

IMPACT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS OF NEPAL

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

by

Sandhya Dhakal

Exam Roll No.: 6164/18

Campus Roll No: 971/074

T.U. Regd. No.: 7-2-487-12-2013

Shanker Dev Campus

Kathmandu Nepal

July, 2024

Certification 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 Commercial Banks of Nepal.**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Sandhya Dhakal

Signature:

REPORT OF RESEARCH COMMITTEE

Ms. Sandhya Dhakal has defended research proposal entitled "**Impact of Merger and Acquisition on Financial Performance of Commercial Banks of Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Deepak Basnet Submit the thesis for evaluation and viva-voce examination.

.....
Deepak Basnet
Dissertation Supervisor

Dissertation Proposal Defended Date:
.....

Dissertation Submitted Date:
.....

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Research Department

Dissertation Viva-voce Date:
.....

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Impact of Merger and Acquisition on Financial Performance of Commercial Banks of Nepal** " Presented by Sandhya Dhakal 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.

.....
Deepak Basnet

Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

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

ACKNOWLEDGEMENTS

First of all, I owe a deep debt of gratitude to my thesis supervisor Deepak Basnet, Lecturer, Shanker Dev Campus, for his constant encouragement, guidance and valuable supervision.

I would like to express debt of gratitude to Asso. Prof. Dr. Krishna Prasad Acharya, Campus Chief, Shanker Dev Campus, for the approval of thesis. I am equally thankful to Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department for his constant cooperation and help during thesis writing.

I am very much thankful to all the teachers and staffs of Shanker Dev Campus, who cooperated and helped me during my thesis writing.

I would like to express my thanks to all my colleagues and friends for their regular help and support during thesis writing.

Similarly, I would like to express my hearty thanks towards all of my family members and relatives who spent their valuable time and effort and made great sacrifice for my higher education.

Sandhya Dhakal

TABLE OF CONTENTS

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>Abbreviations</i>	<i>ix</i>
<i>Abstracts</i>	<i>x</i>
CHAPTER I: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Problem Statement	4
1.3 Objective of the Study	5
1.4 Rationale of the Study	5
1.4 Research Hypothesis	6
1.6 Limitations of the Study	6
CHAPTER - II: REVIEW OF LITERATURE	7
2.1 Theoretical Review	7
2.1.1 Merger	7
2.1.2 Acquisition	8
2.1.3 Types of Merger	8
2.1.4 History of M&A	9
2.1.5 Merger & Acquisition Process	10
2.1.6 Firms' Motives in Merger & Acquisition	13
2.1.7 Merger & Acquisition in Nepal	15
2.1.7.1 Merger & Acquisition of Banking and Financial Institutions in Nepal	16
2.1.8 Merger & Acquisition Regulations in Nepal	18
2.1.9 Problem and Prospects of M & A of Nepalese Financial Institutions	19
2.1.10 Critical Factors for Merger & Acquisition of Financial Institutions	22
2.2 Empirical Review	31
2.2.1 Review of International Studies	37
2.2.2 Review of Nepalese Studies	42
2.3 Research Gap	46

CHAPTER III: RESEARCH METHODOLOGY	47
3.1 Research design	47
3.2 Population and sampling	47
3.3 Data collection and processing procedure	47
3.4 Data analysis tools and techniques	48
3.5 Conceptual Framework and Variables	49
CHAPTER IV: RESULTS AND DISCUSSION	52
4.1 Pre and post-merger comparison of performance	52
4.1.1 Return on assets	52
4.1.2 Return on Equity	53
4.1.3 Earning per share	53
4.1.4 Profit margin	54
4.1.5 Assets quality	55
4.1.6 Total loan and advance to total deposit ratio.	56
4.1.7 Capital adequacy position	57
4.1.8 Debt to equity ratio	58
4.2 Hypothesis testing (t-Test)	58
4.2.1 Paired two Sample t-test for means performance ROA	58
4.2.2 Paired two sample t-test for mean performance of ROE	59
4.2.3 Paired two sample t-test for mean performance of EPS	60
4.2.4 Paired two sample t-test for mean performance of profit margin	61
4.2.5 Paired two sample t-test for mean performance of assets quality.	62
4.2.6 Paired two sample t-test for mean performance of liquidity position	63
4.2.7 Paired two sample t-test for mean performance of D/E ratio.	64
4.2.8 Paired two sample t-test for mean performance of capital adequacy position	65
4.3 Discussion and Major finding	66
CHAPTER IV: SUMMARY AND CONCLUSION	68
5.1 Summary	68
5.2 Conclusion	70
5.3 Implication and recommendation	71
REFERENCES	72
APPENDICES	78

LIST OF TABLES

Table 1: Summary of Empirical Review	45
Table 2: Definition of Variables	50
Table 3: Return on assets	52
Table 4: Return on equity	53
Table 5: Earnings per share	54
Table 6: Profit margin	55
Table 7: Assets quality	56
Table 8: Total loan and advance to total deposit ratio	56
Table 9: Capital adequacy position	57
Table 10: Debt equity ratio	58
Table 11: t-Test: paired two sample for means ROA	59
Table 12: t-test: paired two sample for means performance of ROE	60
Table 13: t-test: paired two sample for means performance of EPS	61
Table 14: t-test: paired two sample for means performance of PM	62
Table 15: t-test: paired two sample for means performance of AQ	63
Table 16: t-test: paired two sample for means performance liquidity	64
Table 17: t-test: paired two sample for means performance of D/E ratio	65
Table 18: t-test: paired two sample for means performance of CAR	66

ABBREVIATIONS

AQ	Assets Quality
BAFIA	Bank and Financial Institution Act
BOK	Bank of Kathmandu Limited
CA	Capital adequacy
EPS	Earnings per share
FRA	Financial Ratio Analysis
M & A	Merger and acquisition
NI	Net Income
NPL	Non-performing assets
NRB	Nepal Rastra Bank
PM	Profit margin
SBL	Siddhartha bank limited
TLA	Total Loan and Advance
TOR	Total Operating Revenue
ROA	Return on Assets
ROE	Return on Equity

ABSTRACT

The study entitled merger and its impact on financial performance of commercial banks in Nepal. The purpose of this research is to study the effect of merger on the financial performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. This study is based on the descriptive and analytical research design. Performance of commercial banks is measured by different variables such as ROA, ROE, EPS, profit margin, capital adequacy, assets quality, liquidity and debt to equity ratios. Pared sample t-test is used to measure the significant change pre-merger performance and post-merger performance. This study conclude that Returns on Assets, earning per share, profit margin, liquidity increased significantly after the merger of the banks. However return on equity, assets quality, debt to total equity and capital adequacy ratio are decreased after the merger. The assets quality ratios, which is measured by the total non-performing assets to total loan and advance is decreased after the merger, which show that the performing assets of merged banks. The merged banks able to maintain non-performing assets ratios as refers by Nepal Rastra Bank. Similarly the sampled merged bank able to meet the capital adequacy ratio.

Key words: ROA, ROE, EPS, capital adequacy, liquidity.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors. According to Ross (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross, 2003). In practice, a merger between company A + company B= company A, where company B merged with company A. In a consolidation, company A + company B = company C, where company C is an entirely new company (Gaughan, 2011). “An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares”. Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition, which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another.

Merger and Acquisition (M&A) is one of the efficient measures of consolidation in the financial system. The Government of Nepal has been promoting mergers as a means to achieve efficiency through economies of scale and scope by facilitating a consolidation between weaker and stronger banks to create an efficient and robust merged entity.

Presently, the Nepalese Banking Sector is facing a huge problem and is in critical juncture. So, in order to cope with this problem Nepal Rasta Bank (NRB) has directed the Banking Institutions to go in the process of mergers and acquisitions. NRB has provided several benefits to the merging institutions. Responding to the benefits presented by NRB, the banks and the financial institutions of the country are opting in the process of merger (Kafle, 2013).

Mergers and Acquisitions have become the most widely used business strategy of restructuring and strengthening bank to achieve competitiveness, to ensure long term existence with considerable profitability, to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy-2011 and monetary policy-2015 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry. The present paper evaluates the effects of merger and acquisitions on employees through questionnaires and effects on shareholder by analyzing financial performance of the selected banks. To analyze the effectiveness of mergers and acquisitions on the banks, pre and post-merger comparison is conducted on selected variables. Three cases of merger and acquisitions have been taken randomly as sample for the study, first the merger of Machhapuchhre Bank Ltd; second, Global Bank Ltd; and third, NIC ASIA Bank Ltd. The results of the study indicate that mergers and acquisitions have positive impacts on human factors and financial performance of the selected banks (Sharma, 2018).

Mergers and acquisitions have long been prevalent across the globe. The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brought several financial challenges and complexities. The financial indicator has indicated that the Nepalese financial sector is weak, vulnerable and at the verge of a collapse. The central bank planned to improve the health of the financial sector by introducing the Merger by law 2011 grounded on the Company Act 2006 article 177, BAFIA 2006 article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation (Adhikari, 2016).

A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. It

is perceived that, merger will result in newer and larger organizations which are supposed to be efficient in allocating resources, human and capital and maximize the output gains. It is believed that the larger banks, with more resources can offer more products and services at lesser operating cost i.e. at economies of scale. However, the perceived gains do not occur, at least not to the extent that is perceived. Some of the genuine impacts or effect of mergers on the banking industry can be observed around the world, which has been the reduced availability of loans to the customer base after merger. It is mainly because of decline in competitiveness in banking industry and increase in the interest rates above reasonable level. Banks have been observed to be engaged in activities ranging from anti-competitiveness to corruption after the merger. When economies of scale are observed, there is a significant uncertainty over how wide the range of scale is. There is often increase in dissatisfaction among employees after merger of the institutions (Sharma, 2018).

A firm can achieve growth either internally by expanding its operations, establishing new units or externally through mergers and acquisitions (M&As), takeover, amalgamations, joint venture etc. With the level of competition getting intense day by day, Mergers and Acquisitions have emerged as the most preferred long term strategy of corporate restructuring and strengthening in the present globalized world. The main rationale behind the Mergers and Acquisitions is to create synergy that reads one plus one is more than two. Banking sector plays a crucial role in the economic growth and development of a nation. Globalization with deregulation of economies coupled with technological development has changed the banking landscape dramatically. For this, Mergers and Acquisitions have become the preferred strategy for growth in the size of banks, which in turn play a significant role in entering the global financial market. Besides, Mergers and Acquisitions are widely used for achieving higher market share, gaining overall productivity and profitability, expanding branch networks, strengthening their capital base, having cost rationalization, and exercising the economies of scale and manpower efficiency.

Shareholders and managers of banks turn to mergers and acquisitions in the hope of improving financial performance in their banks but studies on this subject have produced mixed results. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a

merger. The study therefore has determined the effect of mergers and acquisitions on financial performance of banks taking a survey of banking industry in Nepal.

This study is based on the analysis of the variables that have already occurs by the events of merger with the previous situation of merger. So, this types of research also called casual comparative research or ex-post facto research. The study sought to determine the effect of mergers and acquisition on financial performance of banks taking a survey of banking industry in Nepal.

1.2 Problem Statement

A study conduct by Shah & Khan (2017) on Impacts of Mergers and Acquisitions on Acquirer Banks' Performance, researchers concluded that most of the profitability ratios, including ROE, ROA, net markup and non-markup income to total assets have declined in the post-merger period. Only an insignificant improvement is observed in net interest margin and administrative expenses to profit before tax ratios in the post-merger period. Deterioration is also observed in the liquidity ratios of the acquirer banks in the post-merger period. The cash and cash equivalent to total assets has declined significantly and advances, and investment to total assets ratios are increased, but insignificantly. Similarly the performances of the acquirer banks do not reflect any worthwhile improvement in terms of capital stability in the post-merger period. The deposit to owners' equity ratio is significantly increased, but the capital adequacy has declined, showing an unfavorable effect on the performances of the acquirer banks in the post-merger period. Shrestha, Thapa & Phuyal (2017), carried out the study on a comparative study of merger effect on financial performance of banking and financial institutions in Nepal.

This research study on the merger practice of BFIs in Nepal provides the detail insight about the current burning issues presented in Nepalese financial market. This study provides the answer for the necessity of the merger of existing BFIs in Nepal. The study covers the analysis of the events of merger on financial performance of BFIs in Nepal. This study may significance to the Nepalese BFIs to understand the exact impact off merger on their financial performance. It is new concept in Nepalese BFIs and there is a lot of confusion about the merger and their impacts on the long term growth and profitability of the BFIs. Hence this research work can be fruitful for the analysis and understand the impacts of merger. It will be source of good reference for

the future research study on the topic merger and acquisitions. Looking into this issues, the study will be focused on the following research problems:

The current study tries to solve the following research questions

1. What is the impact of merger on liquidity position of banks?
2. Does the profitability position change after the merger?
3. Is there any difference in capital adequacy position before and after merger?

1.3 Objective of the Study

The main objective of the study is to analyze the effect of merger on the financial performance of banks.

1. To analyze the impact of merger on liquidity position of banks.
2. To examine the impact of merger on profitability position of banks.
3. To assess the impact of merger on capital adequacy position of banks.

1.4 Rationale of the Study

In the light of the fact that mammoth resources both financially and non-financially are usually committed to effectively implement mergers and acquisitions, it is noteworthy to establish the actual impact of M&A on the financial performance of Commercial banks in Nepal. The submission of this fact is significant used to the Policy makers to devise new standards in establishing an appropriate level of merger and acquisition. The findings be used to come up with more effective methods of managing liquidity levels of a firm. Likewise the study add knowledge on the understanding of the importance of mergers in analyzing performance by current investors, customers of commercial banks and other banks in this competitive industry.

Similarly this study provide a base for further research especially in the areas of merger and acquisitions for researchers interested in building on the already existing knowledge base about theoretical and empirical work on the impacts of mergers and acquisition on the financial performance of commercial banks. It would be benefit to executives and managers of the commercial banks as the study would cover banks that have recently merged and their relative performance. The findings of this study makes contributions to the existing paradigm on investor's behavior toward the mergers, acquisition and restructuring of banks. It would also be used to establish the

research gaps and provide reference for further research under the field of merger and acquisition.

1.4 Research Hypothesis

This study estimated the following null hypothesis and test them all to fulfill the objectives. The research hypothesis are:

H1: There is significant difference in the Liquidity position between pre and post-merger of banks.

H1: There is significant difference in the Profitability position between pre and post-merger of banks.

H1: There is significant difference in the Capital Adequacy position between pre and post- merger of banks.

1.6 Limitations of the Study

This study tries to examine the effect of merger on financial performance of commercial banks in Nepal, still it has its own restrictions which are as below.

- There are many variables that can be used to measure the performance of bank but this study cover only ROA, ROE, EPS, profit margin, assets quality, debt to equity ratio, CAR, liquidity ratios.
- This study is based on the secondary data collected only from the annual report of Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited, only the data of other bank and financial intuition merged with these banks are ignored in this study reliability of the result is based on the reliability of data available from the annual report.
- For pre-merger information and data only Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited are collected the date of other bank and financial institutions which are merge with these banks are ignored in this study.
- This research is context specific; its results and analysis may be peculiar to BFIs only and do not serve the rest of sector of Nepalese corporate world.
- Assumption of paired sample t-test is not checked in this study.
- Apart from the profitability, other performance ratios like risk, cash flow has been ignored to know the financial performance of banks.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the review of the relevant studies. The previous studies related to this topic in global and Nepalese context are included in this chapter. The chapter also includes history of M&A and regulations related to M&A in Nepal. A theoretical framework for this research is presented thereafter.

2.1.1 Theoretical Review

Corporate mergers have long received a lot of attention from the corporate world, public as well as the academic world. The topic of M&A has been increasingly investigated in the literature in the last two decades (McCathy, 1963) in response to the rise in merger activities as well as the increasing complexity of such transactions themselves (Gaughan, 2002).

2.1.1 Merger

Mergers occur when two or more firms combine operations to set up a firm, with a new name. Sadler (2003) defines merger as, ‘the combination of two or more business entities into a single economic enterprise’. In a merger of two corporations, the shareholders usually have their shares in the old company exchanged for a certain number of shares in the merged entity. A merger involves the mutual decision of two companies to combine and become one entity; it can be seen as a decision made by two “equals”. According to “Merger Bylaws 2068” issued by NRB in the year 2011, merger refers to “the process by which two or more than two licensed institutions based on the agreement between themselves, integrates into the acquiring company ending the existence of the target company. The term merger also indicates the formation of new institution after the integration of two or more than two licensed institution.” Merger is a broad term and it denotes the combination of two or more companies in such a way that only one survives while the other is dissolved (Qureshi et al., 2011).

2.1.2 Acquisition

Unlike in a merger, in an acquisition, the acquiring firm usually offers a cash price per share to the target firm's shareholders or the acquiring firm's shares to the shareholders of the target firm according to a specified conversion ratio. Either way, the purchasing company essentially finances the purchase of the target company, buying it outright for its shareholders (Epstein, 2005). Acquisition refers to a situation where one firm acquires another and the latter ceases to exist. A firm that attempts to acquire or merge with another company is called an acquiring company. A target company is a firm that is being solicited by the acquiring company. McCathy (1963) defines acquisition as, 'a number of so-called mergers involving exchanges of capital stocks legally are acquisitions, particularly where there are large number of shareholders involved.

2.1.3 Types of Merger

Horizontal Merger: A horizontal merger occurs when two competitors combine. For example, in 1998, two petroleum companies, Exxon and Mobil combined in a \$78.9 billion mega merger. Another example was the 2009 megamerger that occurred when Pfizer acquired Wyeth for \$68 billion (Gaughan, 2011).

Vertical Merger: Vertical mergers are combinations of companies that have a buyer-seller relationship. For example, in 1993, Merck, one of the world's largest drug companies, acquired Medco Containment Services Inc., the largest marketer of discount prescription medicines for \$6 billion. The transaction enabled Merck to go from being the largest pharmaceutical company to also being the largest integrated producer and distributor of pharmaceuticals (Gaughan, 2011).

