

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

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

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“IMPACT OF MERGER AND ACQUISITION ON THE FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS”** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it 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 this dissertation.

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ABBREVIATIONS

AGM	Annual General Meeting
BFI	Bank and Financial Institution
CAR	Capital Adequacy ratio
CAR	Return on Assets
CCBL	Century Commercial Bank Limited
CDR	Credit to Deposit Ratio
EPS	Earnings Per Share
FY	Fiscal Year
GFC	Global Financial Crisis
HR	Human Resource
LOI	Letter of Intent
M&A	Merger and Acquisitions
MBS	Master in Business Study
NABIL	Nabil Bank Limited
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
PRVU	Prabhu Bank Limited
RBBL	Rastriya Banjiya Bank Limited
ROE	Return on Equity
SPSS	Statistical Package for the social sciences

ABSTRACT

This dissertation examines the immediate impact of mergers and acquisitions (M&A) on the financial performance of selected Nepalese commercial banks, specifically Rastriya Banijya Bank Limited (RBBL), Prabhu Bank Limited (PRVU), and Nabil Bank Limited (NABIL). M&A activities have been increasingly adopted in Nepal's banking sector as a strategic tool to enhance competitiveness, operational efficiency, and financial stability. Using financial performance indicators such as Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Profit Margin, and Credit to Deposit (CD) Ratio, this research analyzes quarterly financial data from three quarters before and after each bank's merger. The methodology involves a comparative analysis of these financial ratios to evaluate pre-merger and post-merger performance. Statistical tools such as mean, standard deviation, t-test, p-value analysis, correlation and regression were employed to assess the significance of changes in financial performance after the merger.

The results reveal a significant decline in profitability indicators post-merger, with ROE and Profit Margin showing downward trends. ROA exhibited minor improvements in two of the banks, while CAR showed mixed results. Asset quality worsened in PRVU and NABIL after the merger, suggesting immediate challenges in managing loan portfolios. Despite these challenges, the study found that capital adequacy remained stable, with RBBL showing a notable improvement. The research concludes that while mergers in the Nepalese banking sector offer potential long-term benefits, the immediate effects on profitability and asset quality can be negative. These findings are crucial for policymakers, investors, and bank management in making informed decisions about future M&A strategies and improving integration processes in the post-merger period.

Keywords: *Mergers and Acquisitions, Financial Performance, Nepalese Banks, Profitability, Capital Adequacy*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Mergers and Acquisitions, or M&A is a common business approach for restructuring by the merging of two or more firms toward a single purpose, or the complete takeover of one organization by another. M&A facilitates efficiency, lowers costs, boosts profit, and helps organizations become more competitive. M&A has proven to be a useful tool for facilitating the unification of financial system. This has contributed to the global restructuring of the financial sector. Beginning in the United States in the early 1980s, the M&A was intensified by the Asian and global financial crises (GFC) in 2007–2008 and 1997–1998. As a result of these crises, the banking sector went through a period in which banks focused on strengthening risk management and creating a strong financial system. Regulation focusing on the expansion of capital bases and the consolidation of banking and financial institutions (BFIs) was eventually implemented globally.

The concept of mergers and acquisitions is relatively new for banking and financial institutions in Nepal. Nepal Rastra Bank introduced the Merger Bylaw 2068 (B.S.), based on Article 177 of the Company Act 2063 (B.S.) and Articles 68 and 69 of the BAFIA 2063 (B.S.), to encourage all BFIs to undergo mergers as a form of consolidation. Laxmi Bank, Nepal Bangladesh Bank, and Narayani National Finance were among the few banks that had gone through merger procedures before the regulations were published. With the 2015 monetary policy, the NRB announced a four-fold rise in the minimum paid-up capital for commercial banks and a twenty-four-fold increase for development banks. As a result, development banks must raise to Rs. 2.5 billion while commercial banks must raise to Rs. 8 billion in paid-up capital. The banking regulator's requirements have improved the environment for merger and acquisition activity; the M&A tsunami that began in 2011 has affected the BFI industry in Nepal. Following the implementation of the merger and acquisition strategy, the number of development banks has decreased to just 17 from 88, the number of finance companies has also decreased to 17 from 69, and the number of commercial banks has only slightly decreased to 26 from 32. This study aims to determine the difference in pre- and post-merger operating performance of commercial banks, the relationship between influencing factors and financial performance

of the commercial banking sector, and the success/failure of mergers in the Nepalese banking industry.

Policy makers will mostly benefit from this study's conclusion, which will prompt them to reconsider whether the policy's initial goals were met. In addition to them, a large number of other stakeholders in Nepal's banking sector will find the study useful. In the future, the banks that will be merged will have a comprehensive understanding of the state and effects of mergers in the nation and will be able to develop potential plans for success. In addition, investors will receive an overview of how mergers have affected the banking sector in Nepal. They will be able to examine the trends and growth of the banks being merged and withdraw or invest more money in those banks based on their preferences. With the help of this study, the researcher is attempting to discover the areas where the merged banks are performing well and where they are underperforming, which may be used as a reference by banks to be merged in the future and can work on the issues that may be affecting the bank's performance.

1.2 Profile of Banks

Introduction of Rastriya Banijya Bank

Established on 10 Magh 2022 (23 January 1966) under the special legislation "Rastriya Banijya Bank Act, 2021" Rastriya Banijya Bank is one of the most credible banks of Nepal. It functioned under the –Rastriya Banijya Bank Act 2021|| and "Commercial Bank Act, 2031" until 6 Baishak 2063 when it was re-registered as a public limited company(19 May 2006). Rastriya Banijya Bank and NIDC development bank completed their merger and started joint operation from May 2, 2018 under the name of Rastriya Banijya Bank limited. Currently there are 258 branches, 245 atm, 41 extension counters and 98 Branch less banking. Reflecting the public confidence with the largest public deposit base and increasing demand for branch establishment, RBB has stood as the strongest base of the pyramid of financial sector of Nepal.

Introduction of Prabhu Bank Limited

Prabhu bank limited is one of Nepal's leading commercial banks, offering a range of financial products and services. Established in 2007, it has rapidly grown to become a key player in Nepal's banking sector, with a strong focus on customer satisfaction and

innovation. Prabhu Bank Limited merged with Century Bank in January 2023. Following a successful merger and acquisition, Century Commercial Bank Limited (CCBL) and Prabhu Bank Limited (PRVU) began joint operations on Poush 26, 2079 (January 10, 2023). The newly formed board of directors consists of four members from Prabhu Bank and three members from Century Commercial Bank. The agreed swap ratio for the acquisition was set at 1:1. This means that every hundred shares of Prabhu Bank equal 100 shares of the Century Commercial Bank.

Introduction of Nabil Bank Limited

Nabil Bank Limited, Nepal's first foreign joint venture bank, began operations in July 1984. Nabil was established with the goal of providing international standard modern banking services to various sectors of society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 266 branches across the nation and over 170+ reputed correspondent banks across the globe. Nabil Bank Limited had successfully acquired Nepal Bangladesh Bank Limited from Ashad 27, 2079 BS. The bank operates in the name of 'Nabil Bank Limited' after the acquisition. The bank has agreed on the acquisition in the swap ratio of 100:43. This means that every hundred shares of Nepal Bangladesh Bank Limited equals 43 shares of the Nabil Bank Limited.

1.3 Problem Statement

Since the economic liberalization of the financial sector in Nepal, there has been an unnatural growth of banks and financial institutions which led to an intense competition amongst them in enticing institution, borrowers and individuals. Along with commercial banks, the government allowed the establishment of development banks and finance companies to increase people's access to financial institutions. As of mid-July 2022, there are 26 Class A commercial bank, 17 Class B development banks, 17 Class C finance companies, 66 Class D microfinance institutions, and one infrastructure bank in operation. Nepal Rastra Bank, the supervisory and regulatory body for all BFIs, introduced a forceful merger by-law in May 2011. Most of the experts and analyst believe that the Nepalese financial sector are overcrowded with so many players for the small size market and if not acted on time these problems will worsen. In this context, it is crucial to know how selected Nepalese banking performing. Based on above problems, this study will answer the following research questions:

- What are the various factors relating to the Financial Performance of the sample bank?
- What is the relation of merger and acquisitions with these factors?
- What is the immediate impact of merger and acquisitions on the liquidity position, asset quality, solvency and profitability position of the sample bank?

1.4 Objectives of the Study

The general objective of the study is to overview the general knowledge of merger. The specific objectives of the study are:

- To identify the various factors relating to the financial position of the sample bank.
- To examine the relation of merger and acquisition with these factors.
- To analyze the post-merger and acquisitions impact on the financial performance of the sample banks.

1.5 Rationale of the Study

The banking sector in Nepal has undergone significant transformations due to regulatory reforms, particularly following the Nepal Rastra Bank's introduction of the Merger Bylaw in 2068. This regulation aimed to strengthen the financial sector by encouraging banks to consolidate, creating stronger and more stable institutions. However, the immediate impact of mergers and acquisitions (M&A) on the financial performance of Nepalese commercial banks remains under-researched, particularly in a context with unique economic and regulatory conditions.

Mergers and acquisitions are often adopted as strategies for enhancing competitiveness, operational efficiency, and financial stability. Globally, studies have demonstrated that M&A can lead to long-term benefits like improved profitability, better capital adequacy, and enhanced liquidity. However, in the short term, banks may face challenges such as integration costs, operational inefficiencies, and declining profitability. For policymakers, banks, and investors in Nepal, understanding the immediate financial outcomes of mergers is crucial for informed decision-making.

