & Khan	To examine the Mergers and acquisitions in the financial industry.	The study employed a purposive sampling method for collecting data from 174 respondents using a self-administered questionnaire. Variance-based structural equation modeling (PLS-SEM) was used for testing the	Findings highlight the relative importance of these variables and the potential influence of some moderators (customer orientation, speed of integration and communication). The most important antecedent of loyalty in a M&A situation is service quality followed by

					proposed structural model.	company image, products and prices, sales channels and sales force
2	2022	Impact of Mergers and Acquisitions on Abnormal Returns and Financial Performance of Banks Listed on the Indonesia Stock Exchange.	Richard & Apolinaris	To investigate the impact of M&A agreements on the performance of takeover banks	A total of 3 firm involved in the 2019 M&A agreement were sampled in this study. This study uses two methods, namely the event study method with a market model approach and an accounting approach based method, to examine the impact of M&A.	The results showed that abnormal returns measured using CAR were not better after M&A and financial performance proxies by ROA, ROE, BOPO, gross NPL, and LDR also showed poor performance after M&A. However, the firm's size showed an increase and was statistically significant after M&A.
3	2021	the effect of media coverage on target firms' trading activity and liquidity around domestic acquisition announcements evidence	<u>Gorman et al.</u>	To investigated the effect of news media coverage on trading activity	Financial and statistical tools were used.	The results of analysis suggest that media coverage is positively associated with target firms' trading activity and stock liquidity. This is consistent with the media playing a key role in mitigating information asymmetry in the financial markets.
4	2019	The market impact of mergers and acquisitions on acquiring firms	Stund	To examine acquiring firms undergoing mergers and acquisitions along with the impact that these events have on firm security prices.	This study extends these previous studies by increasing both the number of firms sampled and the years evaluated.	This study indicates that firms in certain industries may be more positively impacted, from a stock price perspective, than firms in other industries.
5	2018	Systematic review on financial performance of mergers and acquisitions in India.	<u>Mehrotra & Sahay</u>	To review literature already published pertaining to post-merger financial performance of acquirers.	Various statistical and financial tools were used. Among them descriptive and analytical research design were used.	This article attempts to help the researchers to the understanding of the issues in M&A and recommends avenues for future research.
6	2018	impact of mergers and acquisitions on corporate performance: a case study of Silknet company	Pachulia	To examine the impact of mergers and acquisitions on corporate financial performance in Georgian company using data from financial reports	The article represents and analyses JSC Silkne's merger and acquisitions strategy, industry selections and aim of the new acquisitions. Based on the portfolio analyze, mergers and acquisition benefits are find out, as a consequence product diversification is one of the strategy used to broaden business portfolio in the case of JSC Silknet.	This research suggests financial performance trends, based on return on Equity, Return on Assets, return on Sales. The results show, if the financial performance changed positively to the company's favor while the company was merging and acquiring new firms.

7	2018	Merger policy and its impact on Nepalese bank	Walsh	To evaluate the status, impact on senior staff, costumer and employees motivation as well identify the problem issued raised	There search analysis used published audited account of ten banks and 200 respondents which consists primary and secondary data.	The analysis revealed that there is positive impact on impact on staff, employees and consumer of bank.
8	2016	Impact and challenges of merger and acquisition in Nepalese banking.	Michael s & Spector	To analyze the impact and challenges.	Financial and statistical tools were used.	Commitment to the M&A undertaking and organization thus appear to be critical elements for successful acculturation and integration.
9	2016	Merger and Acquisition in Banking Industry	Goyal & Vijay	To identify the effect of merger and acquisition on the net profit margin and return on equity and to identify the effect of merger and acquisition on return on assets and return on investment.	There search analysis used published audited account of ten banks and 200 respondents which consists primary and secondary data.	The findings of the study were the employees are less feared of losing job, they go satisfied with the work and working condition. The job quite challenging and interesting, they feel that changes have been implemented well and future of company seems bright, the strategies and policies are positive. Still there is high chance that they will go for other organizations.
10	2015	Impact of merger and acquisitions on financial performance: Evidence from selected companies in India	Banerjee	To analyze the effect of merger upon profitability and liquidity position.	Sample size of this research consists of selected seven different industries under gone merger and acquisitions during 2006-2012. Various financial ratios applied to assess the profitability and liquidity position.	The analysis is conducted with the help of statistical tool paired test used on accounting ratios by SPSS to test the significance of the study. The finding of this study shows that there is no improvement in financial performance of acquirer companies after merger.
11	2015	Mergers and acquisitions: The human factor	Mayer, Davis and Schoorman	To analyze the threats during the post merger integration.	Financial and statistical tools were used.	The findings of Lander and support the positive association between trust in merger and the post merger organizational identification among employees.
12	2014	Organizational change and employee turnover	Morrell, Loan-Clarke, & Wilkinson	To analyze the affect the ability of the employee to deal with job demands successfully and perform effectively	Financial and statistical tools were used. In this research primary data collection were collect through questionnaire distribute.	Due to the heavy demands placed on employees engaged in merger and Acquisition integration, job satisfaction may be helpful in sustaining positive employee performance during a period at which the organization could be vulnerable. At the organization level, low job satisfaction has been linked to increased absenteeism, job turnover, decreased task

2.2.2 Review of National Articles

Shrestha (2023) causation of *“Impact and challenges of mergers and acquisitions in Nepali banking sector”* Mergers and acquisitions are a relatively new concept for banks and financial institutions in Nepal. Nepal Rastra Bank has introduced a merger law based on the provisions of the Companies Act, 2015, encouraging all BFIs to carry out the merger as a consolidation. Lakshmi Bank, Nepal Bangladesh Bank and Narayani National Finance are among the few financial institutions that went through the merger process before announcing this ordinance. As part of the 2015 monetary policy, the NRB announced to increase the minimum paid-up capital of commercial banks by four times to a maximum of 24%. Therefore, commercial banks had to increase their paid-up capital to 8 billion rupees and national level development banks had to increase their paid-up capital to 2.5 billion rupees. Requirements imposed by banking regulators have further improved the conditions that facilitate the merger and acquisition process. This wave started in 2015 and hit Nepal's EFI sector.

Bista (2022) conducted a comparative analysis on *“The impact of mergers and acquisitions on banks’ financial efficiency.”* The impact on employees and customers was analyzed using a questionnaire, and the impact on shareholders was observed by analyzing the financial data of the merged banks for two years before and after the merger. The post-M&A period were found to be more financially efficient than the pre-M&A period. Main findings of the study: The study was not able to estimate the impact of other variables that could have had a positive impact on bank efficiency. Therefore, it is not clear whether this finding is due to the contribution of other variables such as human resources (employee satisfaction) that may have improved the bank's management.

Bhatta (2021) conducted a study titled *“Impact of bank mergers on shareholder wealth and post-merger status of Nepal banking industry”* and investigated the changes in bank shareholdings due to mergers. Bank efficiency increases with more capable and efficient banks. The excess capital will allow for favorable competition from foreign banks that will soon be ready to enter the Nepali market. This chapter includes objectives and issues as well as scope, significance, purpose, and disposition. Research studies have found that engaging in such merger and acquisition strategies creates or enhances value for shareholder returns. Asset acquisition

involves the sale of all or part of the acquired company's assets to the acquiring company or its subsidiaries in exchange for stock in the acquiring company. Financial synergies refer to the effect of mergers and acquisitions on the weighted average cost of capital of the surviving companies.