Conglomerate Merger: A conglomerate merger occurs when the companies are not competitors and do not have a buyer seller relationship. One example would be Philip Morris, a tobacco company, acquiring General Foods in 1985 for \$5.6 billion, Kraft in 1998 for \$13.44 billion, and Nabisco in 2000 for \$18.9 billion (Gaughan, 2011). This is also called unrelated merger.

Concentric Merger: In this, a market/technology extension merger takes place between two companies in similar field whose sales do not overlap but may expand

the acquiring firm's geographical or product market owing to related market/technology.

In addition, M&A could also be classified as 'friendly' or 'hostile' (Chunlai & Findlay, 2003). When an M&A transaction is undertaken in a friendly manner, the board of the target company agrees to the transaction. On the contrary, a hostile deal is one that pits the offer against the wishes of the target, since the board of the target refuses the offer. Last but not least, M&A transactions could be either domestic or cross-border with regards to where the companies involved base and operate. A cross-border M&A transaction involves two firms located in different economies, or two firms operating within one economy but belonging to two different countries (Chunlai & Findlay, 2003). Accordingly, in domestic M&A transactions, the firms involved originate from one country and operate in that economy-country.

2.1.4 History of M&A

In empirical research literature, it is accepted that the phenomenon of M&A comes in wave format. This M&A activity exists worldwide, not just in the United States. Until today, five such waves have been identified (Weston & Weaver, 2002).

First Wave, 1897-1904: The merger movement at the turn of the century was associated with the completion of the transcontinental railroad system. It created the first common market. Europe is experiencing similar forces from its effort at integration. In relation to the gross domestic product, this merger movement in United States has thus far been of greater magnitude than any others, so the merger forces in Europe are very strong. In the United States, major horizontal mergers took place in steel, oil, telephone, and the basic manufacturing industries at the time (Weston & Weaver, 2002).

Second Wave, 1916-1929: This period was characterized by an increase in vertical mergers. These were associated with the development of the radio which made national advertising possible, and the automobile, which permitted more effective geographic sales and distribution organizations. Vertical mergers enabled manufacturers to control distribution channels more effectively (Weston & Weaver, 2002).

Third Wave, 1965-1969: The conglomerate mergers of the 1960s represented in part an adjustment to the slowdown in defense expenditures. In every sample of conglomerates, at least one half of the companies were aerospace or natural resource-depleting companies (oil, forest). Also influencing this was the idea that a good manager, with the new planning literature, could manage anything. Also, at this time industries like the food industries, hoping to avoid their growth being tied down to population growth, diversified. Much of the diversification at this time was ill advised as companies moved away from their core competencies (Weston & Weaver, 2002).

Fourth Wave, 1981-1989: Financial innovations, junk bonds, made all firms vulnerable to a takeover bid. Any company that was not performing up to its potential could be taken over. Chemical Bank and Disney were both almost taken over. So the availability of high-risk financing strongly propelled the 1980s and there was some dismantling of the diversification of the 1960s. A different set of economic and development forces drove each of the merger movements in the United States. But these movements did not occur randomly. A distinct group of change factors propelled each movement (Weston & Weaver, 2002).

Fifth Wave, 1990-Present: Currently M&A is undergoing its fifth wave with one of the main features being the rise of the ‘mega-merger’ with new corporate behemoths being formed in many industry sectors. Profound examples are Glaxo/SmithKline in pharmaceuticals, AOL/Time Warner in infotainment and Royal Dutch Petroleum/Shell Transport & Trading in oil and petroleum. The predominant M&A deals of the 1990s are carefully designed to secure a strategic fit between merging firms. In the 1990s, the merger wave was shaped very differently than that of 1960s, the decade of the “conglomerates”, and that of the 1980s, the decade of the “leveraged buyouts”. The fifth merger wave was inspired by globalization, stock market boom and deregulation. The fifth wave merger took place mainly in the banking and telecommunication industries (Weston & Weaver, 2002).

2.1.5 Merger & Acquisition Process

It is found in literature that different authors describe the M&A process slightly differently. According to Picot (2002), a typical M&A transaction goes through three phases: planning, implementation and integration. In the planning phase, the overall plan for the transaction is developed “in the most interdisciplinary and comprehensive

manner possible” (Picot, 2002). Planning covers the operational, managerial and legal techniques and optimization with special regards to the two following phases. The implementation phase covers a range of activities starting from the issuance of confidentiality or non-disclosure agreements, letter of intent and ending with the conclusion of the M&A contract and deal closure. The last phase is concerned with post-deal integration.



(Source: Bohlin et al., 2002).

Figure 2.1: Process of Merger and Acquisition

Pre-Merger Planning: Concrete and practical methodologies can be woven into the entire merger process to achieve the results everyone wants. Starting in the pre-merger planning phase, visioning and scenario planning will give both decision-making teams a clearer picture of the synergies they can expect and what will be required to achieve them (beyond the mechanics). For example, when a large firm is thinking of acquiring a small and innovative start-up, it is often tempting for both parties to believe during negotiations that nothing much is going to change – we don’t want to ruin what makes you unique. Yet this assertion hardly ever turns out to be true. By playing out various business and organizational scenarios, and envisioning how they can be handled, the merging companies can set more realistic expectations and prevent key contributors from feeling that they have been lied to (Bohlin et al., 2002).

The Merger: An emerging practice among many of the clients is to include a cultural due diligence as part of the overall due-diligence process. While it is not always practical to do this, further have found it very valuable, specifically for clients in the health care and automotive industries. Before and after issuing the Letter of Intent, and certainly before the deal is closed, due-diligence activities can and should include

assessments of the historical and present labor/management culture and of critical human resource policies and procedures making up what employees view as core cultural elements. If exempt employees are suddenly going to be asked to complete timesheets, for instance, or all employees will cease to receive a Christmas goose, or if all employees in both firms suddenly have to reapply for their jobs (an approach adopted during the Glaxo-Wellcome merger), or the company's annual meeting will no longer include spouses and children, these losses will be seen negatively. To identify areas of similarity and dissonance between the two cultures, it is important to take account of results from previous employee surveys, interviews, or focus groups. It may even be worth undertaking new research activities (e.g., Arthur D. Little's Unwritten Rules of the Game analysis) just for this purpose. Such assessments will point to priorities and help management gauge the extent of needed changes. The author may even, in a few cases; reveal potential after-merger costs that are significant enough to jeopardize the viability of the deal (Bohlin et al., 2002).

Post-Merger Integration: To capitalize on the latent synergies of the newly merged or transition organization, the transition process itself must reflect the principles of – and provide the conditions for – synergy throughout its design and execution. This means promptly involving people from both organizations in core business tasks (selling, planning, decision-making), as well as on merger project teams. It also means visibly demonstrating a commitment to learning and to creating together something greater than either party could create on its own. There are many ways to implement integration rather than just preaching it. Send senior-level leaders out to talk with employees (not simply to make prepared presentations); encourage cross-organizational reflections at the end of partnering experiments (to capture and pass on lessons learned); and establish one company measurement processes to minimize the natural tendency to compare one group's results to the others'. To carry off this approach, however, the integration must be:

- Driven by a crystal-clear vision of the new organization, including its intended mission (core purpose), strategy, and essential values
- Owned and executed by and with key stakeholders
- Fluidly coordinated and flexibly self-adjusting
- Continually providing communication laterally, as well as vertically, across the system and in sync with the needs of ongoing day-to-day operations

- Open, interactive, and responsive to feedback
- Cognizant of human needs for inclusion, order, self-control, and choice

In addition, the merging companies need to form a dedicated merger project organization, which should be networked together to create an integrated learning system. Specifically, the Merger Executive Committee is the driving force behind the transition to the new entity. Members of this group must make a commitment to work together to ensure the success of the new system. From the beginning, the way the team members are selected and the way they act, individually and collectively, will be the two strongest messages the new organization receives about what is to be expected and valued (Bohlin et al., 2000).

2.1.6 Firms' Motives in Merger & Acquisition

The literature on M&A has placed a significant amount of efforts on exploring the motives of firms engaging in M&A transactions. Trautwein (1990) and Cox (2006) provide a systematic summary of the motives. Of the motives suggested under various theories, Trautwein (1990) marks that M&A makers frequently cite synergy and valuation (the deal having a positive Net Present Value) objectives to justify their actions. Unsurprisingly, there are neither claims that the motive is to achieve monopoly power nor instances where managers refer their own benefits to justify an M&A deal. Trautwein (1990) also note that there is little evidence in both practice and research on the motives implied by the process and the raider theories. The author discusses disturbance theory as well but it is not considered in this section since M&A is then considered at the macro-economic level rather than the micro-economic (i.e., firm) level. On the other hand, Gaughan (2002) takes a more pragmatic view to identify M&A motives by referring back to theories but heavily supporting with multiple empirical case studies.

According to this author, four main motives are M&A is considered as a means for firms to grow quickly; M&A firms hope to experience economic gains as a result of economies of scale or scope; larger firm as a result of M&A may have a better access to capital market, which later leads to a lower cost of capital, i.e., financial benefit; and M&A is aimed at anticipated gains which a firm may experience when applying its superior management skills to the target's business.

Different motives for M&As have been described by various researchers. Some of them are:

Differential Efficiency

Manne (1995) highlighted the existence of a positive correlation between corporate managerial efficiency and the market price of shares of that company. If a company is poorly managed the market price of the shares of that company falls as compared to the market price of shares of companies in the same industry. It is based on the theory that one firm can benefit from the functional strengths of the other firm, and vice versa.

Improved Management

Managers often have problem in abandoning their old strategies, even when these strategies do not contribute to the growth of the company. When the need to restructure is overlooked by the management, the capital markets through the market corporate control come to rescue. The price paid to the shareholders has to be at a premium over current market price to solicit them to sell their shares (Jensen & Ruback, 1983).

Operating Synergy

Gaughan (2011) presents operational and financial synergy. According to Gaughan, operational synergy appears in the form of revenue enhancements and cost reductions. Financial synergy is achieved when the cost of capital may be reduced through the combination of two companies. The merger of two companies helps to reduce parallel working and to thereby reduce costs, whether in the provision of services, the working of the market or in the area of administration and management. There could be the possibility of interlinking production, whether through vertical integration (the acquisition of upstream or downstream stages of production) or through horizontal integration, in which the product lines supplement each other (e.g. as a modular system). The process of building up and using completely new technical and economic know-how is particularly difficult and protracted. In many cases, companies that have high-tech deficits often tend towards reducing this deficit through purchase. In addition to the associated transfer of technological know-how, the utilization of management know-how and, not the least, market and country know-how is also an

important component of the know-how synergies. Managerial synergy is created when additional value is created through decision maker's ability to integrate the two components and create competitive advantage.

Market Power

Horizontal mergers may also be undertaken to destroy competition and establish a critical mass. This increases the bargaining power of the company. Economies of scale may also be generated in this process. According to Schelur & Jackson (2001) by acquiring the firm that is developing a substitute for buyer's product, buyer will not be pushed out of market.

Market Expansion

Expanding to a different market can have different benefits. Organizations need place, people, regulatory approval and other resources to expand into newer product categories or geographical territories. Expanding to new markets can also be a goal itself, as Schelur & Jackson (2001) described the pursuit of world-class leadership, global reach.

Tax Benefits

The healthy companies profit can be set off against the accumulated losses of the sick unit. The money saved must be used for the revival of the sick unit. The healthy company, besides saving on tax, acquires additional manufacturing capacities and strength. One way to provide tax incentives to merged companies based on their abilities to increase public access to finance (Income Tax Act, 2058).

2.1.7 Merger & Acquisition in Nepal

Many articles have been published in different points of time with regard to M&A. Taking form a historical perspective on chronological order; the merger movements have no substantial validity but can be traced out only in black and white. Even during Licchavi period, some ideas of merger in business activities were there in surplus in farm sector. The follow of the same idea during Kirati period took a market concept to dispose the surplus and Malla period tried to organize with monetary system in the informal sector. All these are just merger in symptoms but not in organized validity of actions and programs. Then came the Shah dynasty with a bravery mood to conquer

the small vessel states uniting them into a country identity but providing local autonomy to operate business independently during which market on grains jointly is just a kind of merger. This is again followed by 104 years of Rana rule where industrial merger with Indian partnership brought many companies jointly like Chamaria Brothers to take the advantage of world war second. With the restoration of democracy, Nepal started planned economic development which led path to the establishment of several industries. The government of Nepal began setting up public enterprises for manufacturing, provision of services and utilities and for the overall economic development of the country since the early 1960s. Out of established public enterprises, currently 36 are operating under full or majority ownership of the government. Out of 36 enterprises, five are in social sector, three in public utility sector and eight in financial sector (Shrestha et al., 2011).

The M&A activities are initiated in Nepal with the aim of improving productivity, economic condition, capacity utilization and achieving cost effectiveness in the operation of public enterprises. Various modalities were used for the purpose. The motives for initiating the M&A of public enterprises are regulatory and political change, inefficient management, reduce the burden of government, diversification, synergy, tax consideration, etc. The companies that have been acquired and merged include, but not limited to, Nepal Film Development Corporation, Bhrikuti Pulp and Paper Factory, Nepal Lube Oil Limited, Bitumen and Barrel Industries, etc. The first merger deal in Nepal is merger of Eastern Electricity Corporation's with Nepal Electricity Authority (Shrestha et al., 2011).

2.1.7.1 Merger & Acquisition of Banking and Financial Institutions in Nepal

Nepalese capital market is dominated by financial sector is characterized by inefficient management, low volume of transactions, lack of competitive strength, lack of project financing, lack of competent human resources etc. Nepal as per the WTO agreement has opened the door for the foreign banks to open branches. It may intensify the level of competition which requires great efficiency and competitiveness to withstand the challenges that may be poised by foreign banks in days to come. So, to overcome the domestic threats as well to make competitive presence globally, M&A is one of the solutions for the Nepalese financial sector (Shrestha et al., 2011).

Nepalese banking industry has gone through significant changes over past decades as a result of liberalization, deregulation, advances in information technology and globalization. All these forces have added more pressure on competitiveness of individual banks. The number of cases of M&A has gone up in Nepal during the recent times. More than 28 banks and BFIs have gone to merger process so far in the country with the hope of increasing their financial status, increasing economy of scale and scope, gaining synergy to perform well in the stiff competition of the present competition. The process of M&A is likely to take significant pace as around 75% of BFIs have endorsed to opt M&A in case of finding appropriate partner (Pokhrel, 2014).

With the issuance of M&A Bylaw 2068 by NRB, the central bank of Nepal, the process of merger has gained pace. The introduction of Merger Bylaw 2068 has streamlined and institutionalized the mechanism for growth in Nepalese BFIs. Moreover, the Bylaw has provided certain incentive for BFIs wanting to avenue for consolidation in the overcrowded Nepalese financial sector. According to NRB, merger of BFIs will have reduced costs of operating them, minimize the redundant operating costs, and maximize the output gains harnessing its ample human and capital. The larger entity can even offer more products and services than before.

According to NRB, it is well accepted that the number of banks and financial institution has tremendously increased, at the same time the capital base of most of the banking entities is minimum and marginally adequate. NRB has already initiated the consolidation process by way of direction to raise their capital base that could be possible only by way of merging the capital through consolidation and merger of some of the weak and vulnerable banks and BFIs (Adhikari, 2012). Similarly, NRB's preparation for making forced M&A for BFIs will also increase the number of M&A in Nepal.

Altogether 26 commercial banks, 17 development banks, 17 finance companies, and 67 microfinance are currently operating (as of Mid-Jan 2023) in Nepal (www.nrb.org.np, 2023 July). The central bank of Nepal is shrinking the number of banks and financial institutions (BFIs) and insisting on the BFIs to merge and for acquisition. Small development banks and financial institutions either go for merger

or are being taken over by commercial banks. No new license is being issued to banks and financial institutions by the central bank.

2.1.8 Merger & Acquisition Regulations in Nepal

1. Provision Related to Merger & Acquisition in Merger Bylaw 2011

It incorporates a provision of forceful merger, going by which the central bank can instruct two or more banks and BFIs to undergo merger if it deems appropriate. “The central bank can instruct or suggest to BFIs to merge in case of representatives of the same group, firm or companies are found assuming posts in the board of directors of both BFIs and their financial conditions remain unhealthy”, reads the rule.

BFIs can also get notice from NRB to merge if their non-performing loans exceeded 5% of the total loan portfolio for three straight years. NRB can also instruct BFIs to merge if it finds their independent operations are causing negative impact on the banking system. Basically, the regulations allow NRB to force BFIs to merge in any situation. As for the incentives, the new regulations has pledged relaxation on provisions on capital structure, shareholding limit for promoters, credit-deposit ratio, borrowings limit for promoters and deprived sector lending, among others.

In a bid to lure BFIs into merger, NRB has even promised a discount in refinance rate by 1% point to the merged institution. It has also offered to lower penal rate on standing liquidity facility by half for three years in case of merged institution.

NRB has also opened upgrading of institutions to higher category if two or more institution decides to go into merger, raise paid up capital and put in necessary infrastructure. The rule also promises to recommend to the government in deducting and exempting taxes if BFIs face loss during the course of merger.

2. Merger & Acquisition Guideline 2073 Issued by NRB

Directive 18 of NRB has provision regarding the application to be made by banks and BFIs for receiving letter of intent for the merger. If the banks and BFIs wish to merge without making any changes in their current capital structure, they must include, along with the application, the letter from the Nepal stock Exchange regarding the letter of intent. If they wish to merge making changes in their existing capital structure, they can apply for letter of intent only after making such changes.

2.1.9 Problem and Prospects of M & A of Nepalese Financial Institutions

Most mergers are seen as times of chaos, fear, uncertainty, distraction, limitation, and dehumanization. The process is painful, and the results costly. When knowledge capital is lost through turnover of key individuals during a merger, when pride in the company and pride in one's work are eroded through ill treatment at the hands of merger managers, when innovations are abandoned in favor of outdated practices just because one group is considered the "home team" and the new one deemed expendable, the webs that make the organization work break down and fall apart. When people stop caring, they lose interest in making business processes better. If they are not asked for their opinions, they have no means or motivation to tell the new system designers the hidden secrets of success and supportability. When selection processes do not seem fair and open, good people do not step forward – they walk away to take on new challenges elsewhere. These are not the conditions under which synergistic growth is likely (Bohlin et al., 2000).