This study provides an in-depth analysis of the immediate effects of mergers on key financial performance indicators, focusing on three prominent Nepalese banks: Rastriya Banijya Bank Limited (RBBL), Prabhu Bank Limited (PRVU), and Nabil Bank Limited (NABIL). By analyzing financial metrics like Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Asset Quality(AQ) and Profit Margin (PM) across three quarters before and after the mergers, this study contributes to the understanding of how mergers affect the short-term financial health of commercial banks in Nepal.

The results of this study will help policymakers assess whether the initial goals of the merger policies have been met and provide banks with insights into areas for improvement post-merger. Additionally, investors can use these findings to evaluate the performance of merged banks, helping them make more informed decisions about future investments. Thus, this research serves as a vital tool for guiding future merger strategies and assessing their potential risks and benefits within the Nepalese banking sector.

1.6 Research Hypothesis

The following alternatives hypothesis has been formulated to test the objectives of the study:

H0: There is no significant difference in the Profit Margin in the immediate periods before and after the merger.

H1: There is significant difference in the Profit Margin in the immediate periods before and after the merger.

H0: There is no significant difference in the Capital Adequacy Ratio in the immediate periods before and after the merger.

H1: There is significant difference in the Capital Adequacy Ratio in the immediate periods before and after the merger.

H0: There is no significant difference in the Asset Quality in the immediate periods before and after the merger.

H1: There is significant difference in the Asset Quality in the immediate periods before and after the merger.

H0: There is no significant difference in the CD in the immediate periods before and after the merger.

H1: There is significant difference in the CD ratio in the immediate periods before and after the merger.

1.7 Limitations of the Study

This study aims to examine the effect of mergers on the financial performance of commercial banks in Nepal. However, it has its own limitations, which are as follows:

- There are many variables that can be used to measure the performance of bank but this study covers only ROA, ROE, PM, CAR, and CD ratios.
- This study is based on the secondary data collected only from the quarterly report of Rastriya Banijya Bank, Nabil Bank and Prabhu Bank Limited, only the data of other bank and financial institution 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 Rastriya Banijya Bank, Nabil Bank and Prabhu Bank Limited are collected the data 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.
- To see the immediate impact only the performance of 3 quarters before and after the merger is considered.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Review

A literature review is the search and evaluation of accessible literature on a related subject or topic area. It documents the current state of the art in relation to the subject or topic about which the author is writing. A literature review is a body of material that summarizes the key points of current knowledge on a certain issue. This chapter reviews the literature and proposes a conceptual framework for the post-merger performance of Nepalese financial institutions based on studies conducted by other scholars in the same field in established and emerging markets. It's broken into two portions. The first portion discusses theories of merger and acquisition, while the second section is concerned with actual studies on the impact of merger and acquisition.

2.1.1 Difference between mergers and acquisitions

The terms merger, consolidation, acquisition, and takeover are sometimes used interchangeably. This is why the term used tends to be similar and can be used interchangeably.

According to the definition of merger, the fundamental principle underlying mergers and acquisitions is to enhance shareholders' profits by maximizing the profitability of business enterprises. However, in business scenarios, each term carries distinct connotations. A merger denotes the amalgamation of companies of relatively comparable sizes to establish a new corporate entity. Typically, mergers are conducted on amicable terms, with equitable distribution of profits among stakeholders. The primary objective of mergers is to extend the scope of business operations and market presence. In contrast, an acquisition occurs when one company assumes control over another through the acquisition of its equity and/or assets. An acquisition is mainly taken during the economic recession and constant decline of company profits. (Ross.et.al, 2003)

Another notable distinction between a merger and an acquisition is the approach to acquiring firms. In an acquisition, a deal can proceed without the mutual consent of the

target company. Typically, larger, more robust companies absorb the operations of weaker counterparts.

2.1.2 Types of mergers

Trautwein (1990) observes that businesses engage in a diverse array of activities to capitalize on potential opportunities. Among these, mergers, tender offers, and joint ventures emerge as pivotal mechanisms for fostering the growth and expansion of firms. Growth is widely recognized as indispensable for the prosperity of a firm, enabling it to attract top managerial talent through the promise of rapid career advancement and expanded responsibilities. The presence of capable executives is essential for maintaining operational efficiency and enhancing the firm's value.

On the contrary, a takeover involves the acquisition of one company's ordinary share capital by another entity, typically funded through cash payments, issuance of securities, or a combination of both. In such transactions, the bidding company is typically larger than the target company. In practice, most acquisitions lean towards takeovers rather than mergers, as one of the involved parties tends to assert dominance. The term "takeover" often carries connotations of hostility.

Kumar and Bansal (2008) delve into three primary types of mergers: horizontal, conglomerate mergers, and vertical mergers.

- **Horizontal mergers**

A horizontal merger occurs when two companies operating in the same industry and at a comparable stage of production combine forces. Creating a larger firm through such a merger may result in economies of scale. However, horizontal mergers are subject to government regulation due to their potential adverse impact on competition. These mergers often reduce the number of firms in an industry, potentially facilitating collusion among remaining industry members to pursue monopoly profits. Additionally, many perceive horizontal mergers as potentially conferring monopoly power upon the combined entity, enabling it to engage in anti-competitive practices.

- **Conglomerate mergers**

A conglomerate merger is a combination of two companies operating in different areas of business, distinct from vertical or horizontal mergers. There are three types of conglomerate mergers: product-extension mergers, which broaden the product lines of firms through mergers between related business activities (also called concentric mergers); geographic market extension mergers, which involve two firms operating in non-overlapping geographic areas; and pure conglomerate mergers, which involve unrelated business activities. Conglomerate firms differ from investment companies in that they directly manage and control the entities in which they make substantial financial investments. Two important characteristics define a conglomerate firm: it controls a range of activities in various industries that require different skills in specific managerial functions such as research, applied engineering, production, and marketing, and it achieves diversification mainly through external acquisitions and mergers, not internal development.

- **Vertical mergers**

Vertical mergers in sectors like oil and pharmaceuticals often involve combining different stages of the production process, ranging from research and development to production and marketing. Such consolidation can enhance operational efficiency and streamline processes, but it also brings up issues related to market dominance and potential antitrust concerns.

Muia (2010) puts forth various justifications for vertical mergers. Initially, these mergers can yield technological efficiencies by reducing transportation costs and eliminating duplication, as observed in the integration of a lion and steel producer. Secondly, internal transactions within a firm can cut down on costs associated with price searching, contracting, payment collection, and advertising, while also enhancing communication and production coordination. Thirdly, vertical integration can enhance inventory and production planning by improving information flow within a single entity. Lastly, when one firm's assets are specialized for another, there's a risk of opportunistic behavior to exploit quasi-rents. Vertical integration addresses this risk by consolidating ownership. Additionally, vertical mergers reconcile conflicting interests among transaction parties through shared ownership. Such takeovers may involve either forward integration,

securing distribution outlets, or backward integration, ensuring a stable supply of raw materials, as illustrated by a toy manufacturer merging with toy stores or an auto manufacturer merging with a tire company, respectively.

2.1.3 Acquisition

Acquisition is a situation whereby one company purchases 50% most or another company's entire share in order to take control. The acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders. (Investopedia, 2016)

In simple terms, an acquisition is when one company buys a big chunk of another company's stuff or stocks. It often means a bigger company buying a smaller one. It's like taking over both the ownership and control of the company.

2.1.3.1 Types of acquisition

The company's combination mainly can be affected either by asset acquisition or stock acquisition.

- **Asset acquisition:**

In an acquisition, the purchasing company selects and acquires certain or all of the assets and liabilities directly from the seller. This enables the buyer to specifically choose which assets to acquire and avoid taking on undesired liabilities. The asset purchase agreement, detailing and assigning values to each asset or liability, encompasses everything from office supplies to goodwill. If the assets to be acquired are not contained within a separate legal entity, they must be purchased via an asset sale instead of a stock sale, unless the assets can be organized into a separate legal entity prior to the transaction (Macabacus, 2010).

- **Stock acquisition:**

"The acquiring entity purchases the target company's shares from the selling shareholders. Upon the transfer of these shares, all assets and liabilities of the target company are sold to the acquiring entity," (Macabacus, 2010). "Stock acquisition occurs when the acquiring company obtains a majority of the target company's outstanding shares." This scenario might coincide with a hostile takeover, where shares are directly bought from the stockholders, though this isn't always the scenario," (Stock acquisition, 2016).

2.2 Theoretical Review

Various theories explain why firms pursue mergers and acquisitions.

- **Power Theory**

Market power is the ability of an individual or group of individuals (individuals, companies, partnerships, or other entities) to affect the type, price, and quality of a product in the marketplace. Consequently, market dominance may result in excessively large and risk-free profits that are not competitive (Montgomery, 1985). By decreasing the number of banks and the level of competition, mergers and acquisitions, according to the market power theory, will increase market concentration and the banking industry's market power. Banks will be able to raise prices in the market as a result and make more money. For this reason, mergers and acquisitions are anticipated to enhance the performance of both bidders and targets (Hankir, 2011).

- **Resource Theory or Synergy Theory**

According to synergy theory, "the economic value resulting from a merger depends on the availability of opportunities to utilize the resource and the amount of the resource held by the firm relative to the total amount available in the economy" (Chatterjee, 1986). Through operating and financing synergies brought about by business expansion or by unique combination advantages between the merged firms, mergers and acquisitions are predicted to enhance future cash flow and improve firm value. The benefits of new prospects, cost reductions from increased efficiency, and revenue increases from upselling or cross-selling all contribute to synergy. According to this theory, both the targets and bidders are anticipated to experience an enhancement in performance (Hankir, 2011).