Gautam (2020) conducted a study on *“Impact of bank mergers on shareholder wealth and post-merger status of Nepal banking industry”*. Mergers and acquisitions are considered important tools to promote the healthy and efficient performance of the financial industry and address fundamental problems in the system. This tool also plays an important role in reducing operational costs and improving market competitiveness and profitability of enterprises. Mergers and acquisitions occur frequently in international financial markets to meet the requirements of regulatory authorities and in an attempt to increase competitive advantage and expand the operations of financial institutions. However, despite these hopeful expectations, nearly half of mergers and acquisitions fail to meet initial expectations.

Dhakal (2019) conducted a study on the topic *“Impact and challenges of mergers and acquisitions in banking and financial institutions in Nepal”*. The search method used in this article is a descriptive survey, and the results are based on research and analysis. The impact on employees and customers was analyzed using a questionnaire, and the impact on shareholders was observed by analyzing the financial data of the merged banks for two years before and after the merger. The results showed that although employees are satisfied with their jobs, wages, and working conditions, they are significantly affected by human resources issues such as cultural conflicts, positional issues, sociability, and favoritism. Customers saw changes in value, products, and services after the merger, but they needed more innovative services. Overall financial data showed that the bank improved significantly in the post-merger period, increasing shareholder wealth. Issues were found in swap ratios, board composition, management team composition, personnel issues, IT issues, etc. Therefore, mergers and acquisitions were mandatory in the Nepali market to transform the underperforming BFI into a strong and reliable institution. BFIs must consider not only the procedural and physical factors of a merger, but also the socio cultural factors. It should also seek comprehensive merger advice from experts and investment banks to avoid the delays and difficulties seen in some merger processes in Nepal.

Table 2

Review of Nepalese Article Summary

S.N	Date of Publication	Thesis	Writers	objectives	Methodology	Findings
1.	2023	The impact and challenges of merger and acquisition in Nepalese banking Merger and Acquisition	Shrestha	The employees are less feared of losing job, they go satisfied with the work and working condition and find the job quite challenging and interesting	There search method used in this paper was descriptive research, which implies the results based on the survey and the analysis.	The main negative impact seen among employees is regarding HR issues like cultural complexity, favoritism, senior managements" clash in positions, problem in socialization etc.
2.	2022	Comparative analysis of the impact of mergers and acquisition on financial efficiency of banks.	Bista	To analyze the post M&A period was more financially efficient than the pre M&A period	Descriptive research method has been used which implies the results based on the secondary data and the analysis.	The study has not been able to gauge the influence of other variables which could have impacted positively to the efficiency of the banks. As such, it is not clear whether the finding was as a result of the contributions of other variables such as human resource which may have improved the operations of the banks
3.	2021	Effect of bank merger on the shareholders wealth and post-merger situation of Nepalese banking industry	Bhatta	To analyze the engaging in such mergers and acquisitions strategies is to create or appreciate the value of the returns of the shareholders	Descriptive and analytical research design was used. Financial and statistical tools were used.	The asset purchase takes into account the sale of all or part of the assets of the acquired company to the acquiring company or its subsidiary in exchange for the acquiring company's stock. Financial synergies refer to the influence mergers and acquisitions have on the surviving company's weighted

4	2020	Effect of Bank Merger on the Shareholders Wealth and Post-Merger Situation of Nepalese Banking Industry	Gautam	To analyze the efficient performance of the financial industry while subjugating the problems underlying the system	Descriptive and analytical research design was used. Financial and statistical tools were used.	average cost of capital. In the international financial markets, M&A is often conducted to fulfill the demands of regulatory bodies and as an attempt to enhance the competitive advantage and expand the operations of the financial institutions. But, despite these hopeful expectations, almost half of the mergers and acquisitions fail to meet the initial.
5	2019	the impact and challenges of merger and acquisition in Nepalese banking and financial institution	Dhakal	To analyzed through questionnaire s whereas the impact on shareholders was observed through analysis of financial data of merged bank in 2 years of pre and post-merger phase.	There search method used in this paper was descriptive research, which implies the results based on the survey and the analysis.	M & A was a must in Nepalese market for changing the poor performing BFIs into strong and credible institutions. The BFIs should consider the socio-cultural factors along with procedural and physical factors for merger. They should also involve with expert or investment banks for full-fledged merger advisory service to avoid the delay and cumber some process of merger observed in Nepal.
6	2018	Market based	Krishnamurthy	To	There search	The most

mergers in Indian banking institutions	investigate whether the empirical evidence of mergers and acquisitions hold true in the Naples context and it is explore the benefits of mergers and acquisitions on the stock market i.e. the Nepalese Stock Exchange	method used in this paper was descriptive research, which implies the results based on the survey and the analysis.	important consequence after merger is the added protection of consumer's right. Together with it, the banking sector itself has become sufficiently able to safeguard itself even in critical financial position.
--	--	---	---

2.3 Research Gap

Mergers and acquisitions of financial institutions have become popular and trending in Nepal in recent years. This is thought to be due to the regulatory commission's statutory merger policy and capital increase policy. Mergers and acquisitions of companies are aimed at increasing efficiency, increasing competitive advantage, achieving synergies, and increasing shareholder value (Shrestha, 2023). Elements such as an emphasis on increasing income, an emphasis on financial diversification, an emphasis on a stronger market position, an emphasis on achieving security, and an emphasis on compliance with regulatory agency requirements. It has not had a significant impact on merger and acquisition decisions in Nepal's banking sector (Bista, 2022). When it was emphasize better branding, we find that the relationship is negatively correlated. Mergers and acquisitions pursue an organization's objectives of profitability, liquidity, and solvency. This is supported by the fact that mergers and acquisitions had a significant impact on financial performance. The majority of bankers agree that merger and acquisition activity within their bank can keep them busy, with the highest response rate found to be 'very satisfied/satisfied' (Bhatta, 2021). Human resources departments raise awareness of the opportunities the new company offers and show employees why the new or acquired company will be a great place to work. This increases employees' knowledge and understanding of the company and makes them feel like they are working for the best organization. It is highly recommended that employees and management work together to take advantage of the dynamic and diverse culture of the acquiring company (Gautam, 2020). This study aims to investigate the impact of mergers and acquisitions on the financial performance of NIC Asia Bank Limited, Global IME Bank Limited and Prabhu

Bank Limited. This study provides guidance for similar well-known companies with merger and acquisition patterns. This study can serve as a reference for similar researchers. The reason may be that mergers and acquisitions are not accepted as normal activities in Nepal and are carried out only in problematic situations.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

The research design of this study is descriptive and loose. A descriptive research approach involves the use of information from other studies and qualitative analysis. In casual research, it is used to identify causal relationships between variables and provide conclusive results that can answer research questions. Secondary data using various financial indicators were used to measure the financial performance of the merged company. The financial and accounting data used to investigate the impact of mergers and acquisitions on the performance of the sample banks were collected from the published annual reports of the sample banks. Data was also collected from the sample bank website and the NRB website. This paper uses pre- and post-merger data to analyze the impact of mergers on banks.

3.2 Population and Sample

Currently, 20 commercial banks (June 6, 2080) are operating in Nepal. Due to time and resource constraints, it is not possible to study them all in relation to the research topic. This population includes all commercial banks operating in Nepal. Among the commercial banks in Nepal, only three banks namely NIC Asia Bank Limited, Global IME Bank Limited and Prabhu Bank Limited are used as sample banks for the research study.