NRB to ensure deeper penetration, has always readily issued licenses to new institutions, and has never bothered to revisit the excess supply of these institutions in urban areas. It was only in 2011 that the NRB decided to come up with the Merger & Acquisition Regulation for BFIs. If the researcher analyzes all the mergers that have taken place till date, researcher will find common reasons behind them, which in turn will demonstrate the fiasco that is likely to unravel in future. These mergers are taking place predominantly at the initiative of promoters, who at this point are tired of injecting their equity into these institutions in the form of right shares or ploughing back cash dividends in the form of bonus shares. With the fear of a hike in the capital requirement slab by the NRB along with a downturn in the capital market and a stagnant real estate sector, mergers have become a way to increase their capital base to tide over the present crises and sustain their pockets. A tighter governance policy for directors and promoters of BFIs regarding personal loans and executive positions seem to discourage them from holding multiple shareholding interests in various institutions. Likewise, NRB has been continuously harping on 'forced merger' for promoters of the same group or BFIs with poor asset quality and performance. All these factors have been leading to, and will continue to lead to, mergers under desperation in Nepal. The number of banks is likely to go down in a couple of years because of such mergers, but integration will remain incomplete since these mergers

neglect issues of cultural integration and deeper problems are likely to crop up in years to come.

Two broad critiques of the merger policy in the current financial sector of Nepal can be made. One, during the process of merger, the staff feels the most insecure, especially those who come from the merging entity (entity being merged into the main entity), losing their current CEO to the main entity's head. The new CEO often does not know how to reach out to them and proper internal communication has always been a neglected activity. The insecurity among the staff of the merging entity can lead to unproductiveness, group-ism, internal disputes or a high attrition rate. Two, CEOs of the merged entity have their own sets of problems/limitations. Since, mergers are a relatively new activity, there are very few consultants, coaches and advisors in the market experienced enough to comprehend the anxiety and problems of the CEO during and after such merger processes. Further, even when such consultants are available, hiring is always an additional cost burden, and demanding such consultancy may even mean underselling the CEO's capabilities to the board. Unfortunately, CEOs of BFIs have always been largely portrayed as all-rounder and experts and are often in denial about needing expert advice. Whenever mergers take place, the role of independent consultants is crucial and a. planned and strategized communication with the staff, assessment of their anxiety before the merger, and grievance redressal post merger are imperative activities (Raju et al., 2015).

The present merger processes in Nepal have not looked into these aspects seriously, and thus, mergers have been reduced to merely physical integration. The problem is that merger managers must juggle strategy, organization, staffing, systems, and culture, on top of keeping the day-to-day business performing. They feel pressure most urgently to demonstrate the wisdom and value of the investment decision by recovering the costs of the merger and boosting short- and intermediate-term share price performance. So they focus on restructuring to realize the benefits of creating economies of scale, streamlining operations, capitalizing on product and market synergies, and spinning off noncore businesses. Meanwhile, they are looking for the next merger or acquisition opportunity. This doesn't leave them much time or energy for ensuring a synergistic and sustainable foundation of people and operations to support future growth. The NRB is disinterested in analyzing these issues, and its focus is always corrective rather than preventive. For promoters, a solution to the

problem of cash outflow is the priority instead of understanding the underlying issues. Hence, the researcher now find themselves in the midst of a number of unorganized and unplanned mergers (Sharma, 2016).

Gautam (2012) quotes Ashok SJB Rana, CEO of Himalayan Bank Limited saying, “Foreign banks view big banks with strong capital in positive light. That will help us build a good network”. According to Gautam (2012), Rana demands that the government provide concerned institutions with off rights value of assets upon a merger. Gautam (2012) has again quoted Rana saying “The need for this can be seen in a possible example of a highly expensive software system. Following a merger between two institutions, just one software is used. As such, the government should provide off rights asset value to the unused one”. Stating that banks currently have been subject to a higher tax compare to other companies, and also demands that government levy tax on par with other companies. Khanal (2012) quoted Hari Krishna Shrestha, CEO of Kathmandu Finance saying, “Before going for a merger, they should identify the needs, pros and cons, and have a clear vision on merger”. Rather than being euphoric about the merger, the concerned parties are to be cautious about the procedures and be armed with adequate prudence. Merger can only be a success if it occurs between companies sharing common vision and interest. Khanal (2012) also quotes Aditi Shrestha, financial consultant at Beed Management saying that banking consolidation through merger will allow BFIs to explore new avenues coming up with innovative ideas such as structured financing based on project or cash flow stream rather than traditional asset backed lending. At, her concern is that HR related issues should be dealt with adequate attention to ensure smooth transition and resolution of conflict likely to surface among staffs due to hostility, ego clashes or layoffs. Incentives on merger have been provided but it is yet to be seen whether the incentives will be adequate to ward off possible resistance from promoters, shareholders and employees (Gautam, 2012).

However, in Nepal, voluntary merger is facing many problems such as the interest of the promoters and managers in the post-merger scenario, reconciliation of share capital and branch, appointment of a new CEO and board and human resource structure. NRB may have, therefore, to take up a forced merger policy by means of other instrument. In view of such problems, Nepalese banks should also think of ‘Alliance’ that can create tremendous value as an alternative to M&A. Strategic

alliance and collaborative approach can be attempted to reduce transaction costs through outsourcing, leverage synergies in operation and thus avoid problem of cultural integration. One example of successful alliance can be cited from the Indian context, where Indian Bank, Corporation Bank and Oriental Bank of Commerce have entered in to a strategic alliance since 2006 A.D. To wrap up, it is high time for Nepalese BFIs to choose the best form of consolidation either merger, acquisition or strategic alliance. This must realize a value through revenue enhancement, operating economies, and more effective management that gives rise to synergy. In contrast to the merger initiation on the part of regulators, the trend of market-led merger between FIs may gain momentum and thereby maintain financial stability in Nepal.

The most important question in this case could be whether the Nepali banking industry needs mergers at all. The banking industry in Nepal is still growing, and does not seem to be in much trouble. If the central bank feels that there are too many banks in Nepal, it should stop issuing new permits. Issuing too many permits, and then asking the banks to merge, is a bad way of doing business. It also makes the central bank look like it is run by a group of amateurs. And, that is the last thing people have to think about the central bank. This type of amateurish activity deteriorates the confidence that the consumers and businesses have in the central bank, and can have devastating economic consequences (Khanal, 2011)

Merger in Nepal is indeed the need of the hour, yet it is in no way a magic stick to instantly rid BFIs of their problems. The term ‘merger’ involves multitude of procedures before the actual merger between two BFIs. Management of asset and HR besides the issues regarding brand are all complex matters that need to be dealt with using discretion and vigilance.

2.1.10 Critical Factors for Merger & Acquisition of Financial Institutions

In order to attain thorough understanding about factors which lead to the success of M&A projects, researcher would like to investigate two key areas: (1) causes to M&A failure, and (2) critical factors for M&A success. As noted by Galpin and Herndon (2000) and Nicholas (2004), it is essential to understand and try to avoid pitfalls or avoid triggering failure causes to increase the chance to succeed. However, this action itself does not guarantee project success. In addition, understanding and closely adhering to CSFs is needed. First of all, let us discuss the possible causes to M&A

failure. M&A projects are growing rapidly in recent decades in many organizations in response to supporting their corporate strategies. However, succeeding in M&A has never been easy. Gautam (2012) reveal it is calculated in several well-structured studies that “50-70% of the acquisitions actually destroy shareholder value instead of achieving cost and/or revenue benefits”. And many mergers fall apart, i.e., firms fail to integrate. According to the two practitioners, Jennings (1985) and Haransky (1999), the firms’ rush for finding a quick “fix” through M&A has caused failure in many deals that should succeed and in some other cases, allows deals that should not happen to take place. Even though the above failure is to the involving firms and their shareholders, it is worthwhile to explore the causes to the failure. By understanding the causes, researcher would then be able to identify some hints on what M&A advisory firms could do to avoid triggering these causes because clients’ success is part of the advisory firms’ success. So why do M&A projects have such a low rate of success?

Haransky (1999) attribute the failures to five realities (1) insufficient assessment of target, (2) too much focus on the financial aspect of the deal, (3) paid premiums too high to justify, pressures to make something happen, (4) M&A as part of an outdated strategic plan, and (5) no experience in integration of the entities. In a similar vein, the M&A consultants Gautam (2012) identify five root causes of failure, which are (1) poor understanding of the strategic levers, (2) overpayment for the acquisition (based on overestimation of enterprise value), (3) inadequate integration planning and execution, (4) a void in executive leadership and strategic communication, and (5) a severe cultural mismatch. In addition, DiGeorgio (2002) cites M&A failure as a result of inadequate due diligence, lack of compelling strategic rationale, overpayment for the target company, conflict between corporate cultures and failure to quickly meld the two companies. Meanwhile, Honore and Maheia (2003) cite the inability to realize projected economies of scale, failure to integrate people, processes and systems. All of these authors concur with each other in several causes such as M&A deals lacking the right strategic rationale, insufficient analysis or assessment during the early stage, overpayment which cannot be justified, and poor management in the integration phase as a result of lack of experience and prior planning.

Selecting the appropriate target firm is an extremely important stage in the merger process. Often the in capability of lack of motivation and interest on the part of

executives leads to incorrect target selection. It is rightly said that “Few business marriages are made in heaven” (Sadler, 2003). Both merging companies need to be compatible with each other. Business cultures, traditions, work ethics need to be flexible and adaptable. There must be some urgency between the parties and good communication between them. Due to lack of these qualities, mergers often do not produce the desired result (Sadler, 2003).

Lack of Communication

Poor communication between people at all levels of the organization, and between the two organizations that are merging, is one of the principal reasons why mergers fail. Middle management and lower level employees in particular are kept in the dark when it comes to merger issues. Not only is lack of communication a serious issue for merging organizations, the deliberate withholding of information from employees on the part of the senior executives who are dealing with the merger is also a major problem and contributes to confusion, uncertainty and a loss of trust and loyalty on the part of employees.

Corporate Culture Clash

Even if two companies seem to have all the right ingredients in place for a successful merger, cultural differences can break the deal. It is not enough for two companies to appear to fit well on paper; at the end of the day, if the people are not able to work together, the merger will not succeed. Business international states that poor communication and instability to manage cultural differences are the two main causes of failed mergers (Rodgers, 1999).

Lack of Training

Lack of training that is required to deal effectively with merger leads to merger failure. According to a survey involving 88 senior executives of companies that have recently experienced merger or acquisition, less than 33% of respondents reported that training in M&A communications was provided to the employees in just one of the five companies (The Conference Board, 2000).

Inadequate Planning

Planning is a crucial exercise that will help determine the success or failure of a merging organization. However, many merging organizations do not have adequate or complete integration and implementation plans in place. Another flaw in many M&A plans is that they often include expectations that are unrealistic and that will stretch the merging organizations beyond their capabilities (Salame, 2006).

There are many other factors that may be viewed as causation for mergers and acquisitions failures, however simply put, it is further suggest that it is often because “primarily because the bidders paid too much”. Notwithstanding, if this was the only primary reason, then financial expertise would have determined systems or methodology in order to prevent the re-occurrence of such failures. However, the merging or takeover of companies is both complex and fraught with risks, both tangible and perhaps less able to predict or evaluate. One these less tangible risks is an unexpected traumatic event as experienced in 9/11, 2001, or a natural disaster such as the recent tsunami in Japan; seriously affecting and disrupting their economy. Of course, current global political and economic uncertainty adds the possibility of further risk to any financial transaction; however history has shown that mergers and acquisitions have failed in large numbers even during times of prosperity and global economic growth.

In addition to the above noted global political and economic uncertainties, a study conducted in 2008, suggested that three primary causes are responsible for merger and take-over failures. It first listed a cause in that “too many executives do not understand the importance of achieving appropriate levels of commonality in their processes and systems” (Duncan, 2008). This further confirms the above previously discussed theory regarding the relevance of merging or blending two existing cultures and ideologies together, and the inherent risks pertaining to cultural and ideological diversity. Duncan (2008) also suggests that another primary causation of these transactional failures relates to a scenario in which “many company leaders do not know how to go about achieving commonality in their processes and systems”. Here an organization’s internal functions including the utilization of technical and administrative systems are deemed to include the ability to communicate and translate into “divisional goals and objectives”. Author notes that this process of achieving

commonality starts at the top of the management structure and flows down throughout the entire corporate infrastructure. To achieve this objective, a common and shared implemented. According to Duncan (2008) a third primary reason for failure is that many mergers and acquisitions do not achieve expected performance levels due to “executives are frequently unable to follow through on the difficult decisions related to post-acquisition and post-merger consolidation”. Perhaps in the euphoria and excitement of such corporate transactions, attention is diverted from streamlining the combined infrastructures and resources, and in addition ignoring the necessity of effecting efficiency and the integration of both systems and human resources.

In another sourced article commissioned by a daily newspaper, The Telegraph (2010) it was clearly stated that, “Poor governance Lack of clarity as to who decides what, and no clear issue resolution process” (Siegenthaler, 2010). This statement further justifies and confirms Duncan’s third referenced theory regarding the ability of key management personnel to enact decisions in order to resolve issues pertaining to a merger or take-over. Moreover, goes on to specify communication issues specifically relating to the receiver of information and data. This is due to most of the communication by key management strategists being focused and targeted at decision-makers on an equal or similar management level rather than allocating attention to those personnel further down the chain of command. Furthermore, failure to communicate the rationale behind the merger or acquisition, leads a breakdown in the free flow of valuable information throughout the corporate structure. Further, maintains that all personnel want to know why the business transaction took place and in addition, what improvements are planned, how the company will be more viable after the transaction. Included was the ability for the key management personnel to convey or communicate how the new business structure would “feel”, and how the merger or acquisition would change the nature of their work environment; thereby necessitating the need for support during a period of integration and perhaps, a breakdown of operational and administrative functions.

Finally, in a study conducted by a global management consulting company in 2007, ‘Mergers and Acquisitions – A Case of System Failure’, it was pointed out that when considering an acquisition, it is important to focus on how it will create value for shareholders and not on how it will increase the size of the company. Perhaps by key management decision-makers directing their attention more on growth and

infrastructural capacity, key investment requirements including enabling a viable return on investment are ignored; thereby leading to the increased risk of the unsustainability of such an acquisition.

This study has already found that factors attributing to M&A losses are not by chance or luck, but rather by failing to allocate close attention to the many necessities needed within all aspects of combining and integrating two business structures. It has also been interesting to note that little reference was given in any of the previously sourced information laying blame on adverse external influences such as political and economic uncertainty. Likewise, it is found that factors attributed to the success of mergers and acquisitions are enabled due to sound business strategies; to which this report now turns.

A study conducted titled 'Why Mergers fail and How to Prevent It', pointed out that mergers and acquisition outcomes are "linked closely to the extent to which management is able to integrate members of organizations and their cultures" (Cartwright, 2012). This observation is closely parallel to sourced information previously discussed regarding the integration of personnel and cultures by different organizations. Moreover, points out the relevance of sensitively addressing 'individual' concerns, minimizing the impact on all employees when integrating two different corporate entities into a single cohesive infrastructure. Logic suggests that the 'human factor' plays a significant role in the enablement of a successful 'marriage' of two companies.

Regarding another factor that can contribute to the successful outcome of a merger or acquisition, a study titled 'Why Do Mergers Fail? What Can Be Done to improve their Chances of Success?' suggests that, "one way of ensuring that post-merger integration will run smoothly is to set up a post merger integration team in all the critical areas of the organization" (Salame, 2006). Following this suggestion, it would be prudent to not only to enable pre-merger investigation such as due diligence, but also by planning prior to the merger, a task force dedicated to integrating all operational functions within both business entities; including administrative functions, marketing systems and plans, financial systems and human resources.

Moreover, attention has been drawn above to the 'human factor', so when considering the employees, this post merger integration team to look at cultural diversity should

allocate further attention and issues pertaining to local communities. Such issues can include perceived inequalities of minority and disadvantaged population groups. Acceptance of cultural diversity and minorities can enable a smoother integration of two companies. This is especially applicable in the event that such integration takes place across international borders.

Additionally, according to 'Excellence in Financial Management', it is suggested that many entrepreneurs do not acquire and plan long-term growth; thereby building companies "for the short-term, hoping to sell the company for huge profits". Perhaps this may be perceived by some to be 'short-sighted'; however, the result can often be the streamlining the companies into an efficient cohesive operation; thereby enabling profitability and perhaps growth so as to add perceived value. A question is raised whether such a short term viewpoint is arguably conducive to long term sustainability. However, by enabling quick solutions to integration challenges, savings and financial viability may be found.

In a report published in 2008, 'Mergers and acquisitions: opportunities for global growth', it was noted that more companies are now "recognizing the growing importance of emerging markets". This allows a company previously restricted by local or national competition, to combine resources with companies in areas where the return on investment may be higher. Furthermore, growth in many emerging markets such China, India and Brazil has been relatively strong when compared to the stagnant economies of more established major powers (Straub, 2007).

Furthermore, Grant Thornton's IBR survey has shown that shareholders and corporate decision-makers in the fast growing BRIC economies are now enthusiastically embracing M&A". This paper suggests that perhaps accessing emerging markets via mergers and acquisitions may be a key strategy for future sustainable growth. Recognizing the energy and vitality of emerging markets can stimulate more established companies and organizations based in 'Western' economies that have been subjected to defensive and perhaps negative outlook based on poor economic outlook.

In considering all these factors inherent to the implementation of successful mergers and acquisitions, a report 'Mergers & Acquisitions: A Global Research Report' clearly stated that "As ever, it is the delicate balance between financial drivers and

people aspects which underpins success. Neither is sufficient in itself to deliver the benefits”. Underscoring the importance of both financial expertise and the ability to recognize the validity of the ‘human factor, perhaps encapsulates what this investigation has sourced and evaluated.