- **"Eat or be eaten" Theory of Mergers**

According to Gorton, Kahl, and Rosen (2005), the foundational principles of the "eat or be eaten" theory rest on several key assumptions. Firstly, managers may possess a preference for maintaining the independence of their firms, as those of acquired firms often find themselves in subordinate positions within the new entity or risk losing their positions altogether. Secondly, there exists a scenario where some mergers create value. Thirdly, a firm of a certain size lacks the capability to acquire a larger firm, with financing becoming increasingly challenging as the scale of the acquisition grows.

Therefore, the core implication of the "eat or be eaten" theory is that mergers and acquisitions might occur to either fend off potential acquisitions by other firms, uphold

the autonomy of the company, enlarge the firm's scale, or secure the jobs of its managers. In essence, defensive motives among managers could serve as a rationale for mergers and acquisitions, as managers may pursue acquisitions to bolster the size of their firm, thereby diminishing the likelihood of a takeover.

- **Agency Theory**

Agency theory suggests that managers are motivated to drive their firms to expand beyond their current size, as it increases their power by giving them control over more resources. Additionally, such growth often leads to higher compensation for managers, as their pay tends to be positively linked to sales growth (Hankir, 2011). Within the framework of agency theory, managers of acquiring banks may pursue mergers and acquisitions primarily for personal gain, without regard for economic considerations (Asimakopoulos & Athanasoglou, 2013).

2.3 Empirical Review

The purpose of the research is to show how mergers and acquisitions affect commercial banks' financial results. This paper examines multiple dimensions in which mergers and acquisitions are studied. These transactions significantly impact the overall performance of organizations. Numerous articles illustrate their effects. The study utilized variables derived from the unified theory of acceptance. Below are key articles addressing this topic.

Murthy (2007) analyzed the mergers and acquisitions (M&A) of five banks: Punjab National Bank and New Bank of India, ICICI Bank and Bank of Madura, ICICI Ltd. and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce, and Centurion Bank with Bank of Punjab. The study investigated how these M&A transactions improved competitiveness and efficiency in borrowing and lending operations within the banking sector. Murthy concluded that M&A activities are crucial for establishing stronger financial and operational frameworks for banks. They result in increased resources, expanded branch networks, larger customer bases, technological advantages, a stronger focus on priority sectors, and enhanced penetration into rural markets. The research also examined various factors such as human resources management and strategies for managing clients in these bank.

Wangui (2007) investigated mergers among commercial banks in Kenya and concluded that many banks pursued mergers to increase market share and improve their financial standing. Additionally, Chesang (2002) conducted a study on merger restructuring and financial performance of commercial banks in Kenya, observing improvements in financial performance indicators meeting minimum statutory requirements, although some ratios showed declines. The research highlighted the significant impact of M&A announcements on stock returns during the event period, indicating the potential for investors to earn abnormal returns by trading in acquiring companies. However, these studies did not explore the effects of mergers on the human resources aspects of organizations. They found that prior to mergers and acquisitions, financial institutions in Kenya lacked strong liquidity and solvency, leading to increased operating expenses despite profitability. The portion of financial performance explained by liquidity, solvency, and operating expenses was minimal before mergers and acquisitions. Following these transactions, however, liquidity and solvency significantly improved, thereby enhancing overall financial performance.

Mantra, Vadi, and Reddy (2008) conducted a study to analyze which types of mergers—horizontal, vertical, or conglomerate—had the greatest impact on improving the performance of merging firms. They compared the financial performance of companies before and after mergers, looking at metrics such as operating profit margin, gross profit margin, net profit margin, return on net worth, return on capital employed, and debt equity ratio. The study spanned three years before the merger and five years after. Using paired "t" tests, they assessed whether the post-merger financial ratios were significantly different from the pre-merger averages. The findings revealed that horizontal mergers had the most pronounced negative effect on the operating performance of merging companies, followed by conglomerate mergers, and then vertical mergers. This suggests that while mergers and acquisitions can potentially benefit shareholders by creating a more valuable consolidated entity, the type of merger plays a crucial role in determining how effectively these goals are achieved.

Altunbas and Marques (2008) studied how strategic similarities between acquiring banks and target banks affect post-merger financial performance. Their research focused on bank mergers within the European Union, revealing that these transactions generally led to improved return on capital. They conducted empirical analyses using a detailed dataset

that encompassed individual bank mergers linked to specific accounting information. Their findings underscored significant performance enhancements following mergers, especially in cross-border scenarios. They also explored the impact of strategic alignment on performance, indicating that similarities between merging partners typically correlated with better outcomes. However, they noted variations in these effects across different types of mergers—whether domestic or cross-border—and across various strategic dimensions.

Ndora (2010) explored how mergers and acquisitions affected the financial performance of insurance companies in Kenya. The study focused on a sample of six insurance firms that merged between 1995 and 2005, selected from a total of 42 registered insurance companies during that period. To evaluate financial performance, Ndora calculated profitability ratios, solvency ratios, and capital adequacy ratios, including metrics such as Return on Assets (CAR), operating profit, and Return on Equity (ROE). Comparing financial data from the five years before and after the mergers, Ndora found that the merged firms demonstrated improved financial performance in the post-merger period compared to their performance before merging. The study concluded that mergers and acquisitions positively impacted the financial performance of insurance companies. Ndora also examined how merger restructuring influenced the financial performance of commercial banks in Kenya using ratio analysis. The findings suggested that while some mergers resulted in enhanced performance, the overall impact on financial performance was not statistically significant. In summary, Ndora's research highlighted the beneficial effects of mergers and acquisitions on the financial performance of insurance companies in Kenya, with varying outcomes observed in the commercial banking sector.

In Sinha's (2010) study on mergers and acquisitions in selected financial institutions in India, the analysis involved two main stages. Initially, using ratio analysis, the study assessed changes in company positions from 2000 to 2008. Subsequently, the nonparametric Wilcoxon signed rank test was used to examine changes in company efficiency during the pre- and post-merger periods. The findings indicated a significant improvement in shareholder earnings post-merger, while the liquidity positions of the firms showed no significant change. Overall, the study highlighted a substantial correlation between M&A activities and long-term financial performance in India, suggesting that acquiring firms were able to create value. Additionally, the study

measured the operating performance and shareholder value of acquiring companies by analyzing metrics such as Operating Profit Margin, Gross Operating Margin, Net Profit Margin, return on Capital Employed, Return on Net Worth, Debt-Equity Ratio, and EPS P/E before and after mergers. The conclusion reiterated findings from previous studies that mergers generally do not lead to immediate performance improvements. Moreover, Sinha's research focused on the impact of mergers on the relative size and operating performance of acquiring corporations. It examined pre- and post-merger financial ratios using a sample of firms involved in mergers between public limited and traded companies in India from 1991 to 2003. The study evaluated metrics including Operating Profit Margin, Gross Profit Margin, Net Profit Margin, return on Net Worth, return on Capital Employed, and Debt-Equity Ratio. The results suggested minor variations in operating performance following mergers, particularly when the acquiring and acquired firms differed significantly in relative size as measured by market value of equity.

Raiyami (2010) analyzed the effects of mergers on the efficiency and productivity of banks in India. The study aimed to explore the motivations behind mergers and acquisitions in the Indian banking sector and their impact on performance. Six Indian banks that underwent mergers between 2000 and 2006 were selected for the sample. Financial ratios were used to examine the profitability, efficiency, liquidity, asset quality, and capital position of these banks. The study found that mergers had a positive impact on the performance of the selected banking institutions.

Kemal (2011) conducted a study focusing on the Royal Bank of Scotland's (RBS) post-merger profitability in Pakistan. The research aimed to determine whether mergers improve a bank's financial performance. Over the span of four years (2006-2009), Kemal analyzed 20 essential accounting ratios, including metrics related to profitability, liquidity, and market value. The findings revealed that RBS had exhibited satisfactory financial performance across metrics such as profitability, liquidity, asset management, leverage, and cash flows even before the merger. However, following the merger, there was no noticeable improvement in these financial areas. This conclusion suggests that while mergers may enhance profitability for some banks, the merger involving RBS in Pakistan did not yield such benefits according to Kemal's analysis

Appah& John (2011) conducted an analysis on the profit efficiency effects of mergers and acquisitions in the Nigerian banking industry. The study employed an ex-post research design, utilizing data from the annual reports of sampled banks for the period 2003-2008, with ROE serving as a proxy for profit efficiency and a sample size of 10 banks. The analysis employed paired sample T-test statistics and descriptive analysis. Results showed that sampled banks performed better during the pre-merger and acquisition period (2003-2005). However, the study concluded that there was no significant difference in ROE for all banks combined between the pre and post-merger periods. This finding was corroborated by Taiwo& Musa (2014), who investigated the impact of consolidation on the performance of listed deposit money banks in Nigeria over a 12-year period from 2000 to 2011 (6 years pre- and post-consolidation), using a sample of four banks. Their study, employing paired sample T-test to test hypotheses related to variables such as Return on Asset, Return on Equity, and Net profit margin, concluded that the consolidation reform in the Nigerian banking sector positively impacted Return on Assets and Net profit margin, but had no effect on Banks' Return on Equity.

Marembo (2012) performed a thesis examining how mergers and acquisitions impact the financial performance of commercial banks in Kenya. The study aimed to assess whether the numerous mergers within Kenya's banking sector influenced financial outcomes, using a causal research design. The research encompassed 27 commercial bank mergers that occurred between 1994 and 2010, with data collected from the financial statements of selected banks. The study's findings indicated that mergers and acquisitions contribute to increased capital and a broader customer base, both significant factors in enhancing firm performance. This improved stability and capacity to lend enable commercial banks to achieve higher profitability.