3.3 Sampling Design

Out of all the commercial banks, only three commercial banks were selected for the study. Recently merged companies were selected for the study. NIC Asia Bank Limited, Global IME Bank Limited, Prabhu Bank Limited. These companies were merged and separated from competitors by setting swap ratios. A purposive sampling method was used for sample selection.

3.4 Nature and Sources of Data

This study is based on secondary data.

i. Secondary data

Secondary data were collected from various research papers, journals, books, websites, bank databases, etc. Financial data were extracted from the annual reports of the merged banks.

Various journals and papers were investigated to gain in-depth knowledge and calculations for research on this subject.

3.5 Instrument of Data Collection

In this study, data was collected from the annual reports of the sampled commercial banks. The data collected was analyzed using statistical and financial tools and the results were elaborated.

3.6 Methods of Analysis

To assess the impact of merger on financial performance of selected banks, pre-merger and post-merger position and it's analyzed by calculating various financial ratios such as DPR, MPS, PE ratio, NPL, DY and ROA.

3.6.1 Financial tools

Financial parameters help measure the financial health of an organization. This parameter is determined from annual financial statements and financial reports. Some of the financial variables listed below are market capitalization, market price of stocks, return on assets, ratio of non-performing loans to total loans, dividend yield, price earnings ratio, dividend payout ratio, dividend per share.

3.6.2 Statistical tools

The most famous statistical tools are descriptive tests, correlations, regression, T-tests, F-tests, Nova tests, etc. There are also software packages such as Excel, SAS, and SPSS that can help you interpret the results.

Correlation and Regression Analysis

Correlation is a statistical technique that measures the degree and direction of relationships between variables. It will always be between ± 1 . It's a relative measure. Regression, on the other hand, measures the nature and extent of the average relationship of the data to its original units. If one of the regression coefficients is greater than 1 unit, the other must be less than 1 unit. It is the absolute measure of the relationship. Correlation analysis is a method of determining whether two pieces of data have an incremental relationship to each other. That was one increase, the other decreases. Regression analysis, on the other hand, assumes a specific direction of the relationship. Regression analysis is an inferential statistic used to estimate the influence of one or

more independent variables on a dependent variable. A summary of the models used in this study is as follows:

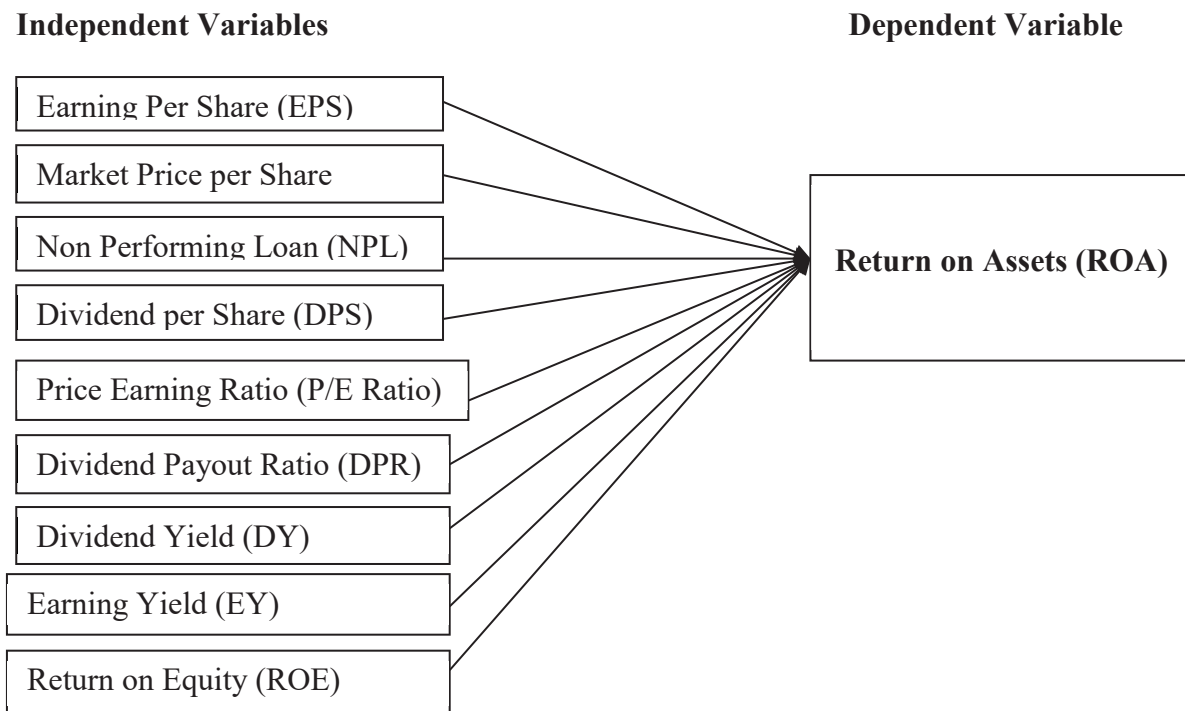
$$ROA_{it} = \beta_0 + \beta_1 EPS_{it} - \beta_2 MPL_{it} + \beta_3 NPL_{it} + \beta_4 DPS_{it} + \beta_5 PE_{it} + \beta_6 DPR_{it} + \beta_7 DY_{it} + \beta_8 EY_{it} + \beta_9 ROE_{it} + e_{it}$$

Where,

- ROA_{it} = Return on Assets
- EPS = Earning Per Share
- MPS_{it} = Market Price Share
- NPL_{it} = Non Performing Loan
- DPS_{it} = Dividend Per Share
- PE_{it} = Price Earning Ratio
- DPR_{it} = Dividend Payout Ratio
- DY_{it} = Dividend Yield
- EY = Earning Yield
- ROE = Return on Equity
- e_{it} = Error Term

3.7 Research Framework

Figure 1: Conceptual Framework Models



Source: (Bhatta, 2021), (Pingfeng, 2018) & (Shehzad, 2014)

3.8 Definition of Variables

Return on Assets (ROA)

Profitability ratios are measured based on the ratio of net income to assets. ROA is also called the profit-to-assets ratio. It measures the overall efficiency of management in generating profits from available assets, the higher a company's return on total assets, the better.

Earnings per Share (EPS)

Earnings per share or EPS are an important financial ratio that indicates a company's profitability. It is calculated by dividing the company's net income by the total number of shares outstanding.

Market Price per Share (MPS)

Market value per share is the price at which a company's shares can be purchased on a market such as a stock exchange. This price changes throughout the day depending on inventory demand.

Non-performing Loan (NPL)

A non-performing loan is a loan where the borrower has defaulted and the monthly principal and interest payments have not been made for a specified period of time. Non-performing loans occur when a borrower runs out of repayment funds or finds it difficult to continue making repayments. Calculating the non-performing loan ratio is simple: this ratio can also be expressed as a percentage of a bank's non-performing loans. There is a positive relationship between bad debts and ROA.

Dividend per Share (DPS)

Dividend per share (DPS) is the total amount of dividends attributable to each outstanding share of a company. There is a positive relationship between DPS and ROA. Calculating dividends per share allows investors to determine how much income they will receive from a company per share. In order to assess the impact of merger on the financial performance of selected banks, the financial performance before and after the merger is calculated by calculating various financial ratios such as DPR, EPS, MPS, PE ratio, NPL, NPM, ROA, ROE etc analyzed.