In the core area of a merger success, the influencing factors can be bundled together to form five successful segments: “Partner and Strategy”, “Structure and Systems”, “Philosophy and Culture” and “Potentials”. These segments are to be examined and designed in an integrative manner by the purchaser and the purchased. A professional project management is required for this. This is of central importance in exploiting synergy effects and in the limitation of the merger costs.

With regards to CSFs for M&A projects, the literature identifies numerous sets of CSFs covering different stages in the M&A process. The early study by Rockwell (1968) defines four ‘must-do’ factors in the planning namely identifying merger objectives, specifying gains for owners, checking management ability and seeking a good fit, while labeling the other six factors (i.e., the continuous involvement of head management, defining the business area, analyzing performance factors, resolving problem early, moving M&A activities in the right advances at the right time, and absorbing human resource with care) as key factors for consideration. Similarly, Jennings (1985) places importance in the planning stage, “Planning an acquisition strategy can help avoid a takeover marked by poorly matched partners and maximize the potential for success”. Then suggests that the firms focus on comprehensive analysis, consider more than financial growth, later invest considerably in managing the integration process, and always stay alert for warning signs of unsuccessful acquisitions. Specifically about the planning issue, Jennings (1985) notes that in successful M&A projects, the M&A program in the acquiring company is well-structured, with comprehensive acquisition criteria, backed up by comprehensive analysis of various factors/areas, and proactive candidate identification and contact. The successful acquiring company also makes a subsequent comprehensive plan covering all functional areas and defined responsibilities and timing for the integration phase.

More recent researches identify various CSFs such as effective communication throughout the M&A process, clear goals, reasonable time frame, top management

commitment and support, competence of project team, flexible and comprehensive integration plan, learning organization, and manager capabilities (Pokhrel, 2014), (Sadler, 2003) and (Rafaqat, 2021). Galpin and Herndon (2000) construct ten key recommendations in creating a successful merger which they define as a faster and smoother integration for the resulting firm. However, many of these recommendations are those that firms have to prepare or do prior to deal closure. DiGeorgio (2002) goes more specifically to classify the success of M&A into two stages. The first stage is called front-end success and the second stage is integration success. The result of the front-end success is to select the right target for M&A which comprises many elements such as characteristic of leadership, the facilitating climate within the stakeholder team, adequate time and resources and tools for M&A analysis, possessing learning mechanisms, and understanding culture and organizational structure differences entailed in the analysis. The successful outcome of the second stage is to achieve the objectives, which needs selecting the right leadership, structuring the integration team, and detailed plan in terms of communication, integration, and people issue.

Representing practitioners advising on best practices, Gautam (2012) from the consultancy firm Bain & Company, based on their experience, have set out six “golden rules” to guide managers of the acquiring/ target firms to M&A success, namely (1) setting rationale, (2) letting the ‘why’ inform the ‘how’, (3) fusing at full speed, (4) keeping customers in the forefront, (5) communicating the vision, and (6) managing three phases of integration. Among the six rules, the authors emphasize that getting the right and clear strategic levers is not enough to guarantee success but the failure to do so could trigger failure in the others. More recently, Epstein (2005) identifies six determinants of M&A success as (1) strategic vision and fit, (2) deal structure, (3) due diligence, (4) pre-merger planning, (5) post-merger integration; (6) external factors. Of the aforementioned works by various authors, some are selected for further illustration in table below, which represent the views of both the academic’s and practitioners’ worlds.

2.2 Empirical Review

2.2.1 Review of International Studies

Qureshi et al. (2011) investigated the effects of mergers and acquisition on the financial performance of Banks in Pakistan. The operating performance, capital adequacy and solvency measures were compared for 3-years pre and post-merger from the financial statements of the HMB (Habib Metropolitan bank) and NIB (National Investment Bank). The results of the study showed that ROA and ROE of HMB did not indicate significant improvement but on average it can be concluded that overall performance of the bank improves as a result of M&A activity. Similarly, the results of the acquisition activity of PICIC, PICIC Commercial Bank and National Investment Bank also indicates the same results that ROA and ROE decreased but other financial performance indicators showed significant improvement during post-merger period.

Phillips and Zhdanov (2012) provide a model and empirical tests showing how an active acquisition market affects firm incentives to innovate and conduct R&D. Our model shows that small firms optimally may decide to innovate more when they can sell out to larger firms. Large firms may find it disadvantageous to engage in an “R&D race” with small firms, as they can obtain access to innovation through acquisition. Our model and evidence also show that the R&D responsiveness of firms increases with demand, competition, and industry merger and acquisition activity. All of these effects are stronger for smaller firms than for larger firms.

Yaghoubi et al. (2016) aims to review the relevant literature on mergers and acquisitions in an attempt to provide a comprehensive account of what we know about mergers and which parts of the puzzle are still incomplete. This literature review consists of three key sections. The first part of this paper summarises the literature on the cyclical nature of mergers referred to in the literature as merger waves. The second section reviews the causes and consequences of takeovers; it first reviews the causes, or drivers, of acquisitions, while focusing on the fact that acquisitions happen in waves and then reviews the consequences of takeovers, with a predominant focus on the impacts of mergers on the economic performance of acquirers. The third part of the review summarizes the theories as well as previous empirical studies on determinants of announcement returns and post-acquisition performance of combined

firms. Merger activity demonstrates a wavy pattern, i.e. mergers are clustered in industries through time. The causes suggested for this fluctuating pattern include industry and economy-level shocks, misvaluation and managerial herding. Market reaction to announcement of acquisitions is, on average, slightly negative for acquirer stocks and significantly positive for target stocks. The combined abnormal return is positive. These findings have been consistent over several decades of investigation. The prior research also identifies a number of factors that are related to performance of acquisitions. These factors are categorized and reviewed in five different groups: acquirer characteristics, target characteristics, bid characteristics, industry characteristics and macro-environment characteristics.

Irayanti (2019) revealed that mergers and acquisitions are forms of corporate restructuring. This study was conducted to examine the firm's performance after the company carried out a merger and/or acquisition during the period 2010-2014. The variables used in this study are financial ratios such as Gross profit margin ratio, Operating profit margin ratio, Net profit margin ratio, Return on capital employed, Earning per share, Return on assets, Return on equity and Return on net worth. This study also focuses on how the quality of firm earnings changed following a merger and/or acquisitions to know whether the changes in firm profit will also affect the quality of profit. The results from this study show that the firm's performance has decreased after mergers and acquisitions, but the quality of earnings after mergers and acquisitions have insignificant increases.

Boloupremo & Ogege (2019) aimed to examine the impact of mergers and acquisition on financial performance in the Nigerian financial system. The study examined selected financial institutions in the banking sector. Specifically, some financial indicators such as asset profile, credit risk, capital structure, liquidity, size and cost control ratios, were extracted from the audited financial reports of the selected banks for the period 2000-2010 to compare the performance of the selected financial institutions in the ex-ante period and compare these performance with the ex post period of their mergers and acquisitions. Longitudinal and time series analyses were employed to observe the performance of the selected banks. Results from the analysis suggest that credit risks showed a better post merger performance, but were statistically insignificant and negatively related with the performance of the selected financial institution pre-merger. Asset profile was found to be significant and

positively related with post-merger in relation to the performance of the selected financial institutions, but it was insignificant and negatively related to the financial performance of the selected firms pre-merger. Capital structure of the selected firms was found to be significant and positively related to the performance of the firms' pre-merger, but insignificant and negatively related to the performance of the firms post-merger. Liquidity of the firms indicated a significant and positive relationship with the performance of the banks pre-merger. However, post merger result indicates that, there was no significant and positive relationship between the liquidity of the firms and financial performance post-merger. The size of the selected banks indicated a significant relationship with their performance in both the pre-merger and post-merger periods. The cost control variable indicated a statistically significant and negative relationship with the performance of the banks post-merger period, but showed no significant relationship with performance of the banks in the pre-merger period. Finally, the results indicate that mergers and acquisitions can have significant impact on the performance of the selected financial institutions in Nigeria.

Karn (2020) revealed that mergers and acquisitions in the banking sector have the capacity to ensure efficiency and profitability. It is widely used to restructuring and strengthening banks to achieve competitiveness to long term existence. Presently, the Nepalese Banking Sector is facing a big problem and is in a critical stage. So, in order to cope with this problem Nepal Rastra Bank (NRB) has directed the banking institutions to go in the process of mergers and acquisitions. Mergers and acquisitions are the important process in the banking sector to make financial gains enormously. Main aim of mergers and acquisitions in the banking sectors is to improve the economies of scale. NRB, the regulatory body of banks in Nepal, have been experienced mergers and acquisitions as the most effective weapons for the Nepalese banking sector.

Rafaqat (2021) aimed to identify the influence of merger and acquisition on the technology companies' profitability. The five medium-sized technology companies, listed on New York Stock Exchange, and profitability ratios, including return on assets, return on equity, and earnings per share, have been selected. The Independent sample T-test is used for this study. The financial data that has been gathered from the U.S. Securities and Exchange Commission, companies' annual reports, and NASDAQ website over the period from 2003 to 2020. The results indicate that the earnings per

share ratio increased while both returns on assets and return on equity ratios deteriorated. However, the earnings per share ratio significantly improved and the return on equity significantly declined while there was no significant impact on return on assets. The study concludes that the overall profitability decreased whereas the earnings per share faced a significant rise and return on equity ratios was found to be decreased significantly.

Pazarskis et al. (2021) applied regression models on the financial ratios of the thirty-three companies listed in Greece. Overall, it was concluded that the merger and acquisition had a positive significant impact. Furthermore, the conglomerate merger and acquisition found to have more positive influence on the profitability of the selected companies than the non-conglomerate merger and acquisition in terms of industry relatedness.

Liu et al. (2021) applied feasible generalized least squares regression on eighty-six cross-border merger & acquisitions and eight-one domestic merger & acquisitions, and concluded that the financial performance, on the whole, did not face an improvement. Also, the profitability of the sampled Chinese companies, including state-owned firms, in cross-border mergers deteriorated whereas the domestic merger and acquisition companies found to have enhanced profitability in terms of return on assets and return on equity after the merger.

Irawan (2021) determined whether the firm performance and earning quality has changed after mergers and acquisitions. Firms that conducted mergers and acquisitions between 2010-2014 and were listed on the IDX were the objects of this research. The results showed that after mergers and acquisitions, the firm's overall profitability, liquidity and solvency decreased significantly. However, this decline was also accompanied by an increase in earning quality, although not so significant. These research findings provide a new insight that after mergers and acquisitions, the firm focus on improving earnings quality first, thus sacrificing other financial performance such as profitability, liquidity and solvency.

Patrick, Makolo and Kamau (2022) revealed that mergers and acquisitions are widely seen as a long-term strategy for resolving financial problems in corporations. This research study that is primarily based on a desk review established that this commercial enterprise approach has given mixed findings, such as failing to establish

that the stated factors led to the manner of mergers and acquisitions, nor has it published an increase in profitability of commercial enterprise financial performance due to mergers and acquisitions. However, all mergers and acquisitions are no longer unsuccessful due to some factors like monetary, advertising, and operational problems. Thus, there are other important factors that influence mergers and acquisitions, such as value creation, "cultural" integration, and profitability. According to the study's findings, mergers and acquisitions have a positive impact on financial institutions' net income in the form of increased wealth, decreased effective spending, and increased revenue growth.

Chiu et al. (2023) explores the value, scarcity, and non-replicability of resources in corporate M&A, as well as organizational resource management, innovation resource management, and implementation of the combination of resource utilization and brand strategy that incorporate M&As. Taking 03 of China's sporting shoe industry cases, this study uses the literature to collect, analyze, and organize the conversations of high-level managers to compare and integrate the motivations of corporate M&As to conduct confirmatory analysis. The research results show that Chinese companies' cross-border M&A's main corporate strategic motives have four key elements: accelerated expansion, integration of resources, brand integration, rapid entry into the international market, and obstacles to the construction of new entrants. The research results also show that integrating resources and brand execution strategies after M&As correlates to their success or failure. The purpose of the research was first to discuss brand M&As and corporate strategies in the Taiwanese context. Secondly, it discusses the issue of the use of resources by the acquired party in specific to emerging trends in consumer resistance to innovation and acceptance of technological innovativeness in the sports industry brands. Third, it analyzes the effectiveness of brand strategy integration and implementation. Finally, it provides a strategic reference for brand M&As in the industry.

2.2.2 Review of Nepalese Studies

Kafle (2013) revealed that presently, the Nepalese Banking Sector is facing a huge problem and is in critical juncture. Therefore, in order to cope with this problem Nepal Rasta Bank (NRB) has directed the Banking Institutions to go in the process of mergers and acquisitions. NRB has provided several benefits to the merging

institutions. Responding to the benefits presented by NRB, the banks and the financial institutions of the country are opting in the process of merger. In the present Scenario, there are mainly three reasons that forced the Nepalese Banking Sector to go into the process of M&A, liquidity crunch, capital requirement, and open market.

Shrestha (2014) explained that relaxation in single obligor limit, ownership pattern of the merged bank, deprived sector lending and branch expansion are some facilities the NRB is planning to offer BFIs going for merger. The central bank has prepared an initial draft of the merger bylaw including the incentives to be given to BFIs going for merger. The central bank will hold discussions with stakeholders before giving a final touch to the bylaw. An increasing number of BFIs are preparing for merger and they are waiting for NRB's incentives. Single obligor limit means the maximum lending a bank or financial institution can make to a single sector. The monetary policy for the current fiscal has provisioned that BFIs can lend only 25 percent of the core capital in a single sector, including both fund based (cash) and non-fund based (bank guarantee etc). NRB could ignore the noncompliance of this provision by a merged institution for a certain period as an incentive. As per the existing law, a single group cannot hold over 15 percent stake in a merged institution. However, the central bank may also relax this provision for a certain period. The central bank may allow a single group to hold over 15 percent stake for a certain period.

Gautam (2014) explained that the number of Financial Institutions (FIs) in Nepal seems high in proportion to its economic activities and population size. Of late, there are 30 commercial banks, 82 development banks and 48 finance companies in Nepal. All of them are urban-centric and providing service only to 30 percent of the total population. Economic growth is still below 5 percent. Some FIs named Capital Merchant & Finance, Progressive Finance, Nepal Share Market, Nepal Bikas Bank and Gurkah Development Bank fell prey to the weak supervision and miss corporate governance. Moreover, state-owned FIs such as NBL, RBB and ADB are overwhelmed with excessive operating expenses. To operate such institutions in a new pattern with operating efficiency and cost effectiveness and improved current financial market are indispensable for Nepal for the stability of its financial system. Merger, as a consolidation means of these institutions may be an instrument to keep them in right size and protects the financial sector from system risk.

Styal (2014) concluded on his article that the management of staffs is the main problem on the merged BFIs. Prior to merge all the BFIs have sufficient staffs but with the merger duplication of same level same functional staffs especially in higher level are the main problem faced by merged BFIs in Nepal. The excess of lower level i.e. operational level is not the big issue and could be solved easily with the expansion of branches and added services in the banks. NRB also accepts this fact but it has shifted the responsibility towards BFIs as the staffs are their and merging BFIs have to manage themselves. The appointment of CEO, selection of board members, department heads and managers are the main issue that influences success or rejection on merger of BFIs. Some of the BFIs have practiced appointment of more than one higher level staffs even though it could be operated by appointment of single higher level staff. It is because of merging of BFIs run under same group and appointed higher level staffs are from nepotism & favors. It increased the expenses of the merged BFIs. Although it claimed that management of lower level staffs in merged institutions is not big issue, BFIs whose branches are overlapped in many places are still headache for management. Similarly use of different core banking software in merging BFIs is the next issue for BFIs going for merger. The transferring customer information into single CBS is not an easy job. So, some of the merged BFIs of Nepal have parallel used multiple CBS through multiple IT departments. It was the fact in Nepal that Nepalese BFIs promoters & higher level staffs had been practicing of insider lending. The deposit of BFIs is deposited into other BFIs and uses credit facility from such deposited BFIs in the name of other relatives. But after force merging of BFIs run under same group by NRB the insider lenders are affected and came into media.

Pokhrel (2014) stated that the banks merger is taking place without any planning, vision and research. The present mergers are not healthy mergers instead it may bring fatal errors in the economy of Nepal. He advised for prevention within time as merger has not become problem till now. If one could make it more systematic, planned it will be more productive. The summary of the article is given below; Bank merger is something of a novelty in Nepal, but it has a long history in other countries. Whilst the merger of Laxmi Bank with Hisef Finance in the year 2004 is the first of its kind in Nepal, such wed-locks of the banks, particularly in the United States, goes back to the thirties as evidenced by the merger in the year 1930 of Equitable Trust of New

York with J P Morgan and Company, established in the year 1871 in a decade marked by a flood of bank mergers. The banking sector has to be accorded topmost priority in view of the stellar role it can play in the economy of the country. But banking has fallen into rough weather in Nepal as reflected by the collapse of several of them in the recent past. The merger of the banks has been forwarded as a medicine to this ever growing malady in which Nepal cannot afford to fail for which suitable measures need to be undertaken right from the beginning of such campaigns. The mergers of the banks are initiated for varied reasons such as for cost cutting through economies of scale, gaining access to a new market, strengthening a company's marketing position, global expansion, gaining a talented work force, acquiring new knowledge and expertise, gaining a new computer base and pursuing new technologies. The last decade was remarkable for incredible bank mergers outside Nepal as is evident from some 23000 mergers taking place worth 2.1 trillion \$ in 1998 and 9700 mergers in the year 2000 worth 1 trillion \$. However, merger is not always a bed of roses and many a times it also unfolds its thorny surface like some passionately held weddings, particularly of celebrities, but so ephemeral that they do not even see off the honeymooning period, for example, that of Britney Spears and Jason Alexander which lasted for a mere 55 hours. A study has indicated that some 60 to 80 per cent of the bank mergers have ended up in fiasco. Though the financial and market forces are at play to lead to such a state, the neglect of human resources is the most determining factor. The other reasons for this state of affair are the lack of communication, lack of direct involvement by human resources, lack of training, loss of key players and talented employees and with it the loss of customers, corporate culture clash, power politics and inadequate planning. The generally recognized remedies towards a successful bank merger are extensive and regular communication, effective planning, retaining key people, managing cultural differences, training and development, having a good post- merger integration teams and the likes. For this, there is a need for a good leader who can yoke both the merging parties together.”