Maditinos (2013) conducted research into the effects of mergers and acquisitions on company performance, specifically examining the consolidation of two Greek banks into a single entity in 1999. The study sought to analyze how this merger impacted the performance of the resulting bank over both short-term and long-term periods. The results highlighted that the merged bank achieved profitability within the banking sector and demonstrated enhanced competitiveness relative to its peers. Nevertheless, the study underscored the limitations of using stock performance alone as a metric for assessing overall bank performance, noting the potential influence of speculative trading, inaccurate

forecasts, or unforeseen market dynamics.

Neupane (2013) conducted an analysis of crucial factors involved in the merger and acquisition activities of Nepalese financial institutions. The study concluded that merged firms demonstrated an enhanced ability to attract loans, increased productivity among employees, and experienced growth in net assets, findings that were also observed in the Nigerian banking industry. Furthermore, the research highlighted the potential for mergers and acquisitions to improve employee productivity and overall bank performance through the integration of information and communication technology packages and the implementation of effective corporate governance measures.

Adhikari (2014), in a research paper published by NRB, conducted an exploratory study on the effects of mergers on banks and financial institutions. The research utilized primary data collected from 550 respondents and secondary data spanning a three-year period encompassing both pre- and post-merger phases of 25 merged entities. The study highlighted that financial institutions pursue mergers primarily to bolster their paid-up capital, expand their operational scope, and mitigate competitive pressures. Despite contributing positively to employee satisfaction and organizational culture, mergers were observed to introduce delays in decision-making processes. Examination of six financial indicators over the initial two years following mergers revealed mixed outcomes across different BFIs, with some experiencing improvements while others faced challenges. However, by the third year post-merger, all merged BFIs exhibited enhancements in these financial indicators.

Singh and Gupta (2015) argued that there is a notable difference in post-merger metrics such as Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Net Worth, Interest Coverage, Deposit per Employee, and Credit Deposit Ratio. However, they found no significant variations in Gross Profit Margin, Debt-Equity Ratio, Current Ratio, Quick Ratio, and Earnings per Share. According to their study, mergers have a positive impact on the financial performance of banks when comparing periods before and after mergers. The research underscores that banks enhance their financial efficiency significantly during the post-merger and acquisition phase compared to the period preceding mergers. The scholars' assertion that mergers and acquisitions contribute to improving bank performance is reasonable, as these strategies aim to enhance financial

intermediation efficiency, thereby guiding banks toward maximizing profitability.

Joash and Njangiru (2015) conducted a study to investigate the impact of mergers and acquisitions on bank performance in Kenya. Their research aimed to assess how these activities influenced shareholders' value and profitability among 14 banks that had undergone mergers or acquisitions since 2000. The data collection process involved distributing questionnaires containing both open-ended and closed-ended questions. The gathered data was analyzed using SPSS software to calculate correlation coefficients. The findings indicated that mergers and acquisitions had a positive effect on enhancing the shareholders' value of the banks involved. The researchers recommended conducting thorough feasibility studies before proceeding with any merger or acquisition. Furthermore, they suggested exploring the implications of mergers and acquisitions across various sectors of the economy to better understand their impact beyond the banking sector.

Following Nepal Rastra Bank's enactment of merger policies in 2011, there was a noticeable increase in merger and acquisition activities among Nepal's banking and financial institutions. Dhakal (2015) conducted a study that focused on assessing how these mergers affected employees, customers, and shareholders of the merged banks. The study employed a descriptive research approach, utilizing surveys and analysis to derive its findings. Customers reported experiencing changes in value, products, and services during the post-merger phase but expressed a need for more innovative offerings. Financially, the banks demonstrated significant post-merger improvements in performance, leading to increased shareholder wealth.

Ghosh and Dutta (2015) argue that Mergers and Acquisitions serve as a strategic tool for corporate restructuring. Their study delves into the strategic impact of mergers and acquisitions within the banking sector, focusing on 20 M&A transactions in the Indian banking industry from 2000 to 2010. The research specifically compares HR and financial parameters before and after these mergers. Each merger's performance metrics were individually analyzed, followed by the application of the Shapiro-Wilk normality test for statistical validation. In a parallel context within the Indian banking industry, the State Bank of India initially merged with five subsidiaries on April 1, 2017, with subsequent governmental policies aimed at facilitating further consolidation of public

sector banks. The study's findings suggest that there was no significant change in performance observed during the post-merger period.

Baniya and Shah (2016) highlighted that mergers are a frequent phenomenon in Nepal's banking sector. They noted a global trend where banking industries have undergone significant consolidation in recent decades, leading to fewer banking firms and the emergence of large, internationally operating universal banks. Many developing markets, Nepal included, have introduced government policies to encourage bank mergers, particularly in the aftermath of financial crises, with the aim of restructuring the banking sector and promoting economic stability. However, the authors identified a research gap in the analysis of these merger activities, specifically in terms of their impact on Human Resource Management (HRM) practices.

Shah & Khan (2017) conducted a study on the repercussions of mergers and acquisitions on the performance of acquiring banks. Their research investigated how M&A activities influence the operational performance of acquiring banks in Pakistan. The study analyzed a sample of 18 transactions involving acquiring banks listed on the Karachi Stock Exchange. Using Financial Ratio Analysis (FRA) and a paired sample t-test, the study assessed the significance of changes in operating performance. The findings revealed a downturn in the performance of acquiring banks post-merger. Notably, the majority of profitability ratios, such as Return on Equity (ROE) and Return on Assets (CAR), experienced declines following the mergers and acquisitions, as concluded by the researchers.

Shrestha, Thapa, and Phuyal (2017) conducted a study that examined the impact of mergers on the financial performance of banking and financial institutions in Nepal. Their research aimed to assess how the financial performance of merged institutions compared to their pre-merger performance and to gauge stakeholder perceptions of these mergers. The study sampled six banks and financial institutions, with data gathered from 120 respondents for both primary and secondary data analyses. The researchers employed financial ratio analysis and t-tests to assess changes in performance indicators. The study revealed that mergers tended to have a positive impact on performance when larger and more stable entities, such as commercial banks, led the mergers, compared to mergers involving smaller institutions. However, it also found that in many cases, loan quality deteriorated post-merger, and profitability, as measured by CAR and ROE, was

negatively affected. Therefore, the study suggests that mergers should not be viewed as a definitive solution to market challenges; instead, careful evaluation and selection of appropriate partners are essential before proceeding with mergers.

Shah and Dwa (2017) conducted a study on the impact of mergers on the operational performance of commercial banks in Nepal. Their research aimed to examine how mergers affected the performance of selected banks. The study focused on analyzing eight specific 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. Quarterly secondary data was utilized, and statistical methods such as paired sample t-tests, correlation analysis, VIF test, and regression analysis were employed for analysis. The results indicated that mergers involving Nepal Bangladesh Bank and NIC Asia Bank did not lead to significant improvements in various operational ratios. In fact, many ratios showed weaker performance in the post-merger period compared to before the merger. In contrast, the merger involving Machhapuchchhre Bank shown notable improvements across most operational ratios after the merger. Overall, the study concluded that mergers generally did not produce positive outcomes for the merged entities in Nepal's commercial banking sector, based on the data analyzed. The study attributed these less favorable outcomes to the initial weaker financial positions of the banks targeted for merger. Nonetheless, the research suggested that mergers could partly address current challenges faced by Nepalese banking and financial institutions (BFIs). It recommended mergers as a strategic option to strengthen BFIs and comply with regulatory capital requirements set by the Nepal Rastra Bank (NRB). However, the study emphasized that mergers alone were insufficient to ensure sustained financial stability for BFIs in the long term.

Chalise (2017) conducted a study investigating how mergers and acquisitions impact the performance of commercial banks in Nepal, focusing specifically on the merger involving Global IME Bank. The study aimed to assess whether this merger positively influenced the bank's financial performance using the CAMEL criteria as a measurement tool. The findings revealed a significant enhancement in bank capital following the merger, indicated by a statistically significant positive mean. Additionally, there was an observed improvement in Return on Assets (CAR), suggesting increased efficiency in generating earnings from the bank's assets. In summary, the study concluded that the merger had a

beneficial impact on the financial performance of Global IME Bank, as assessed through changes in the CAMEL variable.

Gugler, Muelle, Yurtoglu, and Zulehner (2018) investigated the impact of mergers and acquisitions on the financial performance of commercial banks in Kenya, drawing upon the differential efficiency theory, financial synergy theory, and hubris theory as frameworks. Their study focused on a sample of 9 banks that underwent mergers and acquisitions between 2007 and 2010. The research revealed that a one-unit improvement in differential efficiency corresponded to a 0.886 increase in the financial performance of these banks, indicating the realization of managerial synergy. This underscores the significance of effective post-merger integration and strategic alignment in enhancing financial outcomes for banks involved in such transactions.

Kashyap (2022) discusses how mergers and acquisitions have become a significant reality in the Indian banking sector, seen as a strategy to strengthen the country's economy by enhancing the banking industry. The Government of India has actively pursued the amalgamation of public-sector banks as part of this strategy. This study examines the mergers and acquisitions that have taken place within the Indian banking sector, aiming to evaluate the synergies generated and the long-term implications of these consolidations. It also analyzes recent trends in banking related to mergers and acquisitions. The findings suggest that mergers and acquisitions have achieved some success in the Indian banking sector. Specifically, the study concludes that mergers involving Bank of Baroda (BOB) have led to improved capital management. Alongside mergers, the paper emphasizes the importance of implementing reforms in governance and management within these banks. Overall, the research underscores that mergers in the banking sector serve as a valuable tool for weaker banks to merge into stronger entities, especially amidst global economic challenges that smaller, local banks face, necessitating support and consolidation for their sustainability.