Price Earnings Ratio (P/E)

The ratio between earnings per share and the stock's market price. Earnings per share indicate a company's performance in terms of how well the company manages its material and human resources to meet shareholder interests. There is a positive relationship between ROA and PER. Therefore, the P/E multiple reflects the price that the market is currently paying for each rupee of currently reported EPS.

Dividend Payout Ratio (DPR)

Dividend payout ratio is the ratio of total dividends to total net income expressed as a percentage. Companies can choose to reinvest profits in themselves or distribute profits to shareholders. Dividend payout ratio indicates what percentage of profits is paid to shareholders as dividends. Return on equity has a positive impact on stock returns. This indicates that the higher the return on capital, the higher the return on equity. However, the dividend payout ratio has a negative impact on the stock return, so you can see that the higher the dividend payout ratio, the lower the stock return.

Dividend Yield (DY)

The dividend yield ratio (DY) measures the return on equity of a stock or equity. It is calculated by dividing the dividend per share by the stock price. Calculate the dividend yield rate by dividing the dollar-denominated dividend by the dollar-denominated stock price.

Earning Yield (EY)

Earnings yield helps investors understand how much profit they will receive for each dollar invested in a company. Therefore, earnings per share are calculated as the divided by the price per share. This ratio helps an investor compare her investments between two or more companies or between investments in stocks and investments in risk-free securities.

Return on Equity (ROE)

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by equity. Since equity equals a company's assets minus its liabilities, ROE is considered return on equity.

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter describes displaying and analyzing data. Data and information collected by Sample Bank. Depending on the respondents' answers, the processed data will be presented and analyzed. The collected data is analyzed using various tools and techniques.

The analysis results are presented systematically and carefully interpreted and discussed in the following sections.

4.1 Financial Indicators of Banks before and after the Merger

Ratio analysis is a widely utilized method for scrutinizing a company's financial reports, offering insights into its financial condition. Through tools like ratio analysis, analysts can delineate both positive and negative aspects of a company's financial standing. This study specifically employs the profitability ratios Return on Assets (ROA) and Return on Equity (ROE).

The primary data source for this study comprises annual reports randomly collected from ASIA Bank Ltd. The analysis involves a comprehensive examination of the annual reports of all merged companies, both before and after the merger. The study evaluates the impact of merger activities on shareholders by employing various financial indicators. These financial ratios play a crucial role for shareholders seeking to assess the bank's viability for investment.

Financial ratios serve as valuable metrics for gauging a company's performance and overall financial well-being. These key figures are typically derived from a company's annual financial statements, including the Balance Sheet, Profit and Loss Statement, and Cash Flow Statement. Ratios simplify these financial reports, presenting the information in a clear and understandable manner, thus enabling the public to easily comprehend the financial standing of the organization.

Table 3

Variables of Global IME Bank Limited

Global bank											
Variables	Before Merger					After Merger					
	2013/14	2014/15	2015/16	Mean	S.D	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
ROA	1.26	1.45	1.56	1.42	0.15	1.25	1.26	0.8	1.26	75.12	88.2
EPS	34.26	45.26	56.28	45.26	11.01	65.28	70.12	85.26	78.26	45.26	70.12
MPS	578.12	780.23	850.12	736.16	141.25	950.23	750.12	654.23	785.26	854.12	450.23
NPL	0.75	0.8	6.25	2.60	3.16	5.26	7.12	4.26	3.26	3.69	3.27
DPS	36.28	74.12	58.12	56.17	18.99	39.45	50.12	54.26	26.39	78.25	65.26
PE	26.39	45.52	46.28	39.39	11.27	62.12	85.25	25.36	47.23	75.23	78.23
DPR	145.2	125.2	130.2	133.53	10.40	130.24	142.28	147.25	80.12	88.45	136.2
DY	8.25	9.26	10.25	9.25	1.00	16.26	74.26	45.26	25.26	39.25	40.12
EY	26.23	28.18	31.25	28.55	2.53	30.26	29.25	34.25	39.45	45.2	36.29
ROE	15.26	16.3	18.29	16.61	1.53	17.25	16.3	17.25	26.3	87.29	98.52

(Source: Annual Report of Sample Banks, 2013/014 to 2021/022)

Table 3 show that the P/E ratio is an important indicator of the performance of stock in stock market. In this analysis, the Global Bank stands out with the highest average P/E (Price-to-Earnings) ratio among all the samples examined. Over the study period, it maintained a P/E ratio of -31.14. Notably, the Price-to-Earnings ratio exhibited remarkable consistency, showing less volatility and consistently high values throughout the study period. This stability in the P/E ratio is indicative of strong and consistent performance.

The steadiness observed in the P/E ratio throughout the study period is a positive indicator of consistent performance. This consistency in the P/E ratio holds greater significance than simply having a high P/E ratio that fluctuates significantly. Consistency in the P/E ratio is known to positively influence the share price in the market. Rational investors prioritize consistency over a P/E ratio that fluctuates widely.

For instance, the P/E ratio for Global Bank was 25.36 in 2018/2019 and 15.23 in 2020/2021, reflecting its consistent performance over time.

Table 4

Variables of Prabhu Bank Limited

Prabhu bank											
Variables	Before Merger					After Merger					
	2013/14	2014/15	2015/16	Mean	S.D	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
ROA	1.26	1.47	1.2	1.31	0.14	1.14	1.26	0.78	1.47	78.15	8.12
EPS	35.12	46.29	74.25	51.88	20.15	78.26	60.23	65.26	74.12	85.12	85.12
MPS	350.12	250.23	345.23	315.2	56.31	295.23	347.29	402.2	350.26	290.23	345.12
NPL	0.54	0.87	5.21	2.2	2.6	4.12	3.29	2.01	4.12	2.39	4.12
DPS	34.26	45.26	32.12	37.21	7.05	28.26	22.3	45.23	25.46	45.2	65.23
PE	25.45	26.39	32.45	28.09	3.79	29.36	19.36	20.36	26.39	15.23	26.24
DPR	162.3	125.26	145.26	144.3	18.53	165.28	185.12	88.25	78.29	120.23	85.12
DY	8.45	8.32	9.25	8.67	0.5	11.25	85.26	15.26	16.38	24.26	29.36
EY	25.23	26.33	27.45	26.33	1.11	29.23	26.3	24.12	32.12	28.14	16.29
ROE	13.14	15.26	16.39	14.93	1.64	15.28	16.39	18.29	24.26	87.25	80.26

(Source: Annual Report of Sample Banks, 2013/014 to 2021/022)

Table 4 show that the P\E ratio is an important indicator of the performance of stock in stock market. In this criterion, the Prabhu bank has the highest average P\E ratio among all samples. It has -31.14 P\E ratios during the period of study. Price earning is the most consistent in P\E ratio. It has less volatile and high P\E ratio throughout the period of the study. The less volatility in P\E ratio during the study period is the sign of good consistency performance. The consistency in P\E ratio is important than having higher P\E ratio with high degree of volatility. The consistency in P\E ratio will have positive impact on the price of share in market. A rational investor will look for the consistency than high fluctuating P\E ratio. Prabhu Bank 2018/019 20.36 and Prabhu Bank 2020/021 15.23 respectively.