Manjunath (2015) depicted that after the Nepal Rastra Bank implemented the Merger Bylaws Policy in 2011, Nepalese Market was able to observe increasing trend in Merger and Acquisition in Banking and Financial Institutions (BFIs) of Nepal. Therefore, this paper presents the reasons for opting merger activities among BFIs and also focuses on the post-merger impact to the employees, customers and

shareholders of the merged bank. The research method used in this paper was descriptive research, which implies the results based on the survey and the analysis. The impact on employees and customers were analysed through questionnaires whereas the impact on shareholders were observed through analysis of financial data of merged bank in 2 years of pre and post-merger phase. The results showed that employees were satisfied with work, wages, working conditions etc. but they were intensely impacted in the HR issues like cultural clash, positions issues, socialization, favouritism etc. The customers felt the changes in value, product and service in post-merger phase but required more innovative service. The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth. The challenges were observed in swap ratio, formation of BOD, structure of management team, HR issues, IT issues etc. Therefore, 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 cumbersome process of merger observed in Nepal.

Raju et al. (2015) presents the reasons for opting merger activities among BFIs and also focuses on the post-merger impact to the employees, customers and shareholders of the merged bank. The research method used in this paper was descriptive research, which implies the results based on the survey and the analysis. The impact on employees and customers were analysed through questionnaires whereas the impact on shareholders were observed through analysis of financial data of merged bank in 2 years of pre and post-merger phase. The results showed that employees were satisfied with work, wages, working conditions etc. but they were intensely impacted in the HR issues like cultural clash, positions issues, socialization, favouritism etc. The customers felt the changes in value, product and service in post-merger phase but required more innovative service. The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth. The challenges were observed in swap ratio, formation of BOD, structure of management team, HR issues, IT issues etc. Therefore, 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 cumbersome process of merger observed in Nepal.

Rayamajhi (2016) depicted that the trend of mergers among banks and FIs reflects myopic approach that limits mergers to just physical integration, ignoring the cultural aspect. The summary of the article is presented below; When Prithivi Narayan Shah united Nepal as one country in 1769 AD, it was not a complete integration. Though there was geographical unification of various small countries, the thoughts, mind-sets and common understanding of people were far from aligned. At present, the division within political parties, disagreements within the same group of leaders, contradictory arguments for a common national agenda and the urge to create a federal state based on ethnic identity, clearly highlights the incomplete integration process. The integration process overlooked basic softer issues like alignment of thought processes of different people for national unification. With the way Banks and Financial Institutions (BFI's) in Nepal is currently either merging or in the process of merging, it seems hugely possible that this incomplete form of integration will be replicated in the financial sector of Nepal as well. Looking back over two decades, it should be appreciated that the banking sector has evolved from a total number of seven banks in 1990 to 214 at the end of fiscal year 2014-15. Nepal Rastra Bank (NRB), to ensure deeper penetration, has always readily issued licenses to new institutions, and has never bothered to revisit the excess supply of these institutions in urban areas.

Sharma (2016) used DEA technique to estimate the efficiency of Ukrainian banks and truncated regression analysis to evaluate dependence between technical efficiency scores of the bank and different factors such as size, specialization, ownership of the bank, riskiness of its assets and involvement into the merger. The objective of the study was to find whether bank mergers and acquisitions in Ukraine affect efficiency of banks, which were engaged into consolidation. From the analysis of time pattern of efficiency scores of banks that took part in the consolidation conclude that if the target is small, the efficiency of the bidder will not be affected after the merger. This conclusion is not confirmed by results of the estimation of truncated regression model. It find the fact that the bank took part in the consolidation negatively affect efficiency of the bank. The main reason for this is distortions that are brought to the bank's functioning by the fact of the merger.

Dwa and Shah (2017) aims to find the impact of mergers on operating performance of sample merged banks. To attain the research objective, this study has taken 8 independent variables; operating profit margin, net profit margin, return on assets, return on equity, debt equity ratio, return on loan loss provision, return on staff expenses and return on operating expenses. Three cases have been taken for the study as a sample to examine whether merger has led to a profitable situation or not. Research mainly focuses on quarterly secondary data which is analyzed using paired sample t-test, correlation analysis, VIF test and regression analysis. From the analysis it is deduced that merger has no significant role in case of Nepal Bangladesh Bank and NIC Asia Bank in terms of various operational ratios, since many operational ratios have been found weaker in post-merger period than pre-merger period. But merger plays a significant role in case of Machhapuchchhre Bank where almost all operational ratios have improved in post-merger. While analyzing the situation of overall commercial banking sectors, with the help of sampled data, it is observed that largely the merger isn't able to produce positive results for the merged entities. The study shows the reason for negative result of merger as the poor financial position of the target banks. Further the merger will somewhat act as a solution for the current problems of Nepalese BFIs. Merger will be a wise option to bring BFIs in strong and growing position and to meet the requirement of current paid up capital as per the latest NRB directive.

Sharma (2017) revealed that mergers and Acquisitions have become the most widely used business strategy of restructuring and strengthening bank to achieve competitiveness, to ensure long term existence with considerable profitability, to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy-2011 and monetary policy-2015 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry. The present paper evaluates the effects of merger and acquisitions on employees through questionnaires and effects on shareholder by analyzing financial performance of the selected banks. To analyze the effectiveness of mergers and acquisitions on the banks, pre and post-merger comparison is conducted on selected variables. . Three cases of merger and acquisitions have been taken randomly as sample for the study, first the merger of Machhapuchchhre Bank Ltd; second, Global Bank Ltd; and third, NIC ASIA Bank Ltd.

The results of the study indicate that mergers and acquisitions have positive impacts on human factors and financial performance of the selected banks.

Bipin (2018) depicted that banks play a critical role in the economic development of any country. For developing countries it works as blood circular in the economy. Since the financial market of Nepal (as a developing country) is characterized by numerous glitches, the Nepal Rastra Bank issued the merger guidelines (Merger-by-Laws-2011) in order to bring stability in the financial sector and to regulate the banking sector. This study finds the impact of mergers on financial performance of banks in Nepal. The findings depict a positive impact towards mergers and provide bank stakeholders with insights upon which they can base their decisions concerning mergers.

Acharya (2020) depicted that mergers and acquisitions have become the most widely used business strategy of restructuring and strong financial institution to achieve competitiveness, to ensure long term existence with suitable profitability, to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy-2068 and monetary policy 2072 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry. This study makes an attempt to the latest Monetary Policy lays down measures meant to encourage banks to merge. By Shrawan 2076, commercial banks are required to maintain an average interest rate spread (the difference between rates on loans and deposits) of 4.4 percent from the current 4.5 percent; banks that complete mergers and acquisitions by that time will get a one-year extension. Also, by Shrawan 2076, commercial banks are required to float at least 25 percent of their paid-up capital in debentures; banks that decide to tie the knot by that deadline will get a one-year reprieve. A merged bank also does not have to seek Nepal Rastra Bank's approval to open new branches. Currently, the board of directors, CEOs and deputy CEOs are required to abide by a cooling-off period of six months during which they cannot join another bank. This restriction will not apply to executives of a merged bank. The argument for mergers and acquisitions go something like this. There are just too many banks and financial institutions in Nepal. As of Ashad 2076, there were 28 commercial banks (Class A), 32 development banks (Class B), 24 finance companies (Class C) and 91 micro-credit

companies (Class D). Conceivably, larger banks should be able to fund large infrastructure projects individually.

Baniya & Adhikari (2020) A prudent analysis of the factors affecting turnover intention of the employees after mergers and acquisitions should guide the managers to prevent the fallout of employees during such complex process; the primary objective of this study is to identify those factors that influence turnover intention of the employees. Drawing from the previous studies, a conceptual framework was developed that took into account pre-merger organizational identification, procedural justice, utility with the merger, non-monetary benefits, monetary benefits, trust with merger and adequate authority delegation as variables that influence post-merger organizational identification and satisfaction with the merger. The results illustrate that pre-merger organization identification, utility with the merger, and trust with merger significantly predicted the post-merger organization identification, whereas only trust with merger significantly predicted the satisfaction with the merger. Furthermore, the study elucidates that the post-merger organizational identification could prevent the turnover intention among the employees. The findings of the study unravel sentiments of the employees during the consolidation process and provide the practitioners and the policy-makers with a base to develop an effective strategy to prevent turnover of employees during the mergers and acquisitions.

Adhikari (2023) attempted to evaluate the synergistic effect of the merger on financial performance, market share, and the wealth of the shareholders of the selected BFIs. Two cases of mergers of commercial banks have been taken as samples for the study. First is the merger between Prabhu Bank Limited and Grand Bank Limited (forming Prabhu Bank Limited) and second is the merger between Lumbini Bank Limited and Bank of Kathmandu Limited (forming Bank of Kathmandu Limited). Both the mergers happened in 2016. To analyze the mentioned variables of the selected BFIs, pre-merger (2011–2015) and post-merger (2016–2020) data have been compared using a t-test and regression analysis. The result of the study reveals that there is a significant relationship between financial performance and shareholder value and the merger, whereas there is no relationship between the market share of the BFIs and the merger. The study concludes that to achieve improved post-merger financial efficiency and reap the benefits of an improved financial position, merged BFIs should be more aggressive in their profit drive and maintain better asset qualities.

Shrestha (2023) examined the effects of mergers and acquisitions on employees' satisfaction in Nepalese Banking sectors. The study, which adopts the Job Characteristics Theory as its theoretical foundation, was conducted among employees from Nepalese banking sector that had undergone M&A. The study seeks cause and effects relationship amongst banking employees in Kathmandu valley due to merger and acquisition and adopts explanatory research design. Data were collected from 310 respondents and Structural Equation Modeling was used to analyze the data. The findings demonstrate that merger and acquisition have an influence on employees' satisfaction, with just one out of every four employees reporting high levels of satisfaction following M&A. The results exhibit that organizational climate, recognition and nature of work remain significant to employees' satisfaction and their motivation. Likewise, pay/remuneration is also statistically significant to employees' motivation. Again, employees' motivation also seems significant to employees' satisfaction.

Kunwar and Paudel (2023) examined the pre-post financial merger performance of commercial banks in Nepal in an effort to close a knowledge gap in the field. The research design used is descriptive; with a sample population of eight merged commercial banks in Nepal. To study the financial performance of merged banks, capital adequacy ratio, non-performing loan, spread ratio, net profit margin, return on assets, return on equity, earning per share, and cash to total assets ratio were examined. Among this variables there is positive change in capital adequacy ratio, return on equity and cash to total assets ratio, where as there is negative change in non-performing loan, spread ratio, net profit margin, return on assets, and earnings per share. From the eight sample banks, it appears that the merger and acquisition has positive impact on Global IME bank limited, Prabhu bank limited and Sanima bank limited, where as negative impact on NIC ASIA bank limited, Bank of Kathmandu limited, NMB bank limited, Laxmi bank limited and Mega bank limited. For successful merger and acquisition, banks need to identify factors affecting the financial performance in the area of merger and acquisition. The outcome of this research could provide better analysis regarding the pre-post merger and acquisition changes on financial performance and could be beneficial to financial institutions, other academic researcher, management consultant, and financial consultant.

Table 1*Summary of Empirical Review*

Date	Title	Objective	Findings
Qureshi et al. (2011)	Analysis of Mergers and Acquisition in Banking Sector of Pakistan.	To measure capital adequacy and solvency after merging.	ROA and ROE of HMB did not indicate significant improvement but on average it can be concluded that overall performance of the bank improves as a result of M&A activity.
Kafle (2013)	Mergers and Acquisitions in Nepalese Banking Sector.	To examine the factors of merging.	There are mainly three reasons that forced the Nepalese Banking Sector to go into the process of M&A, liquidity crunch, capital requirement, and open market.
Manjunath (2015)	Impact and challenges of merger and acquisition in Nepalese banking and financial institutions.	To analyze the reasons for opting merger activities among BFIs.	The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth.
Yaghoubi et al. (2016)	Merges and acquisitions: A review.	To examine the factors of merger and acquisition.	These factors are categorized and reviewed in five different groups: acquirer characteristics, target characteristics, bid characteristics, industry characteristics and macro-environment characteristics.
Boloupremo & Ogege (2019)	Mergers, acquisitions and financial performance.	To examine the impact of mergers and acquisition on financial performance.	Post merger result indicates that, there was no significant and positive relationship between the liquidity of the firms and financial performance post-merger.
Irawan (2021)	Analysis the effect of mergers and acquisition on firm performance.	To examine the performance and earning quality after mergers and acquisitions.	The firm focus on improving earnings quality first, thus sacrificing other financial performance such as profitability, liquidity and solvency.
Chiu et al. (2023)	Merger and acquisition integration, implementation as innovative approach	To analyze the strategies of merger and acquisition.	M&A's main corporate strategic motives have four key elements: accelerated expansion, integration of resources, brand integration, rapid entry into the international market, and

Adhikari (2023)	Effects of mergers in financial performance of Nepalese commercial banks.	To evaluate the synergistic effect of the merger on financial performance.	obstacles to the construction of new entrants. There is a significant relationship between financial performance and shareholder value and the merger
-----------------	---	--	--

2.3 Research Gap

As mentioned earlier, the study on merger and acquisition started from the very beginning of first merger wave. There have been a number of studies about merger and acquisition internationally but it is in the misery in the literature of merger and acquisition in the context of Nepal. First, there are very few literatures available. Second, the available literatures only cover the study in traditional approach. Rayamajhi (2016) has only analyzed the myopic approach of integration between banks. Similarly, Baniya & Adhikari (2020) elucidates the post-merger organizational identification and employee turnover. Likewise, Rafaqat (2021) examined the influencing factors of merger and acquisition of financial institutions. These all literature are incomplete in the sense that they are unable to examine the pre-merger and post-merger financial position of financial institutions. This research has added these financial aspects of pre-merger and post-merger to some extent. Of all the business industries in Nepal, banking and financial service industry feels the much strong and immediate need of merger and acquisition in order to keep the existing banks and financial institutions safe from the probable threat of entry of strong foreign banks and financial institutions. The Central bank of Nepal is also working on the forced merger and acquisition policy for the banks and financial institutions. A number of merger deals have already been taken place in financial sector of Nepal but very little knowledge is available regarding the actual situation of merger in Nepal. In one hand, merger deal is rising in Nepal with many deals in pipeline to be signed. On the other hand, there are very few studies to assess the real financial situation of merger success in Nepal. Hence, amidst prevailing situation, this study is initiated as scratch for assessing the financial improvements while merging Nepalese financial institutions.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Metrology

This research used descriptive and causal comparative research design in order to examine impact of merger on the financial performance of commercial banks. The methods of research utilize in descriptive research are survey method of all kinds, including comparative and co-relation methods. In causal research, on the other hand, the researcher has to use facts or information already available, and analyses these to make critical evaluation of the material.

3.2 Population sample and Sampling Design

The populations for this research are all the commercial banks which are marched after the merger and acquisition bylaw 2011 AD implemented. According to the monetary policy 2021/22 AD, in line with the Merger & Acquisition Policy of this Bank, a total of 171 BFIs have undergone through the merger/acquisition process as of mid-April 2023. Out of these, license of 128 institutions has been revoked thereby forming 43 institutions. Among them 12 are the commercial banks. These 12 merged commercial banks are taken as the population for the study.

Out of 12 merged commercial banks, three commercial banks, NMB bank, bank of Kathmandu Lumbini Limited (BOK), Siddhartha Bank Limited (SBL) which all are merged in 2015 AD are selected as sample by using systematic random sampling. The sample size of this study is three and sampling interval of this study is 4th, which is calculated by dividing size of population by size of sample. Every 4th element in the population is chosen starting form a random point in the population frame.

3.3 Data collection and processing procedure

This research examine the impact of merger on financial performance of commercial bank. For this purpose secondary data are used, data are collected from the only the financial statement of the selected banks Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited 3 year before and after the merger and acquisition. For pre-merger financial performance analysis only the data and information are collected

only form annual report of Bank of Kathmandu Limited, NMB Bank Limited and Siddhartha Bank Limited. The data and information of other financial institutions which are merged with these banks are ignore for pre-merger financial analysis. For the post-merger period, the focus of the analysis was on the combined institution.

3.4 Data analysis tools and techniques

In order to measure the impact of merger, the average performance of the three premerger years (T-3, T-2, T-1) is compared with the average performance of the three post-merger years (T+1, T+2, T+3) of the respective banks. The year of merger is indicated by T0 and is not included in the performance evaluation in order to eliminate the effect of the merger cost. Accounting ratios used to analyze the financial performance of the 3 banks under study. For the pre-merger period ratios, data and information only Bank of Kathmandu Limited, NMB Bank Limited and Siddhartha Bank Limited is collected and examined to get an indication of the relative financial performance. For the post-merger period, the focus of the analysis was on the combined institution. Pre-merger average data (m1) was compared with the post-merger average data (m2) to determine what changes occurred in financial performance following the merger or the acquisition. The researcher then conducted a multivariate regression analysis to establish the relationship between the dependent and independent variables.

Arithmetic Mean: Arithmetic mean is a given set of observation in their sum divided by the number of observations. In such case all items are equally important. It depicts the characteristic of the whole group. It is an envoy of the entire mass homogeneous data. Generally, the average value lies somewhere in between the extremes i.e. the largest and the smallest items.

Standard Deviation (σ): Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the square of all deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. The greater the amount of dispersion the greater will be the magnitude of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a serves.

Coefficient of Correlation (r): The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the other. Correlation may be positive or negative which lies between ± 1 . Simple correlation between interest rate on deposit and deposit amount, interest rate on lending and credit or lending amount and is computed in this thesis. The correlation between interest rate on deposit and deposit amount is positive. Interest rate on lending and lending amount is negative when inflation increases, interest rate also increases in same direction and vice versa.