Karki (2022) explores Merger and Acquisition (M&A) as a widely embraced business strategy used in restructuring organizations, either by consolidating multiple entities towards shared goals or through one organization being fully acquired by another. The primary aims typically include boosting competitiveness, enhancing operational efficiency, cutting costs, and increasing profitability. M&A has proven highly effective in facilitating consolidation within the financial sector, significantly reshaping the global

banking industry. Over time, bank mergers and acquisitions have delivered numerous benefits, such as greater deposits and credit availability, improved earnings potential, and enhanced risk management capabilities. By integrating weaker banks with stronger counterparts, robust institutions have been formed that meet industry standards and maintain competitive strength. To sustain growth and stability within the sector, collaborative efforts between regulatory agencies and financial institutions are essential in developing comprehensive plans and policies. Both regulators and banks must demonstrate flexibility to nurture growth and stability effectively. Furthermore, governmental support through effective incentives plays a crucial role in encouraging banks to actively pursue merger and acquisition opportunities.

Adhikari (2023) investigates the impact of mergers on the financial performance of Nepalese commercial banks using a descriptive and causal-comparative approach with data from 2010 to 2019. It analyzes four mergers completed before mid-July 2018 and evaluates performance through various ratios, revealing significant improvements in EPS, NWPS, ROA, and NPM post-merger. While most ratios showed positive correlations between pre- and post-merger periods, the P/E ratio did not. The study finds that mergers generally enhance profitability but have limited impact on ratios like CD ratio, CAR, and NPL. These insights can guide managers in making informed decisions about future mergers and partner selection, contributing to a better understanding of merger effects in the Nepalese banking sector.

Table 1*Empirical review*

Study	Major Findings
Murthy (2007)	The study highlighted benefits such as increased resources, expanded branch networks, larger customer bases, technological advantages, and improved penetration into rural markets as outcomes of these M&A transactions.
Wangui (2007)	Many banks engaged in mergers to bolster their market share, leading to enhanced financial standing within the market.
Mantra, Vadi, and Reddy (2008)	<p>The study found that horizontal mergers had the most significant negative impact on the operating performance of merging firms, followed by conglomerate mergers, and then vertical mergers.</p> <p>The study underscored that the type of merger significantly influences post-merger financial performance, highlighting the complexity in achieving shareholder value through mergers and acquisitions based on the strategic alignment of the merging entities.</p>
Altunbas and Marques (2008)	<p>The study concluded that bank mergers within the European Union typically led to improved return on capital, especially in cross-border scenarios.</p> <p>They emphasized that strategic similarities between acquiring and target banks were critical factors influencing post-merger financial performance, though the effects varied depending on the type of merger and strategic dimensions involved.</p>
Ndora (2010)	<p>The financial performance of firms improved after mergers compared to their pre-merger performance.</p> <p>The study concluded that mergers and acquisitions led to increased financial performance for an insurance</p>

company.

- Sinha (2010) In India, M&A cases indicate a strong link between financial performance and the long-term outcomes of the deals, with acquiring firms effectively creating value.
- Raimajhi (2010) Concluded that mergers among Indian banks between 2000 and 2006 positively impacted their performance across various financial metrics, including profitability, efficiency, liquidity, asset quality, and capital position.
- Kemal (2011) Before the merger deal, RBS demonstrated satisfactory financial performance across profitability, liquidity, asset management, leverage, and cash flows.
- Appah & John (2011) Found that while Nigerian banks performed better in the pre-merger period (2003-2005), there was no significant difference in Return on Equity (ROE) for all banks combined between the pre and post-merger periods based on their analysis of annual reports from 2003 to 2008.
- Weber and Tarba (2012) It was determined that the high incidence of M&A failures resulted from inadequate coordination across different stages of the merger and acquisition process.
- Marembo (2012) Investigated the impact of mergers and acquisitions on the financial performance of commercial banks in Kenya, covering 27 mergers from 1994 to 2010. The study concluded that mergers and acquisitions led to higher capital, expanded customer bases, improved bank stability, and increased profitability among commercial banks in Kenya.
- Maditinos (2013) The research aimed to evaluate the short-term and long-term effects of the merger on the resulting bank's

performance.

Findings indicated that the merged bank achieved profitability and enhanced competitiveness in the banking industry.

The study cautioned against relying solely on stock performance to assess overall bank performance due to potential influences from speculative trading and market unpredictability.

- Neupane (2013) Found that mergers and acquisitions in Nepalese financial institutions improved loan attractiveness, boosted employee productivity, and increased net assets, echoing similar benefits seen in the Nigerian banking sector, thereby enhancing overall bank performance.
- Adhikari (2014) The study found that mergers among banks and financial institutions primarily aim to enhance paid-up capital, expand operational scope, and alleviate competitive pressures, despite initially introducing decision-making delays, leading to improved financial indicators for all merged entities by the third year post-merger.
- Singh and Gupta (2015) The study found that mergers in banks and financial institutions initially introduce decision-making delays but ultimately enhance capital, operational scope, and competitiveness, leading to improved financial performance by the third year post-merger.
- Joash and Njangiru (2015) The study found that mergers and acquisitions in Kenyan banks positively influenced shareholders' value, highlighting the importance of rigorous feasibility studies and economic impact assessments.
- Dhakal (2015) The study found that mergers among Nepal's banking and financial institutions, prompted by Nepal Rastra Bank's policies, improved financial performance and shareholder wealth, though customers perceived

changes in products and services and sought more innovation.

- Ghosh and Dutta (2015) The study concluded that mergers and acquisitions in India's banking sector from 2000 to 2010 did not significantly improve performance outcomes post-merger.
- Baniya and Shah (2016) The study identified a prevalent trend of mergers in Nepal's banking sector, influenced by global consolidation patterns and government policies, while noting a research gap in understanding the impacts on Human Resource Management (HRM) practices.
- Shah and Khan (2017) The findings reveal a decline in the performance of the acquiring banks during the post-merger period. There is only a negligible improvement observed in the net interest margin and the ratio of administrative expenses to profit before tax during the post-merger period.
- Shrestha, Thapa, and Phuyal (2017) The study examined mergers in Nepal's banking sector and found that those led by larger, stable entities generally improved financial performance. Mergers involving smaller institutions often resulted in deteriorated loan quality and reduced profitability, highlighting the importance of careful partner selection and evaluation before proceeding with mergers.
- Shah and Dwa (2017) The study found that mergers involving Nepal Bangladesh Bank and NIC Asia Bank did not significantly improve various operational ratios, with some showing weaker performance post-merger. In contrast, the merger involving Machhapuchchhre Bank demonstrated notable improvements across most operational ratios after the merger, suggesting varying

impacts of mergers on operational performance in Nepal's commercial banking sector..

- Chalise (2017) The study concluded that the merger involving Global IME Bank in Nepal led to a significant enhancement in bank capital, as evidenced by a statistically significant negative mean. The study also highlighted an improvement in Return on Assets (CAR), indicating increased efficiency in earnings generation from assets following the merger, suggesting a positive impact on the bank's financial performance.
- Gugler, Muelle, Yurtoglu, and Zulehner (2018) They highlighted that enhanced differential efficiency corresponded to significant increases in the financial performance of the banks studied, indicating the realization of managerial synergy post-merger.
- Kashyap(2022) The study emphasizes the role of mergers as a strategic tool to strengthen the banking industry and support weaker banks amidst global economic challenges, stressing the importance of governance and management reforms alongside consolidation efforts.
- Karki(2022) The study emphasizes that integrating weaker banks with stronger counterparts through M&A leads to greater deposits, improved credit availability, enhanced earnings potential, and stronger risk management capabilities, fostering robust institutions that meet industry standards and maintain competitive strength.
- Adhikari (2023) The study finds that mergers significantly improve profitability metrics like EPS, ROA, and NPM for Nepalese commercial banks. However, some ratios, such as CD ratio and CAR, show minimal change, offering insights for future merger decisions.
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2.4 Research Gap

Despite the growing body of research on mergers and acquisitions (M&A) in the global context, there is a significant gap in the literature concerning the immediate impact of M&A on the financial performance of Nepalese commercial banks. While international studies have extensively analyzed the post-merger financial performance using various metrics such as profitability, capital adequacy, asset quality, and liquidity, there is a paucity of research focusing specifically on the unique context of Nepalese banks.

Several studies have highlighted the general trends and impacts of M&A on financial institutions in more developed economies, particularly in the United States and Europe, where regulatory environments, market conditions, and economic stability differ markedly from those in Nepal. These studies often conclude that M&A can lead to enhanced efficiency, improved market competitiveness, and better financial stability in the long run. However, they also note the short-term challenges such as integration issues, increased operational costs, and potential declines in profitability immediately following the merger.

In the context of Nepal, the implementation of the Merger Bylaw 2068 and subsequent policies by Nepal Rastra Bank aimed at encouraging consolidation among banks and financial institutions has created a unique landscape. Despite this, empirical studies examining the immediate financial outcomes of such regulatory-driven mergers remain limited. Existing literature predominantly focuses on broader financial performance trends over extended periods, often overlooking the critical short-term impacts that can influence stakeholder decisions and policy formulations.

This dissertation aims to fill this gap by providing a detailed analysis of the immediate post-merger financial performance of key Nepalese commercial banks, namely Rastriya Banijya Bank Limited, Prabhu Bank Limited, and Nabil Bank Limited. By focusing on the three quarters before and after the mergers, this study seeks to offer insights into the initial challenges and opportunities that arise during the critical early stages of post-merger integration.