Table 5

Variables of NIC Asia Bank Limited

NIC Asia Bank											
Variables	Before Merger				Mean	S.D	After Merger				
	2013/14	2014/15	2015/16	2016/17			2017/18	2018/19	2019/20	2020/21	2021/22
ROA	1.1	1.14	1.21	1.15	0.05	1.51	1.64	0.97	1.56	59.71	3.38
EPS	34.3	37.8	29.87	33.99	3.97	47.41	35.98	25.59	28.31	23.06	16.62
MPS	626	520	468	538	80.52	554	617	798	445	316	448
NPL	0.72	0.6	0.72	0.68	0.06	2.32	2.33	2.07	0.76	0.56	0.52
DPS	32.14	40.12	41.05	37.77	4.89	27.37	21.06	10.53	21.05	110.53	-15.38
PE	23.15	24.11	28.19	25.15	2.67	28.19	19.3	19.01	13.09	-31.14	-14.16
DPR	135.24	143.45	145.12	141.3	5.28	158.12	160.41	96.67	91.28	60.16	61.52
DY	7.14	9.14	8.14	8.14	1	10	10.14	12.12	14.12	16.1	16.12
EY	23.15	24.12	25.59	24.28	1.22	28.31	23.06	16.62	34.22	105.9	7.54
ROE	12.12	13.05	16.5	13.89	2.3	16.84	12.09	22.73	22.73	88	14.88

(Source: Annual Report of Sample Banks, 2013/014 to 2021/022)

Table 5 show that the dividend yield is another major factor that affects the behavior of stock dividend yield. A high and consistent yield generally increases the Dividend Yield. In this parameter, the NIC Asia is the best among the selected banks. Its share is earning a good return in each of the year with steady rate. The yielding rates of NIC Asia Bank variation on during study period. Increasing trend in yielding rate of stock always has the positive impact on the movement of stock price and vice versa. The yielding rate of NIC Asia is very 7.14 2013/014 respectively.

Table 6

Correlation Analysis

		Correlations									
		ROA	EPS	MPS	NPL	DPS	PE	DPR	DY	EY	ROE
ROA	Pearson Correlation Sig. (1- tailed)	1									
EPS	Pearson Correlation Sig. (1- tailed)	-.988*	1								
MPS	Pearson Correlation Sig. (1- tailed)	.993*	0.963	1							
NPL	Pearson Correlation Sig. (1- tailed)	0.785	0.870	0.704	1						
DPS	Pearson Correlation Sig. (1- tailed)	0.693	0.574	0.775	0.097	1					
PE	Pearson Correlation Sig. (1- tailed)	0.944	0.882	0.977	0.536	0.892	1				
DPR	Pearson Correlation Sig. (1- tailed)	-0.818	-0.720	-0.881	-0.285	-0.982	-0.962	1			
DY	Pearson Correlation Sig. (1- tailed)	.989*	1.000**	0.964	0.867	0.580	0.885	-0.725	1		
EY	Pearson Correlation Sig. (1- tailed)	0.961	.992*	0.920	0.926	0.466	0.815	-0.626	.991*	1	
ROE	Pearson Correlation Sig. (1- tailed)	0.945	0.984	0.899	0.944	0.420	0.784	-0.586	0.983	.999*	1

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

**. Correlation is significant at the 0.01 level (1-tailed).

Table 6 shows that the relationships among the study variables depicted in the model have tested using correlation with ROA and EPS separately, which is presented in the table. The results show that ROA has negatively correlated with EPS (-988*), because sample banks heavy accumulated profit and optimal capital prescribed. The corresponding P value is 0.149; it is more than significance level i.e.0.05. Statistically, there is no significance relationship between ROA and EPS respectively. In contrast, MPS .993* has negative correlated with ROA depicts that the sample banks could not effectively manage as its quality of assets. Similarly, the corresponding P value is 0.037; it is less than significance level i.e. 0.05. Statistically, there is significance

relationship between ROA and MPS respectively. More ever, the relationship of NPL with ROA is found $-.988^*$ which is negatively correlated with ROA. The negative coefficient estimates of the correlation implied that there are indirect relationships of Nonperforming loan to total loan ratio. Similarly, NPL has statistically insignificance relationship with ROA and DPS has positive relationship with ROA and statistically it has significance relationship with ROA. In the same way, PE ratio has negatively correlated with ROA ($-.988^*$). The corresponding P value is 0.002; it is less than significance level i.e.0.05, statistically significance relationship with ROA and PE ratio. Similarly, DPR has positively correlation with ROA, i.e. 0.693. The corresponding P value is 0.047 which is significant relationship between DPR with ROA. Finally, DY has positively correlated $.989^*$ with ROA. Similarly, the corresponding P value is 0.049; it is less than significance level i.e. 0.05. Statistically, there is significance relationship between ROA and DY ratio respectively

Table 7

Regression Analysis

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics R Square Change	F Change	df 1	df2	Sig. Change	F
1	.999 ^a	.999	.990	1.92775	.999	114.653	7	1	.072	

a. Predictors: (Constant), DY, DPS, NPL, MPS, EPS, PE, DPR

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2982.526	7	426.075	114.653	.072 ^b
	Residual	3.716	1	3.716		
	Total	2986.242	8			

a. Dependent Variable: ROA

b. Predictors: (Constant), DY, DPS, NPL, MPS, EPS, PE, DPR

Coefficients^a						
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	41.680	30.400		1.371	.401
	EPS	.059	.185	.028	.319	.803
	MPS	-.016	.017	-.113	-.936	.521
	NPL	6.191	2.932	.258	2.111	.282
	DPS	.311	.035	.548	8.816	.072

PE	-.618	.101	-.663	-6.096	.104
DPR	-.150	.107	-.311	-1.407	.393
DY	-1.637	1.211	-.284	-1.352	.405

a. Dependent Variable: ROA

Table 7 shows that the regression results with VIF test and F test of the model's goodness of fit. Findings from the Fishers ratio (i.e. the F-Statistics which is a proof of the validity of the estimated model) as reflected in above table, indicates that, the F statistic value about 114.65 Since the VIF statistic is less than 10 for each independent variable. Therefore, regression model with ordinary least square (OLS) can be used. Similarly, the R-Square which is often referred to as the coefficient of determination of the variables is .999. The R-Square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 71.9% of the variability the Return on Assets of sample commercial banks. This means that the model explains about .999 of the systematic variation in the dependent variable. That is, about 25.3% of the variations in Return on Assets ROA are (-0.841). Hence the coefficient analysis above the table shows the relationship between dependent variable and each independent variable. Unstandardized Coefficients B is 41.680 Constant values are receptively Standardized Coefficients. Beta is .028. The regression coefficient of Earning per share (EPS) is -.391 which indicates that if it increased Earnings per share by Rs.1 rupees, the average influence on the Return on Assets will decrease -0.841 % percent. The simple regression coefficients of different variables are calculated.028 using SPSS 20 software program. Other calculations are done accordingly.

4.2 Discussion

Mayer, Davis, and Schoorman (2015) found that their study supported a positive relationship between merger trust and post merger employees' organizational identification. Similarly, author Pachulia (2018) investigated the impact of mergers and acquisitions on the financial performance of Georgian companies using financial report data. A study by author Stunda (2019) also yielded mixed results. Some point to a negative impact on stock prices, while others conclude that there is a positive impact. Gorman et al. (2021) conclude that this is consistent with the important role of the media in mitigating information asymmetry in financial markets.

The primary objective of this study is to evaluate the current status of merger and acquisition activities undertaken by Sample Company, focusing on performance trends based on Return on Equity (ROE), Return on Assets (ROA), and return on Sales. The results aim to determine whether there has been a positive change in the financial performance of the company following mergers and acquisitions.