Regression: The statistical technique which studies the average relationship between two or more variables in terms of original unit of data is called regression analysis. The simple regression analysis describes the average relationship between only two variables. It measures per unit change. The multiple regressions are a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable.

$$Y = a + bX$$

$$a = \text{Constant}$$

$$b = \text{Beta coefficient}$$

3.5 Research Framework and Variables

The following conceptual framework is developed for the purpose of this study. It shows the relationship between the merger as independent variable and the operating performance as dependent variable. The dependent variable (financial performance) is measured by using financial ratios, grouped into three categories including profitability, liquidity position and capital structure.

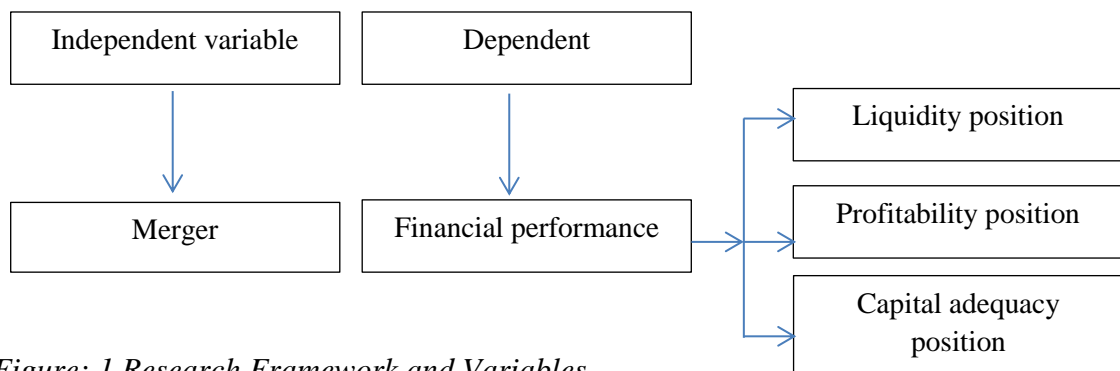


Figure: 1 Research Framework and Variables

Source: Sharka, 2018; Shrestha, 2023; and Shrestha et al., 2017.

Definition of Variables

Variable	Measure
Profitability	<p>Profitability is measured with income and expenses. Income is money generated from the activities of the business. It is the measure of an organization's profit relative to its expenses.</p> $ROA = \frac{NPAT}{Total\ assets}$ $ROE = \frac{NPAT}{Shareholders'\ equity}$ $Profit\ margin = \frac{NPAT}{Total\ revenue}$
Earning per share	<p>Earning per share is a measure of a company's profitability that indicates how much profit and outstanding share of common stock has earned.</p> $EPS = \frac{Earning\ available\ to\ shareholders}{Total\ shares\ outstanding}$
Capital adequacy	<p>It is a measure of how much capital a bank has available, reported as a percentage of a bank's risk-weighted credit exposures.</p> $C = \frac{Tier\ I + Tire\ II}{Total\ risk\ weighted\ assets}$
Assets quality	<p>The asset quality rating reflects the quantity of existing and</p>

potential credit risk associated with the loan and investment portfolios, other real estates owned, and other assets, as well as off-balance sheet transactions.

$$A = \frac{NPA}{TLA}$$

Total loan and advance to total deposit ratio It divides a bank's total amount of loan by the total amount of deposits for the same period.

$$L = \frac{\textit{Total loan and advance}}{\textit{Total deposit}}$$

Debt equity ratio The debt-to-equity ratio shows how much of a company is owned by creditors (people it has borrowed money from) compared with how much shareholder equity is held by the company.

$$\text{DE ratio} = \frac{\textit{Total dbt}}{\textit{Shareholders' equity}}$$

CHAPTER IV

RESULTS AND DISCUSSION

In order to measure the impact of merger, the average performance of the three premerger years (T-3, T-2, T-1) is compared with the average performance of the three post-merger years (T+1, T+2, T+3) of the respective banks. The year of merger is indicated by T0 and is not included in the performance evaluation in order to eliminate the effect of the merger cost.

4.1 Pre and post-merger comparison of performance

4.1.1 Return on assets

Return on Assets measures the net income on each rupees of assets. It is calculated as a ratio between Net Income and Average Total Assets, which the efficiency of the banks by utilizing their assets in generating profits. Higher this ratios show the better profitability position of banks.

Table 3

Return on assets

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	0.65	0.74	0.84	0.74	0.1	1.57	1.45	1.45	1.49	0.06
MNB	1.43	1.36	1.21	1.33	0.1	1.49	1.69	1.65	1.61	0.11
SBL	1.43	1.74	1.51	1.56	0.16	1.69	1.54	1.59	1.61	0.08
Mean	1.17	1.28	1.19	1.21	1.21	1.58	1.56	1.56	1.57	0.08
Std.	0.45	0.5	0.34	0.42		0.1	0.12	0.1	0.07	

Sources: Annual report of respected banks.

Table 3 shows the return on assets of sampled merged commercial banks before and after the merger. The average ROA of BOK before and after is 0.74 and 1.49 respectively which shows that ROA is increased after the merger. Similarly NMB has 1.33 average ROA before the merger and 1.61 after the merger which shows that ROA of NMB banks increase after the merger. Similarly the average ROA of SBL is 1.56 and 1.61 respectively before and after the merger and standardization is 0.16 and 0.08 respectively. It show that return on assets of NMB also increase after the merger. Average ROA of commercial banks before merger and after merger is 1.21 and 1.57

respectively. Which shows that return on assets of commercial banks increase after the merger.

4.1.2 Return on Equity

Return on equity used to measure the profitability position of the commercial banks before and after the merger. ROE is net profit after taxes divided by shareholder's equity which is given by net worth. It is a measure of how well management has used the capital invested by the shareholders. Higher this ratios show the better profitability position of banks.

Table 4

Return on equity

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	0	13.23	16.44	14.84	8.72	22.18	23.74	18.74	21.55	2.56
NMB	27.27	26.75	28.7	27.57	1.01	31.95	30.11	31.82	31.29	1.03
SBL	41.72	54.19	50.78	48.90	6.44	44.85	32.37	13.90	30.37	15.57
Mean	34.50	31.39	31.97	30.44	5.39	32.99	28.74	21.49	27.74	5.82
Std.	10.22	20.87	17.40	17.21		11.37	4.48	9.27	5.38	

Sources: Annual report of respected banks.

From the table 4 return on equity of BOK before merger and after merger is 14.84 and 21.55 respectively and standard deviation is 8.72 and 2.09 respectively. Similarly the ROE of NMB bank before merger and after merger is 27.57 and 22.98 respectively, standard deviation is 1.01 and 13.98 respectively. Similarly the return on equity of NMB bank before merger and after merger is 27.57 and 31.29 respectively and its standard deviation is 1.01 and 1.03, similarly average ROE of SBL bank is 48.90 and 30.37 respectively before and after the merger. Mean return on equity of sampled banks is 30.44 before the merger and 27.74 after the merger and its standard deviation is 5.39 and 5.82 respectively.

4.1.3 Earning per share

Earnings per share is another ratios used to measure the profitability position of commercial banks in Nepal before and after the merged. It is calculated as dividing

earning available to share holder by total share outstanding. Higher this ratios indicate the better profitability position of commercial banks and vice-versa.

Table 5

Earnings per share

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	13.25	15.78	14.86	14.63	1.28	20.69	19.46	20.69	20.28	0.58
NMB	18.02	20.5	25.05	21.19	3.57	27.79	26.88	28.67	27.78	0.9
SBL	29.80	38.63	37.77	35.40	4.87	41.53	18.82	26.45	28.93	11.56
Mean	20.36	24.97	25.89	23.74	3.24	30.00	21.72	25.27	25.66	4.16
Std.	8.52	12.06	11.48	10.62		10.59	4.48	4.12	4.70	

Sources: Annual report of respected banks.

Table 5 shows the earning per share of sampled commercial banks before and after the merger. The average earning per share of BOK is 14.63 before the merger and 20.28 after the merger. Standard deviation is 1.28 and 0.58 respectively. Similarly average EPS of NMB bank is 21.19 and 27.78 respectively before and after the merger and its standard deviation is 3.57 and 0.9 respectively. Likewise the average EPS of the SBL is 35.40 before merger and 28.93 after the merger, its standard deviation is 4.87 before merger and 11.56 after the merger. Average EPS of selected commercial bank before merger and after merger is 23.74 and 25.66 respectively and standard deviation is 3.24 before the merger and 4.16 after the merger. Means show that earning per share increase after the merged of the commercial banks in Nepal.

4.1.4 Profit margin

Profit margin is measure of how well management has generating operating revenue. It is calculated as net income divided by total operating revenue. Higher this ratio better for the firm.

Table 6*Profit margin*

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	37.85	15.36	25.3	26.17	11.3	33.22	40.4	33.75	35.79	3.27
NMB	58.85	60.23	59.77	59.62	0.7	68.09	66.82	41.24	58.72	15.15
SBL	47.07	59.72	60.22	55.67	7.45	70.93	66.28	40.90	59.37	16.16
Mean	47.92	45.10	48.43	47.15	6.47	57.41	57.83	38.63	51.29	10.97
Std.	10.53	25.76	20.03	18.28		21.00	15.10	4.23	13.43	

Sources: Annual report of respected banks.

Table 6 show the profit margin of selected commercial banks in Nepal. Average profit margin of BOK before the merger is 25.3 and standard deviation is 11.3 and after the merger mean profit margin is 35.79, standard deviation is 3.27, which shows that average profit margin of BOK is increase after the merger. Similarly the profit margin of NMB bank before the merger is 59.62 and after the merger is 58.72, its standard deviation is 0.7 before the merger and 15.15 after the merger. Similarly the average profit margin of SBL before and after the merger is 55.67 and 59.37 respectively and standard deviation is 7.45 and 16.16 respectively before and after the merger. Average profit margin of selected commercial banks is 47.15 before the merger and 51.29 after the merger. And its standard deviation is 6.47 and 1.97 respectively.

4.1.5 Assets quality

To address the asset quality, non-performing loans to total loans (NPL) is used in this study. Non-performing loans (loans which are considered not to generate earnings) to total loans ratio measures the asset quality of bank. In other words, it reflected the health of bank's loan portfolio that affects performance of bank negatively. The higher the NPL ratio the poorer the quality of loan portfolio and therefore it led to lower profitability.

Table 7 show the assets quality of selected commercial banks in Nepal. Average assets quality of BOK before the merger is 2.01 and standard deviation is 1.28 and after the merger mean assets quality is 1.87, standard deviation is 0.82, which shows that average assets quality which means non-performing assets of BOK is decrease after the merger. Similarly the assets quality of NMB bank before the merger is 0.42

and after the merger is 1.46, its standard deviation is 0.92 before the merger and 0.5 after the merger. Similarly the average assets quality of SBL before and after the merger is 2.31 and 1.29 respectively and standard deviation is 0.48 and 0.19 respectively before and after the merger. Average assets quality of selected commercial banks is 1.75 before the merger and 1.54 after the merger. And its standard deviation is 0.84 and 0.46 respectively.

Table 7

Assets quality

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	1.06	3.47	1.51	2.01	1.28	1.29	3.04	1.29	1.87	0.82
NMB	1.8	0.55	0.42	0.92	0.76	1.81	1.68	0.88	1.46	0.5
SBL	2.39	2.75	1.80	2.31	0.48	1.47	1.30	1.09	1.29	0.19
Mean	1.75	2.26	1.24	1.75	0.84	1.52	2.01	1.09	1.54	0.46
Std.	0.67	1.52	0.73	0.73		0.26	0.91	0.21	0.30	

Sources: Annual report of respected banks.

4.1.6 Total loan and advance to total deposit ratio.

Total loan and advance to total deposit ratio is used to measure the liquidity position of sampled commercial banks in Nepal.

Table 8

Total loan and advance to total deposit ratio

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	0.84	0.85	0.85	0.84	0.01	0.86	0.84	0.88	0.86	0.02
NMB	0.74	0.76	0.74	0.75	0.01	0.82	0.84	0.89	0.85	0.04
SBL	0.83	0.79	0.83	0.82	0.02	0.87	0.87	0.90	0.88	0.02
Mean	0.80	0.80	0.81	0.80	0.01	0.85	0.85	0.89	0.86	0.02
Std.	0.06	0.05	0.06	0.05		0.03	0.02	0.01	0.02	

Sources: Annual report of respected banks.

Form table 8 the average total loan and advance to total deposit ratio of BOK is 0.84 before the merger and 0.86 after the merger. This shows that loan and advance of BOK is increase as compared to deposit after the merger its standard deviation is 0.01

and 0.02 respectively before and after the merger. Similarly average total loan and advance to total deposit ratios of NMB bank is 0.74 and 0.85 respectively before and after the merger and its standard deviation is 0.01 and 0.04 respectively pre-merger and post- merger. Likewise the average total loan and advance to total deposit ratios of SBL is 0.82 before the merger and 0.88 after the merger its standard deviation is 0.02 and 0.02 respectively. The average total loan and advance to total deposit of sampled commercial banks in Nepal is 0.80 and 0.87 respectively before and after the merger.

4.1.7 Capital adequacy position

Capital adequacy is one of the elements that indicate the measurement of financial strength of a bank. It is the capital position of the bank which somewhat assure depositors that they will be compensated if any failure occurs. Higher this ratios is better.

Table 9

Capital adequacy position

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	11.57	13	13.01	12.53	0.83	13.41	14.88	13.41	13.9	0.69
NMB	11.74	10.75	11.13	11.21	0.5	10.98	13.61	15.75	13.45	2.39
SBL	11.80	13.39	11.10	12.10	1.17	11.25	12.74	12.12	12.04	0.75
Mean	11.70	12.38	11.75	11.95	0.83	11.88	13.74	13.76	13.13	1.08
Std.	0.12	1.43	1.09	0.67		1.33	1.08	1.84	0.97	

Sources: Annual report of respected banks.

Table 9 show the capital adequacy s of sampled banks. The average capital adequacy position of BOK before the merger is 12.53 and 13.9 after the merger and its standard deviation is 0.83, and 0.69 respectively pre-merger and post-merger. Similarly the average capital adequacy s of NMB banks is 11.21 and 13.45 respectively before and after the merger and its standard deviation pre-merger is 0.5 and post-merger is 2.39. Similarly SBL has 11.10 and 12.04 average capital adequacy position respectively before and after the merger and its standard deviation is 1.17 and 0.75 pre-merger and post-merger. Average capital adequacy s of selected commercial banks is 11.95 pre-merger and 13.13 post- merger.

4.1.8 Debt to equity ratio

Debt to equity ratio is used to measure the long term solvency position of commercial banks. Higher the ratio means higher the debt employed by the bank as compared to equity, which show the lower solvency position of banks.

Table 10

Debt equity ratio

BANKS	Before Merger					After Merger				
	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	Mean	Std.
BOK	0	18.48	9.97	14.22	6.02	15.76	13.3	11.13	13.4	1.89
NMB	11.25	11.41	13.92	12.19	1.5	12.27	10.01	9.93	10.74	1.33
SBL	17.09	18.25	19.26	18.20	1.09	15.25	10.55	11.69	12.50	2.45
Mean	14.17	16.05	14.38	14.87	2.87	14.43	11.29	10.92	12.21	1.93
Std.	4.13	4.02	4.66	3.06		1.89	1.76	0.90	1.35	

Sources: Annual report of respected banks.

Form the table 10 the average debt to equity ratios of BOK is 14.22 and 13.4 respectively before merger and after merger and its standard deviation is 6.02 and 1.8 respectively. Similarly the average debt to equity ratio of NMB bank is 12.19 and 10.74 respectively before and after the merger. Likewise the average debt to equity ratio of SBL is 18.20 and 12.50 respectively before and after the merger. The average debt to equity ratios of commercial banks is 14.87 before the merger and 12.21 after the merger.

4.2 Hypothesis testing (t-Test)

4.2.1 Paired two Sample t-test for means performance ROA

H₀: There is no significant difference in the return on assets between pre and post-merger of banks.

H₁: There is significant difference in the return on assets between pre and post-merger of banks.

Table 11*t-Test: paired two sample for means ROA*

Statistical test	Pre-merger	Post-merger
Mean	1.212	1.569
Variance	0.145	0.009
Pearson Correlation	0.408	
t Stat	3.030	
P(T<=t) one-tail	0.008	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.016	
t Critical two-tail	2.306	

Sources: SPSS

Table 11 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means of respective ratios. Mean performance of return on assets is increased in the post-merger period and the difference in the pre and post-merger averages (μ_1 and μ_2) is found statistically significant at 5% level of significance, t-Stat i.e. 3.030 is greater than t-Critical value i.e. 2.03 thus, H_0 is rejected and the alternative hypothesis, H_1 is accepted, i.e. there is a significant difference in return on assets after the merger. Correlation analysis shows that there is significant positive correlation between pre-merger ROA and post-merger ROA i.e. it has 0.408.

4.2.2 Paired two sample t-test for mean performance of ROE

H_0 : There is no significant difference in the ROE between pre and post-merger of banks.

H_1 : There is significant difference in the ROE between pre and post-merger of banks.

Table 12*t-test: paired two sample for means performance of ROE*

Statistical test	Pre-merger	Post-merger
Mean	28.787	27.740
Variance	315.736	84.204
Pearson Correlation	0.273	
df	8.000	
t Stat	0.178	
P(T<=t) one-tail	0.432	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.863	
t Critical two-tail	2.306	

Sources: SPSS

Table 12 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of ROE. Mean performance of return on equity is decreased in the post-merger period and the difference in the pre and post-merger averages (μ_1 and μ_2) is found statistically insignificant at 5% level of significance, t-Stat i.e. 0.178 is less than t-Critical value i.e. 2.306 thus, H_0 is rejected and the alternative hypothesis, H_1 is accepted, i.e. there is an insignificant difference in return on equity after the merger. Correlation analysis shows that there is insignificant positive correlation.

4.2.3 Paired two sample t-test for mean performance of EPS

H_0 : There is no significant difference in the EPS between pre and post-merger of banks.

H_1 : There is significant difference in the EPS between pre and post-merger of banks.