The findings will contribute to a deeper understanding of the short-term financial dynamics in the Nepalese banking sector post-M&A, thereby informing policymakers, investors, and bank management about the immediate effects of consolidation strategies in a developing economy context.

CHAPTER III

RESEARCH METHODOLOGY

The purpose of the study is to determine whether the merger of banks improves profitability. It also explores the effect of merger and acquisition on profitability of the bank by using different accounting ratios. Financial ratios comparison of liquidity position, profitability position and capital adequacy along with the hypothesis test is used. These financial ratios also help in making rational decisions and future planning for the betterment of the bank.

3.1 Research Design

In pursuit of the study's objective, a combination of descriptive and causal comparative research designs is employed. Various statistical and financial tools are utilized for data analysis, alongside descriptive and comparative techniques to assess the impact of mergers and acquisitions on bank profitability. Descriptive research methods encompass various survey approaches, including regression and correlational methods. Conversely, causal comparative research design is non-experimental method that compares pre-existing groups to identify cause and effect relationship without manipulating the independent variables.

3.2 Population and Sample

The population denotes the entire group from which data is to be gathered, while the sample represents an unbiased subset of this population. As of the end of Shrawan in 2080 BS, Nepal has 20 commercial banks in operation. Following the introduction of the Merger Bylaws in 2068 (2011), Nepal Rastra Bank (NRB) encouraged all Banks and Financial Institutions (BFIs) to consider merging. Among these 20 banks, three commercial banks Rastriya Banijya Bank Limited, Prabhu Bank Limited, and Nabil Bank Limited were selected as the sample. The convenient sampling technique was used to select these sample banks.

BFIS taken as a Sample for the study

Table 2

List of Sample Banks Merged

Name of BFI (After Merger)	Bidder BFI	Merged BFIS
Rastriya Banijya Bank Limited	Rastriya Banijya Bank Limited	Nepal Industrial Development Corporation
Prabhu Bank Limited	Prabhu Bank Limited	Century Commercial Bank Limited
Nabil Bank Limited	Nabil Bank Limited	Nepal Bangladesh Bank Limited

3.3 Nature and Source of Data

Given the nature of the study, secondary data are utilized. Financial performance data are directly sourced from the respective banks. Additionally, information is gathered from various sources including books, magazines, journal articles, reports, bulletins, data from Nepal Rastra Bank, relevant websites, and other supplementary data sources. Various economic surveys are also incorporated. Books from libraries, periodicals, newspapers, company publications, and magazines are consulted as well. Data collection on a quarterly basis allows for the observation of the immediate impact of the mergers.

3.4 Tools Used

This study has used the quantitative method to meet the overall objectives and to answer the research questions. SPSS will be used to compute the statistical measures that will be used for further analysis in this research work. Financial ratios comparison of liquidity position, profitability position and capital adequacy along with the t- test and p –value test is used.

3.4.1 Ratio Analysis

Ratio analysis is one of the tools of scanning the financial statement of the firm. It shows the relation between two accounting figures. The following ratios are used for ratio analysis:

- **Return of Asset**

Return on Assets (ROA) measures how efficiently a company uses its assets to generate profit, calculated by dividing net income by average total assets. This financial ratio provides insight into overall profitability relative to asset investment, indicating how well a company is converting its assets into earnings. A higher ROA signifies greater efficiency and productivity in managing assets, while a lower ROA suggests there may be room for improvement in asset utilization. ROA is a useful tool for corporate management, analysts, and investors to assess and compare a company's performance within its industry.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

- **Return on Equity**

Return on Equity (ROE) is a financial metric calculated by dividing net profit after taxes by shareholder's equity, which represents the company's net worth. This ratio assesses how effectively management uses shareholders' invested capital to generate profit. Since shareholders' equity equals total assets minus total debt, ROE effectively measures the return on net assets. It serves as an indicator of a company's profitability and efficiency in converting equity into earnings. A higher ROE signifies that the company is more adept at generating income and growth from its equity financing. ROE is sometimes referred to as "return on net worth."

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders Equity}}$$

- **Credit to Deposit Ratio**

The Credit to Deposit Ratio (CD) is a key financial metric that measures the proportion of a bank's deposits that are extended as loans. It is calculated by dividing the total amount of loans by the total deposits and multiplying by 100 to express it as a percentage. A higher CD indicates that a significant portion of deposits is being utilized for lending, which can boost income but may also increase risk if liquidity is strained. Conversely, a lower CD suggests a more conservative approach, with more deposits held in reserve rather than lent out, potentially leading to lower earnings but reduced risk. The CD helps assess a bank's efficiency in deploying its deposits and managing financial risk.

$$\text{Credit to Deposit ratio} = \frac{\text{Total Loan}}{\text{Total Deposit}}$$

- **Profit Margin Ratio**

Profit margin is a financial metric that represents the percentage of revenue that remains as profit after all expenses are deducted. It is a measure of how efficiently a company converts revenue into profit, reflecting its ability to manage costs and generate earnings. There are different types of profit margins, including gross profit margin, operating profit margin, and net profit margin, each providing insight into various aspects of profitability. A higher profit margin indicates greater efficiency and profitability, making it a key indicator for assessing a company's financial health and comparing its performance with peers.

$$\text{Profit Margin Ratio} = \frac{\text{Net Income}}{\text{Operating Income}}$$

- **Capital Adequacy Ratio**

The Capital Adequacy Ratio (CAR) measures a bank's financial strength by comparing its capital to its risk-weighted assets. It is calculated by dividing the bank's total capital, which includes both tier 1 (core equity) and tier 2 (supplementary) capital, by its risk-weighted assets. CAR assesses the bank's ability to absorb potential losses and remain solvent, with a higher ratio indicating a stronger buffer against financial instability. Regulators use CAR to ensure that banks maintain sufficient capital levels to support their risk exposure and safeguard the financial system.

$$\text{Capital Adequacy Ratio} = \frac{(\text{Tier I} + \text{Tier II}) \text{ CAPITAL}}{\text{Risk Weighted Risk}}$$

- **Asset Quality Ratio**

The Asset Quality Ratio measures the proportion of a financial institution's non-performing assets relative to its total assets, providing insight into the quality of its asset portfolio and its risk exposure. Calculated by dividing non-performing assets (those at risk of default or overdue) by total assets, this ratio helps assess the effectiveness of asset management and credit risk. A higher Asset Quality Ratio indicates a larger share of problematic assets, suggesting potential financial instability, while a lower ratio signifies better asset quality and more robust risk management.

$$\text{Asset Quality Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

3.4.2 Statistical Tools

Arithmetic Mean

The arithmetic mean is a statistical measure that represents the average value of a set of numbers. It is calculated by summing all the individual values in the data set and then dividing the total by the number of values. The mean provides a central value that characterizes the typical magnitude of the data, serving as a measure of central tendency.

T-Testing

A t-test is a statistical method used to evaluate whether there is a significant difference between the means of two groups. It helps determine if observed differences are likely due to chance or if they reflect a real effect or distinction between groups. The choice of t-test depends on whether the groups being compared are from the same population or different populations, and whether the test should assess differences in a specific direction.

The two-sample t-test, or independent t-test, is specifically designed to compare the means of two independent groups. This test assesses whether the differences between the means of these two groups are statistically significant, assuming the data follows a normal distribution and the variances of the two groups are equal. For instance, in this study, the two-sample t-test is applied to evaluate and compare the financial performance of Banking Financial Institutions (BFIs) before and after a merger, to determine if the merger has resulted in a significant change in their financial outcomes.

Standard Deviation

The standard deviation quantifies the average amount of variation or dispersion in a dataset by measuring how much each data point deviates from the mean. It provides insight into the spread of data points around the central value: a high standard deviation indicates that data points are spread out over a wide range, meaning they are often far from the mean, while a low standard deviation suggests that data points are closely packed around the mean. Essentially, the standard deviation helps to understand the consistency or variability within a dataset, offering a clearer picture of the distribution of values.

$$\sigma = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Where,

X = number of observations in the sample

\bar{X} mean of number of observations in the sample

n = number of years

$\sum(X - \bar{X})^2$ = Sum of Total number of observations deviation from mean in the sample.

Coefficient of Variation (CV)

The coefficient of variation (CV) is a statistical measure of the dispersion of data points in a data series around the mean. The coefficient of variation expresses the ratio of the standard deviation to the mean and is a useful statistic for comparing the degree of variation from one data set to another, even when the means differ significantly. . Less CV is the more uniformity and consistency and vice versa. Only standard deviation is not appropriate to compare two pairs of variables but also CV is capable to compare two variables independently in terms of their variability. It is calculated as under:

$$C.V = \frac{\sigma}{\bar{X}} * 100$$

Correlation Coefficient (r)

A correlation coefficient is a statistical measure that ranges from -1 to 1, indicating both the strength and direction of the relationship between two variables. It quantifies how closely the measurements of the variables align with each other across a dataset. A correlation coefficient of 1 signifies a perfect positive correlation, where the variables move in the same direction, while -1 indicates a perfect negative correlation, where the variables move in opposite directions. A coefficient of 0 implies no linear relationship between the variables. Pearson's correlation coefficient is one of the most commonly used methods for calculating this measure, assessing the degree to which two variables linearly correlate.