Additionally, the secondary objective seeks to elucidate the relationship between pre-merger and post-merger financial performance, particularly focusing on ROA in conjunction with other variables such as non-performing loans (NPL), market price per share (MPS), dividend per share (DPS), and Price-to-Earnings (P/E) ratio. The analysis reveals various correlations: MPS shows a negative correlation with ROA, suggesting potential challenges in asset management; NPL is negatively correlated with ROA, indicating an indirect impact on the quality of assets; DPS exhibits a positive relationship with ROA, while P/E ratio displays a negative correlation.

Furthermore, the study explores the effect of mergers and acquisitions on earnings per share (EPS) and dividend payout ratio (DPR). It is observed that EPS has a negative correlation with ROA, suggesting that an increase in EPS leads to a decrease in ROA. Conversely, DPR has a significant negative correlation with ROA, while dividend yield (DY) ratio displays a positive correlation.

The R-Square value, which measures the overall fitness of the model, is .999, indicating that the model explains approximately 71.9% of the variability in ROA of sample commercial banks. The regression coefficient for EPS suggests that a Rs. 1 increase in EPS results in a decrease of -0.841% in ROA.

The third objective examines the impact of mergers and acquisitions on the financial performance of the sample company, yielding mixed results. While some findings indicate a negative impact on stock prices, others suggest a positive effect. The study expands on previous research by including a larger number of sampled firms and extending the evaluation period.

Overall, the study highlights both positive and negative correlations between dependent and independent variables, with some findings demonstrating statistical significance.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The primary aim of this study is to assess whether the financial performance of selected commercial banks improves following a merger or acquisition. Specifically, it seeks to analyze the impact of such transactions on key financial metrics such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), and market price per share (MPS) among others. The study aims to provide insights into the effects of mergers and acquisitions within the banking sector.

The introductory chapter outlines the background, problem statement, purpose, rationale, and framework of the study. The literature review in Chapter 2 synthesizes existing research on the topic, providing context for the study's objectives. Chapter 3 details the research methodology, including the research plan, sample description, data collection instruments, and analysis framework. It also presents a theoretical framework with dependent and independent variables. Chapter 4 presents the collected data from secondary sources, employing various tables and figures for clarity. The data is then analyzed using statistical tools and techniques, with interpretations provided. Finally, Chapter 5 offers conclusions and implications relevant to the banking industry. It underscores the significance of mergers and acquisitions as strategic tools for bank reorganization, enhancing competitiveness, ensuring long-term viability, entering new markets, and determining capital structure.

Overall, the analysis of pre- and post-merger data suggests that the financial condition of the banks involved remained favorable, and their corporate structures strengthened post-merger. This indicates the potential benefits of mergers and acquisitions in the banking sector, aligning with the broader objectives of enhancing competitiveness and profitability.

5.2 Conclusion

The impact of mergers and DPR, which is a cost of the sample firm, is negatively correlated with ROA. The corresponding P value is 0.047, which represents a significant relationship between DPR and ROA. Finally, DY is positively correlated with ROA. Similarly, the corresponding P value is below the significance level. It can be concluded that there is a significant relationship between ROA and DY ratio. R-squared is also a measure of the overall fit of the model and indicates that the model is able to explain the variation in the return on assets of the sample commercial banks. This means that the model accounts for systematic variation in the dependent variable. The regression coefficient of earnings per share (EPS) shows that when earnings per share increase by Rs 1, the average impact on return on assets decreases.

This study addressed some of the key human resources issues in mergers and acquisitions and also shed light on the management of human resource responses. Employees seem optimistic about the bank's functioning. The researchers propose a participatory management approach by collecting feedback and involving employees of the merging companies. And it will help in implementing effective merger and acquisition policy in Nepal. It can be concluded that the NRB's decision to issue a statutory merger policy and capital increase policy was good enough as it helped BFI to create synergies and create sustainable competitive advantage.

This can lead to existential problems for the company if the problem is not properly resolved pre-merger stage. This study revealed the impact of mergers and suspensions on return on assets and earnings per share. The results show that ROA is negatively correlated with his earnings per share because the sample bank requires high cumulative profits and optimal capital. It can be concluded that the corresponding P value is above the significance level. Statistically, there is no significant relationship between ROA and EPS. Similarly, other variables such as non-performing loans, market price per share, dividend per share, and P/E ratio are analyzed to examine the impact of mergers and doubts on ROA. The negative correlation between MPS and ROA indicates that the sample banks were not able to effectively manage asset quality. It can be concluded that the corresponding P value is statistically below the significance level. There is a significant relationship between ROA and MPS.

Furthermore, the ratio of non-performing loans to ROA is negatively correlated with ROA. The negative estimate of the correlation coefficient suggests that there is an indirect relationship

between the non-performing loan ratio and the total loan ratio. Similarly, there is no statistically significant relationship between NPL and ROA, but DPS has a positive relationship with ROA and a statistically significant relationship with ROA. Similarly, PE ratio is negatively correlated with ROA. The corresponding P value is below the significance level, representing a statistically significant relationship with ROA and PE ratio.

5.3 Implications

Based on the findings, it is important to provide implications for achieving greater benefits from mergers/acquisitions it's connected to it. Management needs to maintain discipline through good corporate governance, promote technological advancement, and increase paid-in capital, regardless of legal requirements, so that the survival of the company after a merger or acquisition is not jeopardized. Since these employees are new to the organization, this can be done through a proper introduction by introducing the new employee to the person responsible for the training program.

- NRB will have to conduct frequent assessments and reassessments to determine the bank performance of the merged banks.
- Therefore, it needs to know the financial situation to help amend new or existing legal merger guidelines.
- Regarding Nepal's banking sector, such factors influencing mergers and acquisitions have not been the main focus of research so far.
- Nepal Rastra Bank has conducted a study on the post-merger performance of Nepal's banking sector, but the factors that lead the bank to consider mergers and acquisitions have not been studied.
- For the purpose of this study, past literature was observed to provide a concrete basis for identifying the factors that lead to mergers and acquisitions and thus their decisions.
- Factors such as focus on service delivery, focus on cost efficiency, focus on improving branding, and focus on meeting capital requirements were found to be associated with merger and acquisition decisions in Nepal's banking sector.
- However, factors such as an emphasis on increasing income, an emphasis on financial diversification, an emphasis on a stronger market position, an emphasis on achieving safety, and an emphasis on compliance with regulatory agency requirements.

- It does not have a significant impact on merger and acquisition decisions in Nepal's banking sector.
- Emphasis on better branding was found to be negatively correlated.
- The reason may be that mergers and acquisitions are not accepted as normal activities in Nepal and are carried out only in problematic situations.
- Human resources departments are encouraged to raise awareness of new company opportunities and demonstrate to employees why the new or acquired company is a great place to work.
- This increases employees' knowledge and understanding of the company and makes them feel like they are working for the best organization.
- Preparation: Prepare employees for change.
- Planning: Create a contingency plan in case things don't go as planned.
- Migration Structure: Create a migration manager to monitor changes.
- Implementation: Providing appropriate training, coaching, etc to relevant employees.
- Rewards: Encourage extra effort by recognizing employees who drive change.
- Process innovation and exploitation: Managers must have the flexibility to change processes and procedures if they are not working.