Table 13*t-test: paired two sample for means performance of EPS*

Statistical test	Pre-merger	Post-merger
Mean	23.740	25.664
Variance	94.058	50.274
Pearson Correlation	0.252	
Df.	8.000	
t Stat	-0.551	
P(T< =t) one-tail	0.298	
t Critical one-tail	1.860	
P(T< =t) two-tail	0.596	
t Critical two-tail	2.306	

Sources: SPSS

Table 13 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of EPS. Mean performance of EPS is increased in the post-merger period and the difference in the pre and post-merger averages (μ_1 and μ_2) is found statistically insignificant at 5% level of significance, t-Stat i.e. -0.551 is less than t-Critical value i.e. 1.860 thus, there is a insignificant difference in EPS after the merger. Correlation analysis shows that there is insignificant positive correlation.

4.2.4 Paired two sample t-test for mean performance of profit margin

H₀: There is no significant difference in the PM between pre and post-merger of banks.

H₁: There is significant difference in the PM between pre and post-merger of banks.

Table 14*t-test: paired two sample for means performance of PM*

Statistical test	Pre-merger	Post-merger
Mean	47.152	51.292
Variance	296.324	261.947
Pearson Correlation	0.548	
Df.	8.000	
t Stat	-0.781	
P(T<=t) one-tail	0.229	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.457	
t Critical two-tail	2.306	

Sources: SPSS

Table 14 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of PM. Mean performance of PM is increased in the post-merger period and the difference in the pre and post-merger averages ($\mu_1=47.152$ and $\mu_2=51.292$) is found statistically insignificant at 5% level of significance, t-Stat i.e. -0.781 is less than t-Critical value i.e. 1.860 thus, there is an insignificant difference in PM after the merger. Correlation analysis shows that there is insignificant high degree of positive correlation i.e. it has 0.548.

4.2.5 Paired two sample t-test for mean performance of assets quality.

H0: There is no significant difference in the AQ between pre and post-merger of banks.

H1: There is significant difference in the AQ between pre and post-merger of banks.

Table 15*t-test: paired two sample for means performance of AQ*

Statistical test	Pre-merger	Post-merger
Mean	1.750	1.539
Variance	1.014	0.396
Observations	9.000	9.000
Pearson Correlation	0.637	
Df.	8.000	
t Stat	0.815	
P(T<=t) one-tail	0.219	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.438	
t Critical two-tail	2.306	

Sources: SPSS

Table 15 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of AQ. Mean performance of AQ is decreased in the post-merger period and the difference in the pre and post-merger averages (μ_1 and μ_2) is found statistically insignificant at 5% level of significance, t-Stat i.e. 0.815 is less than t-Critical value i.e. 1.860 thus, there is an insignificant difference in AQ after the merger. Decrease in assets quality, which is measured by the non-performing assets to total loan and advance, which shows that nonperformance assets of bank is decreased after the merger. Correlation analysis shows that there is insignificant high degree of positive correlation.

4.2.6 Paired two sample t-test for mean performance of liquidity position

H₀: There is no significant difference in the Liquidity between pre and post-merger of banks.

H₁: There is significant difference in the liquidity between pre and post-merger of banks.

Table 16*t-test: paired two sample for means performance liquidity*

Statistical test	Pre-merger	Post-merger
Mean	0.803	0.863
Variance	0.002	0.001
Pearson Correlation	0.280	
Df.	8.000	
t Stat	-3.882	
P(T<=t) one-tail	0.002	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.005	
t Critical two-tail	2.306	

Source: SPSS.

Table 16 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of liquidity which is measured by total loan and advance to total deposit. Mean performance of liquidity is increased in the post-merger period and the difference in the pre and post-merger averages ($\mu_1=0.803$ and $\mu_2=0.863$) is found statistically insignificant at 1% level of significance, t-Stat i.e. -3.882 and t-Critical value i.e. 2.306 thus, there is an insignificant difference in liquidity after the merger. Correlation analysis shows that there is insignificant positive correlation between pre-merger and post-merger performance.

4.2.7 Paired two sample t-test for mean performance of D/E ratio.

H₀: There is no significant difference in the D/E ratio between pre and post-merger of banks.

H₁: There is significant difference in the D/E ratio between pre and post-merger of banks.

Table 17*t-test: paired two sample for means performance of D/E ratio*

Statistical test	Pre-merger	Post-merger
Mean	15.294	12.797
Variance	40.973	4.549
Pearson Correlation	-0.440	
df	8.000	
t Stat	0.988	
P(T<=t) one-tail	0.176	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.352	
t Critical two-tail	2.306	

Sources: SPSS

Table 17 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of D/E ratio. Mean performance of D/E is increased in the post-merger period and the difference in the pre and post-merger averages ($\mu_1 = 15.294$ and $\mu_2 = 12.797$) is found statistically insignificant at 5% level of significance, t-Stat i.e. 0.988 is less than t-Critical value i.e. 1.860 thus, there is an insignificant difference in D/E ratios after the merger. Correlation analysis shows that there is insignificant high degree of positive correlation.

4.2.8 Paired two sample t-test for mean performance of capital adequacy position

H₀: There is no significant difference in the CAR between pre and post-merger of banks.

H₁: There is significant difference in the CAR between pre and post-merger of banks.

Table 18*t-test: paired two sample for means performance of CAR*

Statistical test	Pre-merger	Post-merger
Mean	14.274	12.811
Variance	9.513	2.529
Pearson Correlation	-0.168	
df	8.000	
t Stat	1.186	
P(T<=t) one-tail	0.135	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.270	
t Critical two-tail	2.306	

Sources: SPSS

Table 18 shows the results of hypothesis testing applying the paired t-test statistic to measure the change between the pre and post-merger means performance of CAR. Mean performance of CAR is decreased in the post-merger period and the difference in the pre and post-merger averages ($\mu_1 = 14.274$ and $\mu_2 = 12.811$) is found statistically insignificant at 5% level of significance, t-Stat i.e. 0.815 is less than t-Critical value i.e. 1.860 thus, there is an insignificant difference in CA after the merger. Correlation analysis shows that there is insignificant low degree of negative correlation between capital adequacy pre-merger and post-merger.

4.3 Discussion

Mean performance of return on assets before the merger is 1.21 and after the merger is 1.57 which shows that mean performance of return on assets increase after merger. The finding is also supported by Rafaqat (2021) who found that the earnings per share ratio significantly improved and the return on equity significantly declined while there was no significant impact on return on assets. Mean performance of return on equity pre- merger is 30.44 and post-merger is 27.74, which shows that return on equity decrease after the merger, which is also support by the hypothesis test. Liu et al (2021) also found the domestic merger and acquisition companies found to have enhanced profitability in terms of return on assets and return on equity after the merger. Mean performance of earning per share pre- merger is 23.74 and post-merger

is 25.664, which shows that earning per share increase after the merger, which is also support by the hypothesis test. Similar result was found by Kunwar and Paudel (2023) who revealed that earning per share after merger has significant increment.

Mean performance of profit margin is 47.152 and post-merger is 51.292, which shows that profit margin increase after the merger, which is also support by the hypothesis test. Kunwar and Paudel (2023) revealed that net profit margin is increased after the merger and acquisition of financial institutions in Nepal. Mean performance of assets quality, pre- merger is 1.75 and post-merger is 1.539, which shows that assets quality decrease after the merger, which is also support by the hypothesis test. Irayanti (2019) found that quality of firm earnings changed following a merger and/or acquisitions to know whether the changes in firm profit will also affect the quality of profit. Mean performance of liquidity, pre-merger is 0.803 and post-merger is 0.863, which shows that liquidity increase after the merger, which is also support by the hypothesis test. Boloupremo & Ogege (2019) found that liquidity of the firms indicated a significant and positive relationship with the performance of the banks pre-merger.

Mean performance of debt to equity ratio, pre-merger is 15.294 and post-merger is 12.797, which shows that liquidity decrease after the merger, which is also support by the hypothesis test. Dwa and Shah (2017) found that post-merger debt-equity ratio is found strong than before merger. Mean performance of capital adequacy position, pre-merger is 14.274 and post-merger is 12.811, which shows that capital adequacy of banks decrease after the merger, which is also support by the hypothesis test. Kunwar and Paudel (2023) revealed that among this variables there is positive change in capital adequacy ratio.

CHAPTER IV

SUMMARY AND CONCLUSION

The chapter presents a summary of the results on the impact of mergers on the financial performance of commercial banks in Nepal. Based on the findings in chapter four, the study gives recommendations on what the banks' management can do to improve their financial performance of the banks following a merger or acquisition. The recommendations are presented also based on the objective of the study after which recommendations for further studies are drawn.

5.1 Summary

Merger means combining of two or more than two companies to raise their capital to survive in the industry. Bank mergers is claimed to be the sources of efficiency gains from the realization of economies of scale and economies of scope. The central bank planned to improve the health of the financial sector by introducing the Merger by law 2011 AD grounded on the Company Act 2006 AD article 177, BAFIA 2006 AD article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. The study aimed at establishing whether merger lead to an improved performance of commercial banks in Nepal. The objective of the study was to determine the impact of mergers on the financial performance of commercial banks in Nepal. To fulfill this research objective researcher used deductive and analytical research design. Bank of Kathmandu Lumbini limited, NMB bank Limited, and Siddhartha bank limited are selected as ample for this study which are merged during 2015 AD. Data are collected from the financial statement obtained from the annual report of the respected banks three year before-merger and three year after-merger. To analysis the data both financial and statistical tools are used. Ratio analysis is used as financial tools and mean, standard deviation, correlation and t-Test: Paired Two Sample for Means is used as statistical tools for data analysis. From the deductive statistics analysis mean performance of return on assets before the merger is 1.21 and after the merger is 1.57 which shows that mean performance of return on assets increase after merger. Which is also support by the hypothesis test, the t-stat is 3.030 and t Critical one-tail test is

1.860 and two-tail test is 2.306 are significant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.008 and $(T \leq t)$ two-tail test is 0.016 and correlation analysis show that there is positive correlation pre-merger and post-merger.

From the distractive statistics analysis mean performance of return on equity pre-merger is 30.44 and post-merger is 27.74, which shows that return on equity decrease after the merger, which is also support by the hypothesis test. The t-stat is 0.273 and t Critical one- tail test is 1.860 and two-tail test is 2.306 are insignificant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.432 and $(T \leq t)$ two-tail test is 0.863 and correlation analysis show that there is insignificant positive correlation pre-merger and post-merger return on equity. Similarly from the distractive statistics analysis mean performance of earning per share pre-merger is 23.74 and post-merger is 25.664, which shows that earning per share increase after the merger, which is also support by the hypothesis test. The t-stat is 0.551 and t Critical one-tail test is 1.860 and two-tail test is 2.306 are insignificant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.298 and $(T \leq t)$ two-tail test is 0.596 and correlation analysis show that there is insignificant positive correlation i.e. 0.252 pre-merger and post-merger earning per share. Likewise form the distractive statistics analysis mean performance of earning profit margin is 47.152 and post-merger is 51.292, which shows that profit margin increase after the merger, which is also support by the hypothesis test. The t-stat is 0.781 and t Critical one-tail test is 1.860 and two-tail test is 2.306 are insignificant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.229 and $(T \leq t)$ two-tail test is 0.457 and correlation analysis show that there is insignificant positive correlation i.e. 0.548 pre-merger and post-merger profit margin. Similarly from the distractive statistics analysis mean performance of assets quality, pre-merger is 1.75 and post-merger is 1.539, which shows that assets quality decrease after the merger, which is also support by the hypothesis test. The t-stat is 0.815 and t Critical one-tail test is 1.86 and two-tail test is 2.306 are insignificant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.219 and $(T \leq t)$ two-tail test is 0.438 and correlation analysis show that there is insignificant positive correlation i.e. 0.637 pre- merger and post-merger assets quality. Similarly from the distractive statistics analysis mean performance of liquidity, pre-merger is 0.803 and post-merger is 0.863, which shows that liquidity increase after the merger, which is also support by the hypothesis test. The t- stat is 3.882 and t Critical one-tail test is 1.86 and two-tail test

is 2.306 are significant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.002 and $(T \leq t)$ two-tail test is 0.005 and correlation analysis show that there is significant positive correlation i.e. 0.637 pre-merger and post-merger liquidity. Similarly from the distractive statistics analysis mean performance of debt to equity ratio, pre-merger is 15.294 and post-merger is 12.797, which shows that liquidity decrease after the merger, which is also support by the hypothesis test. The t-stat is 0.988 and t Critical one-tail test is 1.86 and two-tail test is 2.306 are significant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is 0.176 and $(T \leq t)$ two-tail test is 0.352 and correlation analysis show that there is insignificant negative correlation i.e. 0.44 pre-merger and post-merger debt to equity ratio. Similarly from the distractive statistics analysis mean performance of capital adequacy position, pre-merger is 14.274 and post-merger is 12.811, which shows that capital adequacy of banks decrease after the merger, which is also support by the hypothesis test. The t-stat is 1.186 and t Critical one-tail test is 1.86 and two-tail test is 2.306 are significant at 1% and 5% level of significance i.e. $P(T \leq t)$ one-tail test is .135 and $(T \leq t)$ two-tail test is 0.270 and correlation analysis show that there is insignificant negative correlation i.e. -0.168 pre- merger and post-merger capital adequacy position.

5.2 Conclusion

The purpose of this research is to study the merger and its impact on the performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. From the financial statistics discussed in chapter four above, the study concluded that Returns on Assets, earning per share, profit margin, liquidity increased significantly after the merger of the banks. However return on equity, assets quality, debt to total equity and Capital adequacy position are decreased after the merger. The assets quality ratios, which is measured by the total non-performing assets to total loan and advance is decreased after the merger, which show that the performing assets of merged banks. The merged banks able to maintain non-performing assets ratios as refers by Nepal Rastra bank. Similarly the sampled merged bank able to meet the capital adequacy position.

5.3 Implication and recommendation

The purpose of the study is to measure the impact mergers on the financial performance of banks. It is important for firms that have weak profitability, liquidity and capital structure to consider mergers and acquisitions so as to improve their profitability, liquidity and capital adequacy since it plays a significant role in improving the financial performance of a bank. Based on the finding of the study recommendation of the study are as follow.

1. The profitability of the banks was found to improve after mergers. Banks need to be encouraged if by doing so their profitability improve. Improvement in profitability is likely to have a positive effect on the financial performance of the firm.
2. The solvency of a firm was found to improve after mergers and acquisitions. Firms need to be encouraged if by doing so their solvency improve. Improvement in liquidity is likely to have a positive effect on the financial performance of the firm.
3. Capital adequacy have significant impact on profitability of commercial bank in Nepal advised to bank management to give due attention capital adequacy to improve profitability.
4. Through mergers and acquisitions, the commercial banks be able to extend their market share and revenue base hence increase their profitability. In addition, mergers and acquisition leads to a higher capital adequacy position which improves the financial soundness of commercial banks.
5. The current study fully employed secondary data obtained from financial reports of banks or through Nepal Rastra Bank can have potential bias. Thus, future research is recommended to substantiate and/or triangulate secondary data by primary data.
6. There are various challenges facing the formation of mergers and acquisition. A research should be carried out to figure out these challenges and the reasons why many firms are hesitant to embrace M&A s despite the many advantages that come with it.

REFERENCES

- Acharya, K.P. (2020). Impact of merger on financial performance of Nepalese commercial banks. *Nepal Journals Online*, 9 (1): 12-20.
- Adhikari, M.P. (2012). Theoretical Insights and modalities of merger operations. *Nepalese Economic Review*, 16 (4), 19-21.
- Adhikari, P.R. (2023). Effects of Mergers in Financial Performance of Nepalese Commercial Banks. *The International Research Journal of Management Science*, 7(1): 102-120.
- Baniya, R. & Adhikari, S. (2020). Mergers and Acquisitions of the Financial Institutions: Factors Affecting the Employee Turnover Intention. *NRB Economic Review*, 3 (2): 31-50.
- Bipin, P.K. (2018). The Impact of Merger on Financial Performance of Banks in Nepal. *North American Academic Research*, 1 (5), 23-40.
- Bohlin, N., Daley, E. & Thomson, S., (2000). *Successful post-merger integration: realizing the synergies*. New Delhi: Tata McGraw-Hill.
- Boloupremo, T., & Ogege, S. (2019). Mergers, acquisitions and financial performance. *Emerging Markets Journal*, 9 (1): 1-15.
- Bruner, R. (2004). *Applied merger and acquisitions*. U.S.A: John Wiley and Sons Inc.
- Cartwright, S. (2012). *Managing mergers acquisitions and strategic alliances*. U.K: Reed Educational and Professional Publishing.
- Chiu, W.H., Shih, Y.S., Chu, L.S. and Chen, S.L. (2023). Merger and acquisition integration, implementation as innovative approach towards sustainable competitive advantage. *Policy and Practice Review*, 3 (4): 1-12.
- Chunlai C. Z., & Findlay, C., (2003). A review of cross-border merger and acquisitions in APEC. *Asian-Pacific Economic Literature*, 17 (2), 14-38.
- Cox, S. (2006). Trust Relations in High-Reliability Organizations. *Risk Analysis*, 26 (5), 1123-1138.
- Damodaran, M. (2005). *The value of synergy*. U.S.A: John Wiley and Sons Inc.
- DiGeorgio, R. M. (2002, 2003). Making mergers and acquisitions work: what we know and don't know – Part I. *Journal of change management*, 3(2), 134-128.