Correlation coefficient is defined as the association between the independent Variable and independent variable. Correlation coefficients are used to measure how strong a relationship is between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. Therefore, it is measured by following formula using two variables. It is denoted by small ' r'

$$\text{Correlation Coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Multiple Regressions

A multiple regression analysis is performed to identify the relationship between liquidity and profitability. Liquidity is the independent variable here. Profitability is the dependent variable and can be expressed as:

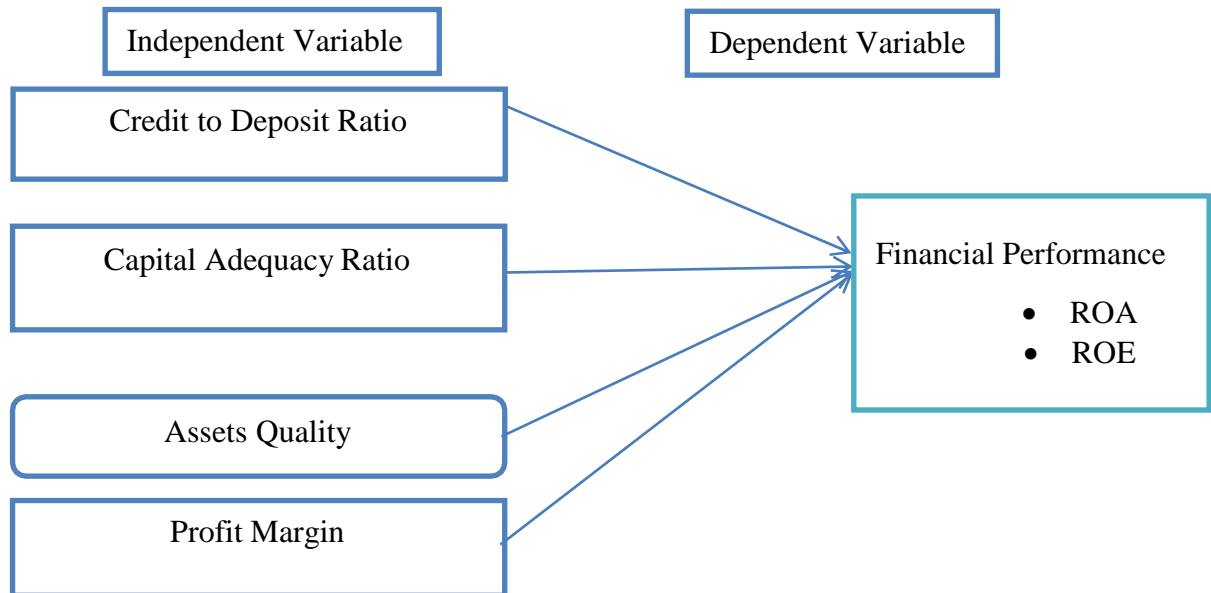
$$\text{ROA} = \beta_0 + \beta_1 \text{LR} + \beta_2 \text{CAR} + \beta_3 \text{AQ} + \beta_4 \text{PR} + e$$

$$\text{ROE} = \beta_0 + \beta_1 \text{LR} + \beta_2 \text{CAR} + \beta_3 \text{AQ} + \beta_4 \text{PR} + e$$

ROA	Return on Assets
ROE	Return on Equity
FP	Financial Performance measured by ROA and ROE
LR	Liquidity Ratio
CAR	capital Adequacy Ratio
AQ	Assets Quality
PR	Profitability Ratio
e	error
B0, B1, B2, B3, B4	Are the Parameter of the independents Variable

3.5 Research Framework and Definition of Variables

Dependent and independent variables to study Impact of Merger on Financial Performance of Commercial Banks in Nepal have been presented in following theoretical framework. The conceptual framework is developed from the theoretical and literature review and presented in the following diagram.



(Source: Adhikari, 2023)

Figure 1 Research Framework

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Data Presentation

In order to measure the impact of merger, secondary data of each bank are collected from the annual reports presented by the bank. The pre-merger and post-merger data are then taken and analyzed to compare the performance of the bank before and after the merger. the average performance of the three premerger quarters (Q-3, Q-2, Q-1) is compared with the average performance of the three post-merger quarters (Q+1, Q+2, Q+3) of the respective banks.

4.1.1 Rastriya Banijya Bank Limited

Table 3

RBBL Metrics Summary

Particulars	Q-3	Q-2	Q-1	Q	Q+1	Q+2	Q+3	Pre- Merger		Post -Merger	
								Mean	SD	Mean	SD
ROE (%)	23.54	31.40	34.21	34.30	20.77	22.50	20.68	29.72	5.5	21.32	1.0
ROA (%)	1.52	1.96	2.24	2.18	2.16	2.29	2.23	1.91	0.4	2.23	0.1
CAR (%)	12.09	11.42	12.34	14.02	13.75	11.73	12.81	11.95	0.5	12.76	1.0
Profit Margin (%)	34.50	39.01	58.23	43.98	38.48	43.63	41.73	43.91	12.60	41.28	2.6
Asset Quality (%)	2.92	3.11	2.90	3.77	3.83	3.40	4.46	2.98	0.12	3.90	0.5
Total Loan / Deposit Ratio (%)	71.79	74.21	65.30	66.84	67.89	69.24	74.08	70.43	4.61	70.40	3.3

Table 3 shows the summary of key metrics of Rastriya Banijya Bank Limited. Average Pre Merger ROE of RBBL was 29.72%, which decreased to 21.32% after the merger. Average Pre Merger ROA of RBBL was 1.91%, which increased to 2.23% after the merger. Average Pre Merger Capital Adequacy Ratio of RBBL was 11.95%, which increased to 12.76% after the merger. Average Pre Merger Profit Margin of RBBL was 43.91%, which decreased to 41.28% after the merger. Average Pre Merger Asset Quality of RBBL was 2.98%, which increased to 3.90% after the merger. Average Pre Merger

Credit to Deposit Ratio of RBBL was 70.43%, which increased to 70.40% after the merger.

On an Average, CAR, Capital Adequacy, and Asset Quality has improved immediately after the merger whereas ROE, Profit margin and CD ratio have deteriorated immediately after the merger.

4.1.2 Prabhu Commercial Bank Limited

Table 4

PRVU Metrics Summary

Particulars	Q-3	Q-2	Q-1	Q	Q+1	Q+2	Q+3	Pre- Merger		Post - Merger	
								Mean	SD	Mean	SD
ROE (%)	9.2	14.0	13.9	11.4	11.1	10.0	10.1	12.4	2.8	10.4	0.6
ROA (%)	0.76	1.18	1.2	1.02	1.03	0.95	0.99	1.05	0.2	0.99	0
CAR (%)	13.0	13.1	12.6	12.8	11.6	12.9	12.5	12.9	0.3	12.3	0.7
Profit Margin	31.0	32.7	28.1	27.5	24.0	22.9	31.5	30.6	2.3	26.1	4.7
Asset Quality	1.21	1.2	1.68	1.98	3.48	4.16	3.97	1.36	0.27	3.87	0.4
Total Loan to Deposit Ratio (%)	82.1	78.3	84.3	88.3	84.8	80.3	84.8	81.5	3.02	83.3	2.6

Table 4 shows the summary of key metrics of Prabhu Bank Limited. Average Pre Merger ROE of PRVU was 12.40%, which decreased to 10.43% after the merger. Average Pre Merger ROA of PRVU was 1.05%, which decreased to 0.99% after the merger. Average Pre Merger Capital Adequacy Ratio of PRVU was 12.97%, which decreased to 12.39% after the merger. Average Pre Merger Profit Margin of PRVU was 30.66%, which decreased to 26.19% after the merger. Average Pre Merger Asset Quality of PRVU was

1.36%, which increased to 3.87% after the merger. Average Pre Merger Credit to Deposit Ratio of PRVU was 80.59%, which increased to 83.36% after the merger.

On an Average, Asset Quality has improved immediately after the merger whereas ROE, CAR, Capital Adequacy Ratio, Profit margin and CD ratio have deteriorated immediately after the merger.

4.1.3 Nabil Bank Limited

Table 5

NABIL Metrics Summary

Particulars	Q-3	Q-2	Q-1	Q	Q+1	Q+2	Q+3	Pre -Merger		Post- Merger	
								Mean	SD	Mean	SD
ROE (%)	14.83	14.46	12.44	13.13	12.97	13.56	13.51	13.91	1.3	13.35	0.3
ROA (%)	1.66	1.63	1.42	1.54	1.56	1.65	1.67	1.57	0.1	1.63	0.1
CAR (%)	13.58	13.58	13.78	13.44	13.11	12.43	12.34	13.65	0.1	12.63	0.4
Profit Margin (%)	37.8	38.7	39.2	41.7	34.9	35.9	11.6	38.56	0.69	27.49	13.8
Asset Quality (%)	1.13	1.11	1.14	1.54	2.33	2.98	3.87	1.13	0.02	3.06	0.8
Total Loan to Deposit Ratio (%)	88.64	89.49	91.47	89.79	90.37	88.91	87.68	89.87	1.45	88.99	1.3

Table 5 shows the summary of key metrics of Nabil Bank Limited. Average Pre Merger ROE of NABIL was 13.91%, which decreased to 13.35% after the merger. Average Pre Merger ROA of NABIL was 1.57%, which increased to 1.63% after the merger. Average Pre Merger Capital Adequacy Ratio of NABIL was 13.65%, which decreased to 12.63% after the merger. Average Pre Merger Profit Margin of NABIL was 38.56%, which decreased to 27.49% after the merger. Average Pre Merger Asset Quality of NABIL was 1.13%, which increased to 3.06% after the merger. Average Pre Merger Credit to Deposit Ratio of NABIL was 89.87%, which decreased to 88.99% after the merger. merger.

On an Average, CAR, and Asset Quality has improved immediately after the merger whereas ROE, EPS, Capital Adequacy Ratio, Profit margin and CD ratio have deteriorated immediately after the merger.