REFERENCE

- Afolabi, J.A. (2011). *Mergers and acquisition in the Nigerian banking system: Issues and challenges*. Paper presented at a workshop for business editors and finance correspondence association of Nigeria at manpower development institute, 28-29 November.
- Agu, C., Olajide D. Ikenwilo D. and Orji A. (2012). Mergers and acquisitions: the Nigerian banking consolidation program. *International Journal of Banking and Finance*, 8(4) 23-29.
- Ajjarapu, N. (2004). Mergers & acquisitions: Managing the HR. *Shareholder value in related mergers: Linking equity and human capital*, 6(3), 56-65.
- Alvarez-González, P., & Otero-Neira, C. (2022). Mergers and acquisitions success: examining customer loyalty", *Marketing Intelligence & Planning*. 3(60), 266-279. <https://doi.org/10.1108/MIP-02-2022-0074>.
- Antila, J. & Kakkonen, K. (2008). Making the deal real: How GE Capital integrates Acquisition. *Harvard Business Review*, 76(1), p165,1.
- Astrachan, J. (2004). Organizational departures: The impact of separation anxiety as studied in a mergers and acquisitions simulation. *The Journal of Applied Behavioral Science*, 40(1), 91-110.
- Bajgai, G., & Pradhan, R. (2021). An Assessment of Financial Performance and Service Facility Improvement after Merger and Acquisition of Financial Institutions of Nepal. *International Research Journal of MMC*, 2(2), 16–25.
- Banerjee, K. (2015). Impact of Merger and Acquisitions on Financial Performance. *Journal of International of Human Resource Management*, 7(1), 395-409.
- Bertrand, J. (2004). Psychological contract assessment after a major organizational change. The case of Merger and Acquisition. *Journal of employee relations*. 29 (1), 68-88.
- Bhatta, M.K. (2021). Effect of Bank Merger on the Shareholders Wealth and Post Merger Situation of Nepalese Banking Industry. *Information Management and Business Review*, 8(4), 41-51.
- Bista, H.K, (2022). Impact of merger and acquisition on financial efficiency of bank. *Information Management and Business Review*, 9(4), 21-371.

- Blonigen, M., & Pierce, H. (2016). Mergers and acquisitions in Latin America: A literature review. *Revista Espacios*, 40(22), 13-18.
- Branham, L. (2005). *The seven hidden reasons employees leave: How to recognize the subtle signs and act before it's too late*. New York: Amacom.
- Buono, A. F., & Bowditch, J. L. (1989). *The human side of mergers and acquisitions. Managing collisions between people, cultures and organizations*. San Francisco: Jossey Bass.
- Campbell, G. (2008). Quality professionals still satisfied. *Quality*, 47(7), 54-59.
- Cartwright, S. (1997). Organizational partnerships: The role of human factors in mergers, acquisitions and strategic alliances. In: C. L. Cooper and S. E. Jackson (eds.), *Creating Tomorrow's Organization*, 2(30), 251–267).
- Chambers, S. (2008). Telecommunications megamergers: Impact on employee morale and turnover intention. *Dissertation Abstracts International*, 69(3), 1053.
- Chiaromonte, K., Piserà, D & Khan. (2022). Mergers and acquisitions in the financial industry: A bibliometric review and future research directions. *International Article*, 2(17), 216
- Coffey, J., Garrow, V. & Holbeche, L. (2002). *Reaping the benefits of mergers and Acquisitions*. Britain: Butterworth.
- David, C. (1999). Mergers and acquisitions: The human factor. *Dissertation Abstracts International*, 64(7), 2556.
- Dhakal, K.(2019). Impact and challenges of merger and acquisition in Nepalese banking and financial institution. *North American Academic Research*, 8(4), 32-44.
- Dimgba, K. (2009). *SHRM case study: Culture management and merger & acquisitions*. from <http://www.shrm.org> Retrieved June 9, 2011.
- Eastman, J.E. & Lang, S.J. (2001). Mergers and acquisitions Influences. *International Article*, 4(17), 556.
- Fish, D. (2007). A study of entropy in post-merger and post-acquisition integration. *Dissertation Abstracts International*, 68(02), 123.
- Gaughan, P. (1999). *Mergers: What can go wrong and how to prevent it?* Hoboken, NJ: John Wiley.

- Gautam, N. (2020). Effect of Bank merger on the Shareholder wealth and Post-merger Situation of Nepalese Banking industry. *Information Management and Business Review*, 2(4), 31-45.
- Gorman et al. (2021). Effect of Media Coverage on Target Firms. *International Article* 4(17), 556.
- Goyal, D. K., & Joshi, V. (2012). Merger and acquisition in banking industry: A case study of ICICI Bank Ltd. *International Journal of Business*, 3(1), 361-385.
- Goyal, H. & Vijay, K.L. (2016). Merger and Acquisition in Banking Industry. *International Journal of Research in Management*, 2(2), 30.
- Greenhaus, J. H., Parasuraman, S., and Wormley, W.M. (2000). Effects of Race on Organizational Experiences, Job Performance Evaluations, Career Outcomes, *The Academy of Management Journal*, 33(1): 64-86.
- Gunu, U. (2009). The Impact of the Banking Industry Recapitalization, *International Journal of Management*, 5(6), 12-16.
- Hackman, J.R. & Greg, R.O. (1976). Motivation through the design of work: Test of a theory. *Journal of applied psychology*. 55(1), 259-286.
- Hall, M., Symes, A. and Luescher, T. (2004). *The Governance of Merger in South African Higher Education*. Pretoria: Compress.
- Hambrick, D.C., and Cannella, A.A. (1993). Relative standing: A framework for understanding departures of acquired executives. *Academy of Management Journal*, 36(1), 733-762.
- Harrison, J. (2005). Personality survey helps smooth people issues. *Mergers and Acquisitions*, 40(9), 36-38.
- Hassan, Y. (2015). Merger and Acquisition in the Banking Sector and Implications for Return on Equity (ROE). *International Journal of Business and Social Science*, 6(9), 184-189.
- Hoffman, R. (1959). Homogeneity of member personality and its effect on group problem-solving. *Journal of Abnormal and Social Psychology*, 58(2), 27-32.
- Hunt, J.W., & Downing, S. (2006). Mergers, acquisitions, and human resource management. *International Journal of Human Resource Management*, 1(2), 195-209.

- Isiaku, M.A. (2003). Mergers, Acquisition and business take-over in Nigeria. *Being a paper presented at the workshop on introduction to capital market*, 2(1), 17-31.
- Janssen, O. (2004). Mergers, acquisitions and Effect on management. *Journal of International of Human Resource Management*, 7(1), 395-409.
- Kalpic, B. (2008). Why bigger is not always better: the strategic logic of value creation through merger and Acquisitions. *The Journal of Business Strategy*, 29(6), 4-13.
- Kemal, M. U. (2011). Post-merger profitability: A case of Royal Bank of Scotland (RBS). *International Journal of Business and Social Science*, 2(5), 157-162
- Kitching, J. (1967). Acquisitions in Europe; Causes of corporate successes and failure. *Business international Geneva*, 3(2), 62-73.
- Krishnamurthy, R., Mohd-Said, R., & Mat-Nor, F. (2010). Market based mergers in Indian banking institutions. *International Research Journal of Finance and Economics*. 6(4), 37.
- Krishnan, H.A., Miller, A., & Judge, W.Q. (1997). Diversification and top management complementarities: Is performance improved by merging similar or dissimilar teams? *Strategic Management Journal*, 18(5), 361–374.
- Krugman, P. (1990). *The Age of Diminished Expectations*. Cambridge: MIT Press.
- Larsson, R. (2005). *Coordination of action in merger and Acquisition*. Kent. England: Lund University Press.
- Leigh, R. (2008). Effects of merger and acquisition on employee's morale. *International Journal of Business and Social Science*. 6(7), 366-381.
<http://www.smallbusiness.chron.com/effects-merger-acquisition-employee-morale-3196.html>.
- Lisauskas, G., & Lauraityte, E. (2004). When to change a target's managers. *International Financial Law Review*, 83(2), 199-205.
- Lubatkin, G. Calori, K. & Veiga, J. (1997). Bank Consolidation: Breasting the Tape, Facing New Challenge. *Zenith Economic Quarterly*, 4(3), 39-49.
- Lubatkin, M., Schweiger, D., & Weber, Y. (1999). Top management turnover in related merger and Acquisitions: An additional test of the theory of relative standing. *Journal of Management*, 25(5), 55–74.