- Duncan, A. (2008). *Mergers and acquisitions*. U.K: Wiley Blackwell Publishers.
- Dwa, S. and Shah, A.K. (2017). A Study on Merger and Operating Performance of Commercial Banks of Nepal. *Journal of Business and Social Sciences Research*, 2 (1), 85-107.
- Epstein, M. J. (2005). *The determinants and evaluation of merger success*. Business horizons, January/February, 48(1), 37-46.
- Fontaine, C.W. (2007). Mergers & acquisitions: Understanding the role of human resource management, *Journal of Human Resource Management*, 5 (4), 90-100.
- Gadiesh, O. (2001). Transforming Corner-Office Strategy into Frontline Action. *Harvard Business Review*, 79(5), 72-79.
- Galpin, T. and Herndon, M. (2000). Merger Repair: When M and A Go Wrong. *Journal of Business Strategy*, 29 (1), 4-12.
- Gaughan, P.A. (2002). *Mergers, acquisitions, and corporate restructuring*. 3rd Edition. New Year: John Wiley & Sons, Inc.
- Gaughan, P.A. (2011). *Mergers, Acquisitions and Corporate Restructuring*. Toronto Ontario: John Wiley & Sons, Inc.
- Gaughan, P.A. (2011). *Mergers, acquisitions and restructurings*. New Jersey: John Wiley and Sons Inc., Hobokon.
- Gautam, U. R. (2014). Merger Movement: For Financial Stability. *The Himalayan Times*. 4(3), 4-6.
- Gautam, U.R. (2012). Merger movement for financial stability. The Himalayan Times.
- Haransky, S.A. (1999). Merger mania and misunderstandings: Why the merger and acquisition process sometimes fails. *Journal of Management in Engineering*. 30 (4), 55-64.
- Honore, R. A. & Maheia, M. W. (2003). The secret to a successful RIM merger or acquisition. *Information Management Journal*, 37(5), 57.
- Imala, O.I. (2005). Consolidation in the Nigerian banking industry: A strategy for survival and development. *Journal of Financial Economics*, 114 (2), 121-133.
- Income Tax Act of Nepal (2002)*. Inland Revenue Department of Nepal.

- Irawan, M. (2021). Analysis the effect of mergers and acquisition on firm performance and earning quality in firms listed on the IDX. *Combines*, 1(1): 963-975.
- Irayanti, L. (2019). How Merger and Acquisition Affect Firm Performance and Its Quality. *Journal of Accounting, Finance and Auditing Studies*, 5/3 (2019): 42-53
- Jennings, O.R. (1985). Preventing acquisition failures. *Management Review*, 74(9), 37-39.
- Jensen, M.C, and Ruback, R.S. (1983). The Market for Corporate Control: The Scientific Evidence. *Journal of Financial Economics*, 11 (1-4), 5-50.
- Kafle, B. (2013). *Mergers and Acquisitions in Nepalese Banking Sector*. Kathmandu: Buddha Academic Publication.
- Kafle, B.C. (2013). Mergers and Acquisitions in Nepalese Banking Sector. *International Journal of Business and Management Invention*, 9 (6), 56-59.
- Karn, S. K. (2020). Mergers and Acquisitions of Banking Sector in Nepal. *International Journal of Business and Management Invention*, 9 (6), 56-59.
- Khanal, M. (2012). The downside of mergers. *The Himalayan Times*. 3(4), 11-15.
- Kunwar, R. and Paudel, S. (2023). Financial Performance Analysis of Pre-Post Merger of Commercial Banks in Nepal. *International Journal of Finance and Commerce*, 5 (1), 47-54.
- Liu, H., Li, Y., Yang, R., & Li, X. (2021). How do Chinese firms perform before and after cross-border mergers and acquisitions? *Emerging Markets Finance and Trade*, 57(2), 348-364.
- Manjunath, B.R. (2015). Impact and challenges of merger and acquisition in Nepalese banking and financial institutions. *Journal of Exclusive Management Science*, 4(8): 1-17.
- Manne, H. G. (1995). Mergers and the market for corporate control. *Journal of Political Economy*. 110-20.
- McCathy, G. (1963). *Acquisitions and mergers*. New York: The Ronald Press Company.

- Nicholas, J.M. (2004). *Project Management for Business and Engineering*. Jordan Hill: Oxford.
- Ojha, D. & Walsh, P. (2016). Merger and Acquisitions of Banking Sector in Nepal. *International Journal of Business and Management*, 9 (6), 56-59.
- Omri, A. (2011). Corporate Governance and Financial Reporting Quality. *The Case of Tunisian Firms*, 4 (3), 158-166.
- Pant, P.R . (2012). *Social science research and thesis writing*. Kathmandu: Buddha Academy Enterprises.
- Patrick, M.K., Makolo, Y. O., Kamau, C. G. (2022). *Mergers and Acquisitions and Their Effects on Firms Objectives*. Department of Accounting and Finance, Technical University of Mombasa.
- Pazarskis, M., Vogiatzoglou, M., Koutoupis, A., &Drogalas, G. (2021). Corporate mergers and accounting performance during a period of economic crisis: Evidence from Greece. *Journal of Business Economics and Management*, 22(3), 577-595.
- Phillips, G.M. and Zhdanov, A. (2012). *R & D and the Incentives from Merger and Acquisition Activity*. Oxford University Press, California.
- Picot, G. (2002). *Handbook of international mergers and acquisitions: Preparation, implementation and integration*. New York: Palgrave Macmillan.
- Pokhrel, J.R. (2014). Bank Mergers in Limbo Reasons and Remedies. *The Himalayan Times*. Kathmandu: APCA House Publication.
- Qureshi, A.H.; Sharif, U.; Butt, B.Z.; Bilal, M. (2011). Analysis of Mergers and Acquisition in Banking Sector of Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*; 3(1): 128.
- Rafaqat, S. (2021). The Impact of Merger and Acquisition on the Profitability of Medium Sized Technology Companies Listed on New York Stock Exchange. *Journal of Academic Finance*, 12(2): 124-139.
- Raju, J.K., Manjunath, B.R. & Dhakal, H. (2015). Impact and Challenges of Merger and Acquisition in Nepalese Banking and Financial Institutions. *Journal of Exclusive Management Science*, 4(8), 1-17.

- Rayamajhi, S. (2016). *A Bad Marriage Bank Mergers in Nepal*. Kathmandu: Nepal Republic Media Pvt. Ltd.
- Rockwell, N. (1968). Rockwell Manufacturing Company. *Rockwell International*, 3(2), 4-10.
- Rodgers, I. (1999). Culture bridging for international Performance. *Personal ANDCP*, 3 (5), 1-10.
- Ross, A.S. (2003). *Fundamentals of Corporate Finance*. 3rd edition. New York: McGraw-Hill Companies.
- Sadler, P. (2003). *Strategic management*. Britain: Kogan Page Limited.
- Salame, R. (2006). *Why do mergers fail? What can be done to improve their chances of success? Key strategy*. New Delhi: Prentice Hall.
- Schelur R. & Jackson, S. (2001). HR issues and activities in merger and acquisitions. *European Management Journal*, 32 (4), 560-581.
- Shah, B. A., & Khan, N. (2017). Impacts of Mergers and Acquisitions on Acquirer Banks' Performance. *Australasian Accountancy, business and Finance Journal*, 3(4), 11-18.
- Sharma, D. (2016). Bank mergers and acquisitions in Ukraine: efficiency effects and implications. *New Business Age*. 55 (3): 4-5.
- Sharma, K.P. (2017). Effect of Banks' Merger and Acquisition in Nepal: Study of Selected Banks. *KAHV International Journal of Law, Finance & Industrial Relations*, 5(1), 41-52.
- Sharma, K.P. (2018). The Impact of Merger and Acquisition on Customer Satisfaction in Post-Merger Phase in Banking Sector of Nepal. *Journal of Nepalese Business Studies*, 11 (1), 1-11.
- Shrestha et al. (2011). Theoretical insights and modalities of merger operations. *Nepalese Economic review*, 1-15.
- Shrestha, E. (2023). Effects of Merger and Acquisition on Employee Satisfaction in Nepalese Banking Sectors. *The Journal of Business and Management*, VII (1), 28-47.
- Shrestha, M. S. (2009). *Fundamentals of banking*, Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

- Shrestha, M., Thapa, R. K., & Phuyal, R. K. (2017). A Comparative Study of Merger effect on Financial Performance of Banking and Financial Institution in Nepal. *Journal of Business and Social Sciences Research*, 4(2), 21-30.
- Shrestha, P.M. (2014). Incentives on Cards for BFIs Opting for Merger. *The Kathmandu Post*. Kathmandu: Kantipur Publications Pvt. Ltd.
- Siegenthaler R.K. (2010). A View on the Long-Run Evolution of Hours Worked and Labor Productivity in Switzerland. *Swiss Economic*, 3(4), 25-34.
- Straub, T. (2007). *Reasons for frequent failure in merger and acquisitions*. Germany: DUV.
- Styal, S. (2014). *Staffs Management Problem on Merged Banks and Financial Institutions*. Aarthik National Daily. Lalitpur: Review Publicaitons Pvt. Ltd.
- Trautwein, F. (1990). Merger motives and prescriptions. *Strategic Management Journal*, 11 (4), 283-295.
- Weston, J. F. & Weaver, S. C. (2002). *Mergers and acquisitions*. New Delhi: Tata McGraw-Hill.
- Yaghoubi, R., Yaghoubi, M., Locke, S.M. & Gibb, J.L. (2016). Merges and acquisitions: A review. *Studies in Economics and Finance*, 33(1): 147-188.

APPENDICES

Bank wise variables

1 Bank of Kathmandu

Variables	Before Merger			After Merger		
	3	2	1	1	2	3
ROA	0.65	0.74	0.84	1.57	1.45	1.45
ROE	0	13.23	16.44	22.18	23.74	18.74
EPS	13.25	15.78	14.86	20.69	19.46	20.69
PM	37.85	15.36	25.3	33.22	40.4	33.75
AQ	1.06	3.47	1.51	1.29	3.04	1.29
L	0.84	0.85	0.85	0.86	0.84	0.88
CAR	11.57	13	13.01	13.41	14.88	13.41
debt to equity		18.48	9.97	15.76	13.3	11.13

Source: Annual report of Bank of Kathmandu Limited.

2 NMB Bank

Variables	Before Merger			After Merger		
	3	2	1	1	2	3
ROA	1.43	1.36	1.21	1.49	1.69	1.65
ROE	27.27	26.75	28.7	31.95	30.11	31.82
EPS	18.02	20.5	25.05	27.79	26.88	28.67
PM	58.85	60.23	59.77	68.09	66.82	191.05
AQ	1.8	0.55	0.42	1.81	1.68	0.88
L	0.74	0.76	0.74	0.82	0.84	0.89
CAR	11.74	10.75	11.13	10.98	13.61	15.75
debt to equity	11.25	11.41	13.92	12.27	10.01	9.93

Sources: Annual report of NMB Bank

3. Siddhartha bank limited

Variables	Before Merger			After Merger		
	3	2	1	1	2	3
ROA	1.43	1.74	1.51	1.69	1.54	1.59
ROE	41.72	54.19	50.78	44.85	32.37	13.9
EPS	29.8	38.63	37.77	41.53	18.82	26.45
PM	47.07	59.72	60.22	70.93	66.28	40.9
AQ	2.39	2.75	1.8	1.47	1.3	1.09
L	0.83	0.79	0.83	0.87		0.9
CAR	11.8	13.39	11.1	11.25	12.74	12.12
debt to equity	17.09	18.25	19.26	15.25	10.55	11.69

Sources: Annual Report of Siddhartha Bank Limited.

Paired two sample t-test for means performance ROA.

Statistical test	Pre-merger	Post-merger
Mean	1.212	1.569
Variance	0.145	0.009
Observations	9.000	9.000
Pearson Correlation	0.408	
t Stat	3.030	
P(T<=t) one-tail	0.008	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.016	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-Test for means performance ROE

Statistical test	Pre-merger	Post-merger
Mean	28.787	27.740
Variance	315.736	84.204
Observations	9.000	9.000
Pearson Correlation	0.273	
df	8.000	
t Stat	0.178	
P(T<=t) one-tail	0.432	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.863	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance EPS

Statistical test	Pre-merger	Post-merger
Mean	23.740	25.664
Variance	94.058	50.274
Observations	9.000	9.000
Pearson Correlation	0.252	
Df.	8.00	

t Stat	-0.551	
P(T<=t) one-tail	0.298	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.596	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance PM

Statistical test	Pre-merger	Post-merger
Mean	47.152	51.292
Variance	296.324	261.947
Observations	9.000	9.000
Pearson Correlation	0.548	
Df.	8.000	
t Stat	-0.781	
P(T<=t) one-tail	0.229	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.457	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-Test for means performance PM

Statistical test	Pre-merger	Post-merger
Mean	0.803	0.863
Variance	0.002	0.001
Observations	9.000	9.000
Pearson Correlation	0.280	
Df	8.000	
t Stat	-3.882	
P(T<=t) one-tail	0.002	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.005	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance AQ

Statistical test	Pre-merger	Post-merger
Mean	1.750	1.539
Variance	1.014	0.396
Observations	9.000	9.000
Pearson Correlation	0.637	

Df.	8.000	
t Stat	0.815	
P(T<=t) one-tail	0.219	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.438	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance liquidity

Statistical test	Pre-merger	Post-merger
Mean	0.803	0.863
Variance	0.002	0.001
Observations	9.000	9.000
Pearson Correlation	0.280	
df	8.000	
t Stat	-3.882	
P(T<=t) one-tail	0.002	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.005	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance debt equity ratio.

Statistical test	Pre-merger	Post-merger
Mean	15.294	12.797
Variance	40.973	4.549
Observations	9.000	9.000
Pearson Correlation	-0.440	
df	8.000	
t Stat	0.988	
P(T<=t) one-tail	0.176	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.352	
t Critical two-tail	2.306	

Sources: SPSS

Paired two sample t-test for means performance capital adequacy position

Statistical test	Pre-merger	Post-merger
Mean	14.274	12.811
Variance	9.513	2.529
Observations	9.000	9.000
Pearson Correlation	-0.168	
df	8.000	

t Stat	1.186	
P(T<=t) one-tail	0.135	
t Critical one-tail	1.860	
P(T<=t) two-tail	0.270	
t Critical two-tail	2.306	

Sources: SPSS

List of commercial banks merged up to 2020/21 AD

S. N.	Name of merged BFIs	Banks name after the merger
1	Rastriya Banijya Bank Limited and NIDC Development Bank Limited	Rastriya Banijya Bank Limited
2	Janata Bank Nepal Limited and Triveni Bikash Bank Limited	Janata Bank Nepal Limited
3	Grand Bank Nepal Limited and Prabhu Bank Limited	Brabhu Bank Limited
4	Bank of Kathmandu Limited and Lumbini Bank Limited	Bank of Kathmandu Limited
5	NCC Bank Ltd., Infrastructure Development Ltd., Apex Development Bank Ltd, Supreme Development Bank Limited and International Development Bank Limited	Nepal Credit and Commerce Bank Limited
6	Laxmi Bank Ltd. and Hisef Finance Ltd.	Laxmi Bank Limited
7	Nepal Bangladesh Ltd and Nepal Bangladesh Finance Ltd.	Nepal Bangladesh Limited
8	NMB Bank Ltd, Pathibhara Bikash Bank Ltd, Clen Energy Development Ltd and Prudential Finance Co. Ltd.	NMB Bank Limited
9	Global IME Bank Ltd, Social Development Limited and Gulmi Bikash Bank Ltd.	Global IME Bank Limited
10	Machhapurchhare Bank Ltd and Standard Fiance Ltd	Machhapurchhare Bank Limited
11	Mega Bank Nepal Ltd and Paschimanchal Development Ltd.	Mega Bank Nepal Limited
12	Siddhartha Bank Limited and Business Universal development bank Ltd.	Siddhartha bank Limited

Sources: <https://www.sharesansar.com/merger-acquisition>

Impact of Merger and Acquisition on Financial P..**By: Sandhya Dhakal**As of: Jul 5, 2024 4:39:27 PM
24,104 words - 154 matches - 2 sources

Similarity Index

15%Mode: Summary Report ▼**sources:**3,604 words / 14% - from 02-Feb-2024 12:00AM
elibrary.tucl.edu.np148 words / 1% - from 13-Jan-2024 12:00AM
www.grafiat.com**paper text:**

ABSTRACT The study entitled merger and its impact on financial performance of commercial banks in Nepal. The purpose of this research is to study the effect of merger on the financial performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011.

This study is based on the descriptive and analytical research design. Performance of commercial banks is measured by different variables such as ROA, ROE, EPS, profit margin, capital adequacy, assets quality, liquidity and debt to equity ratios. Pared sample t-test is used to measure the significant change pre-merger performance and post-merger performance. This study conclude that Returns on Assets, earning per share, profit margin, liquidity increased significantly after the merger of the banks. However return on equity, assets quality, debt to total equity and capital adequacy ratio are decreased after the merger. The assets quality ratios, which is measured by the total non-performing assets to total loan and advance is decreased after the merger, which show that the performing assets of merged banks. The merged banks able to maintain non-performing assets ratios as refers by Nepal Rastra Bank. Similarly the sampled merged bank able to meet the capital adequacy ratio

. Key words: ROA, ROE, EPS, capital adequacy, liquidity. x CHAPTER I INTRODUCTION 1.1 Background of the Study Acquisitions and mergers are crucial financial instruments that help businesses expand more quickly and give owners and investors benefits. A merger, according to Ross (2003), is "the complete absorption of one firm by another, wherein the acquiring firm ceases to exist as a separate entity and the acquired firm retains its identity." A merger is a corporate strategy often carried out by two or more companies under the terms of a merger agreement between the acquiring and acquired firms. Consolidation and merger are phrases that have been used interchangeably. Nevertheless, the two have separate legal identities as of the merger agreement. A consolidation occurs when two businesses combine to form a single, new business. According to Ross (2003), the acquiring and acquired firms both shed their former identities and names. In actuality, a merger in which business B merged with company A results in company A + company B = company A. When two companies consolidate, company A plus company B equals company C, which is a brand-new business (Gaughan, 2011). An acquisition is defined as a transaction in which one person or business, referred to as the offeror (or acquirer), obtains control over the assets and management of another business, referred to as the offeree (or target), either directly by purchasing the business's shares or indirectly by becoming the owner of these assets. Buying the target company's shares and/or assets is one way to complete an acquisition. An additional interchangeable type of purchase is a takeover. A takeover is usually hostile and antagonistic, and it occurs against the target companies' wishes. Acquisitions are more amicable when both firms