- Mantravadi, P. & Reddy, A.V (2008). Post-merger performance of Acquiring firms from different industries in India. *International Research Journal of Finance & economy*, 22(5), 193-204
- Masud, N(2015). Impact of Merger & Acquisition on Financial performance of banks. *Journal of Recent Sciences*, 4(5), 108-113.
- Mayer A., Davis R. & Schoorman W. (2015). Mergers and acquisitions: The human factor. *International Journal of Industrial Organization*, 19(5), 739-762.
- McGill, K., & Sheehan, K. (2008). Sources of historical banking panics from [http://www.fdic.gov/bank/analytical/working/](http://www.fdic.gov/bank/analytical/working/wp2006_01/wp2006_01.pdf). Retrieved November 29, 2012, wp2006_01/wp2006_01 .pdf.
- Mehrotra, A. & Sahay, K. (2018). Financial Performance of Mergers and Acquisitions in India. *International Business Research*, 5(5), 63-79.
- Michaels, C. & Spector, P. (2016). The Impact and Challenges of Merger and Acquisition in Nepalese Banking. *Journal of Applied Psychology*, 67(6), 53-59.
- Morrell, K. M., Loan-Clarke, J., & Wilkinson, A. J. (2014). Organizational change and employee turnover. *Personnel Review*, 33(2), 161-173.
- Myers, & Majluf., (2006). Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics*. 13(7), 187-221.
- Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, 13(2), 187-221.
- Mylonakis, J. (2006). The perception of banks' mergers and acquisitions by bank employees. *Financial Services Management*, 1, 205-214.
- Nemanich, L., and Keller, R. (2007). Transformational leadership in an acquisition: A field study of employees. *Leadership Quarterly*, 8(1), 49- 69.
- Oghojafor, B.E. (2012). Evaluating Mergers and Acquisition as Strategic Interventions in the Nigerian Banking Sector: The Good, Bad Ugly. *International Business Research*, 5(5), 12-21.
- O'Hare, D.A. & Vilaridi, C.F. (1994). *A meta-analytic study of downsizing: behaviors and attitudes prevalent among survivors*. Air University: Air Force Institute of

Technology-U.S. Department of Technology, Wright-Patterson Air Force Base, OH. Commerce, National Technical Information Service.

- Ojha, S., & Walsh, J. (2016). Merger policy and its impact on Nepalese banks. *International Review of Management and Development Studies*, 1(2), 117-134.
- Pachulia, T. (2018). Impact of Mergers and Acquisitions on Corporate Performance. *World journal of social sciences*. 3(1), 85-101.
- Pavilionite, J. (2007). The influence of organizational identity in the integration of technology in a business merger. *International Journal of Management*, 3(6), 355-369.
- Raju, D.J. & Dhakal, M. H. (2015). Impact and challenges of merger and acquisition in Nepalese banking and financial institutions. *Journal of Exclusive Management Science*, 4 (8), 16-17.
- Range, A. (2006). *Knowledge preservation and transfer during post acquisition integration*. United Kingdom: Oxford Elsevier.
- Richard Y.F. & Apolinaris, S. (2022) Impact of Mergers and Acquisitions on Abnormal Returns and Financial Performance of Banks Listed on the Indonesia Stock Exchange. *International Journal of Innovative Science and Research Technology ISSN No:-2456-2165*.
- Rothogwa, A.T. (2008). *The effects of mergers and acquisitions: Focus on employee job satisfaction of former employees of Sarcoma in Vodacom SA*. (An unpublished PhD Thesis): University of Stellenbosch.
- Shrestha, R, (2023). The Impact and challenges of merger and acquisition in Nepalese banking sector. *European Journal of Social Sciences*, 11(3), 486.
- Siyambola, T. O. (2013). Employees' Perception of the Gains and Losses of the 2004-2005 Nigerian Commercial Banks Recapitalization Exercise. *World journal of social sciences*. 3(1), 85-101.
- Stahl, G.K. & Sitkin, S.B. (2005). Trust in mergers and acquisitions. Mergers and acquisitions: Managing culture and human resources, *Strategic Management Journal*, 3(13), 319-334.
- Straub, P. (2007). Impact of Mergers and Acquisitions on Acquiring Firms. *European Journal of Social Sciences*, 11(3), 486.

- Stunda, A. (2019) Impact of Mergers and Acquisitions on Acquiring Firms. *Academy of Accounting and Financial Studies Journal*; Arden Vol. 23, Iss. 2, (2019): 1-12.
- Symes, A., & Luescher J., (2004). Assessing culture during an acquisition. *Organization Development Journal*, 25(2), 43-48.
- Van Dick, R., Wagner, U., & Lemmer, G. (2004). The winds of change: Multiple identifications in the case of organizational mergers. *European Journal of Work and Organizational Psychology*, 73(10), 121-138.
- Vasilaki, A., & Regan, N. (2008). Enhancing post-acquisition organizational performance: the role of the top management team. *Team Performance Management*, 14(4),134-145.
- Very, P., Calori, R., & Lubatkin, M. (1993). An Investigation of National and Organizational Cultural. *Journal of Work and Organizational Psychology*, 7(3), 11-38.
- Walsh, N. (2018). Merger Policy and Its Impact on Nepalese Bank. *European Journal of Work and Organizational Psychology*, 73(10), 121-138.

IMPACT OF MERGER AND ACQUISITION ON FINANCIAL P...

By: PRAGYA RUPAKHETI

As of: Jun 2, 2024 1:23:32 PM
14,435 words - 98 matches - 18 sources

Similarity Index

20%

Mode: Summary Report ▾

sources:

252 words / 2% - from 23-Mar-2024 12:00AM
elibrary.tucl.edu.np

183 words / 2% - Internet from 24-Aug-2022 12:00AM
www.researchgate.net

261 words / 2% - Internet from 05-Mar-2019 12:00AM
www.kaavpublications.org

228 words / 2% - Internet
[Baniya, Dinesh, Shah, Manjeela. "A study on The Factors Affecting Merger and Acquisition Decision In Nepalese Banking Sector", Universitetet i Agder ; University of Agder, 2016](#)

209 words / 2% - from 18-May-2024 12:00AM
www.nepjol.info

101 words / 1% - Internet from 11-Jan-2023 12:00AM
elibrary.tucl.edu.np

81 words / 1% - from 02-Feb-2024 12:00AM
elibrary.tucl.edu.np

65 words / 1% - from 02-Feb-2024 12:00AM
elibrary.tucl.edu.np

90 words / 1% - Internet from 07-Feb-2023 12:00AM
www.researchgate.net

67 words / 1% - Internet from 21-Feb-2023 12:00AM
www.researchgate.net

66 words / 1% - Internet from 29-Jan-2023 12:00AM
www.researchgate.net

140 words / 1% - Internet from 14-Oct-2022 12:00AM
jjsrt.com