4.1.4 Return on Equity

Table 6

Return on Equity (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	23.54	31.40	34.21	29.72	5.5	34.30	20.77	22.50	20.68	21.32	1.0
PRVU	9.20	14.06	13.95	12.40	2.8	11.47	11.12	10.03	10.13	10.43	0.6
NABIL	14.83	14.46	12.44	13.91	1.3	13.13	12.97	13.56	13.51	13.35	0.3
Mean	15.86	19.97	20.20			19.63	14.95	15.36	14.77		
SD	7.22	9.90	12.16			12.73	5.12	6.42	5.39		

Table 6 provides details of Return on equity of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean ROE of RBBL, NABIL and PRVU is more than the post-merger average ROE. The standard deviation of the post-merger ROE is less than the standard deviation of pre-Merger ROE indicating less deviation in ROE after the merger.

We can also observe the increasing average ROE in the previous three quarters (Q-3, Q-2 & Q-1) before the merger and a decline in the average ROE after the merger. Additionally, the average ROE in the quarters after the merger is less than that before the merger and BFIs have not been able to reach to the previous standards of performance. Similarly, the deviation from the average mean has decreased in the quarters following the merger compared to the quarters before the merger.

4.1.5 Return on Assets

Table 7

Return on Assets (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	1.52	1.96	2.24	1.91	0.4	2.23	0.1	2.18	2.16	1.47	1.2
PRVU	0.76	1.18	1.20	1.05	0.2	0.99	0.04	1.02	1.03	0.70	0.6
NABIL	1.66	1.63	1.42	1.57	0.1	1.63	0.06	1.54	1.56	1.05	0.9
Mean	1.31	1.59	1.62			1.61	0.05	1.58	1.58		
SD	0.48	0.39	0.55			0.62	0.01	0.58	0.57		

Table 7 provides details of Return on assets of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean CAR of RBBL and NABIL is more than the post-merger average CAR, whereas, Pre-Merger mean CAR of PRVU is less than the post-merger average CAR. The standard deviation of the post-merger CAR is more than the standard deviation of pre-Merger CAR indicating higher deviation in CAR after the merger.

We can also observe the increasing average CAR in the previous three quarters (Q-3, Q-2 & Q-1) before the merger and a decline in the average CAR in Q+1 after the merger. Average CAR in the periods Q+2 & Q+3 are similar and higher than Q+1. Additionally, the average CAR in the quarters after the merger is less than that before the merger (Q-1) and BFIs have not been able to reach to the previous standards of performance. Similarly, the deviation from the average mean has similar patterns in the quarters following the merger compared to the quarters before the merger.

4.1.6 Capital Adequacy

Table 8

Capital Adequacy (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	12.09	11.42	12.34	11.95	0.5	14.02	13.75	11.73	12.81	12.76	1.0
PRVU	13.08	13.16	12.67	12.97	0.3	12.84	11.63	12.95	12.58	12.39	0.7
NABIL	13.58	13.58	13.78	13.65	0.1	13.44	13.11	12.43	12.34	12.63	0.4
Mean	12.92	12.72	12.93			13.43	12.83	12.37	12.58		
SD	0.76	1.15	0.75			0.59	1.09	0.61	0.24		

Table 8 provides details of Capital Adequacy Ratio of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean CAR of PRVU and NABIL is more than the post-merger average CAR, whereas, Pre-Merger mean CAR of RBBL is less than the post-merger average EPS. The standard deviation of the post-merger CAR is more than the standard deviation of pre-Merger CAR for all the sample banks indicating higher deviation in CAR after the merger.

We can also observe similar average capital adequacy ratios in the immediate quarters preceding the merger i.e. Q-3, Q-2, Q-1 and the quarters after the merger i.e. Q+1, Q+2 & Q+3. These ratios have remained around 12% all the times. Similarly, the deviation from the average mean do not provide any conclusive results related to the dispersion of CAR in the Pre and Post-Merger period

4.1.7 Profit Margin

Table 9

Profit Margin (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	34.50	39.01	58.23	43.91	0.13	43.98	38.48	43.63	41.73	41.28	0.03
PRVU	31.09	32.72	28.19	30.66	0.02	27.53	24.01	22.98	31.58	26.19	0.05
NABIL	37.84	38.65	39.20	38.56	0.01	41.66	34.94	35.91	11.61	27.49	0.14
Mean	34.47	36.80	41.87			37.72	32.48	34.18	28.31		
SD	3.38	3.53	15.20			8.91	7.54	10.43	15.33		

Table 9 provides details of Profit Margin of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean Profit Margin is more than the post-merger average Profit Margin for all the sample banks i.e PRVU, NABIL & RBBL. The standard deviation of the post-merger Profit Margin is more than the standard deviation of pre-Merger Profit Margin for NABIL and PRVU indicating higher deviation in Profit Margin after the merger. However, standard deviation of the post-merger Profit Margin is less than the standard deviation of pre-Merger Profit Margin for RBBL indicating lower deviation in Profit Margin after the merger.

We can also observe the increasing average Profit Margin in the previous three quarters (Q-3, Q-2 & Q-1) before the merger and a decline in the average Profit Margin in all three consecutive quarters after the merger i.e. Q+1, Q+2 & Q+3 after the merger. Similarly, the deviation from the average mean has increased in the quarters following the merger compared to the quarters before the merger.

4.1.8 Asset Quality

Table 10

Asset Quality (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	2.92	3.11	2.90	2.98	0.12	3.77	3.83	3.40	4.46	3.90	0.53
PRVU	1.21	1.20	1.68	1.36	0.27	1.98	3.48	4.16	3.97	3.87	0.35
NABIL	1.13	1.11	1.14	1.13	0.02	1.54	2.33	2.98	3.87	3.06	0.77
Mean	1.75	1.81	1.91			2.43	3.21	3.51	4.10		
SD	1.01	1.13	0.90			1.18	0.78	0.60	0.32		

Table 10 provides details of Asset Quality of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean Asset Quality is less than the post-merger average Asset Quality for all the sample banks i.e PRVU, NABIL & RBBL. The standard deviation of the post-merger Asset Quality is more than the standard deviation of pre-Merger Asset Quality for all the sample banks indicating higher deviation in Asset Quality after the merger.

We can also observe the increasing average Asset Quality in the previous three quarters (Q-3, Q-2 & Q-1) before the merger which further increases in all three consecutive quarters after the merger i.e. Q+1, Q+2 & Q+3 after the merger. Similarly, the deviation from the average mean has decreased in the quarters following the merger compared to the quarters before the merger.

4.1.9 CD Ratio

Table 11

CD Ratio (%)

Banks	Q-3	Q-2	Q-1	Pre-Merger		Q	Q+1	Q+2	Q+3	Post-Merger	
				Mean	SD					Mean	SD
RBBL	71.79	74.21	65.30	70.43	4.61	66.84	67.89	69.24	74.08	70.40	3.3
PRVU	82.11	78.35	84.32	81.59	3.02	88.30	84.80	80.39	84.88	83.36	2.6
NABIL	88.64	89.49	91.47	89.87	1.45	89.79	90.37	88.91	87.68	88.99	1.3
Mean	80.85	80.68	80.36			81.64	81.02	79.51	82.21		
SD	8.50	7.90	13.53			12.84	11.71	9.86	7.18		

Table 11 provides details of CD Ratio of the sample banks i.e. Rastriya Banijya Bank Limited, Prabhu Bank Limited and Nabil Bank Limited of the immediate three quarters before and after the merger. Pre-Merger mean CD Ratio is similar the post-merger average CD Ratio for RBBL. Pre-Merger average CD Ratio is less than the post-merger average CD Ratio for PRVU, whereas, Pre-Merger mean CD Ratio is less than the post-merger average CD Ratio for NABIL. The standard deviation of the post-merger CD Ratio is less than the standard deviation of pre-Merger CD Ratio for all the sample banks indicating lower deviation in CD Ratio after the merger.

We can also observe fairly similar average CD Ratio in the immediate quarters preceding the merger i.e. Q-3, Q-2, Q-1. The Average CD ratio has fallen below 80% in Q+2. Similarly, the deviation from the average mean has decreased in the quarters following the merger compared to the quarters before the merger.

4.2 Data Analysis

4.2.1 Correlation Analysis

Table 12

Correlation Analysis of Pre -Post Merger on Financial Performance

Pair	Correlation		
	Coefficient	Significance	
	ROE	0.908	0.001
	ROA	0.64	0.063
Pre-Merger-	Post Capital Adequacy	0.038	0.923
Merger	Profit Margin	0.378	0.316
	Asset Quality	0.377	0.317
	CD Ratio	0.881	0.002

Table 12 provides the summary of paired Correlation analysis (Pearson's Correlation) carried out in the average Pre-Merger and Post-Merger variables of the sample banks. The table provides the details of the correlation coefficient as well as the significance of the correlation coefficient.

According to the table, the correlation between pre-merger and post-merger ROE is positive and high and significant as the correlation coefficient is 0.908 with a significance value of 0.001 which is lower than 0.05. The correlation between pre-merger and post-

merger CAR is positive and relatively high but insignificant as the correlation coefficient is 0.64 with a significance value of 0.063 which is higher than 0.05. The correlation between pre-merger and post-merger Capital Adequacy Ratio is positive but relatively low and insignificant as the correlation coefficient is 0.038 with a significance value of 0.923 which is higher than 0.05. Similarly, the correlation between pre-merger and post-merger Profit Margin is positive but relatively low and insignificant as the correlation coefficient is 0.378 with a significance value of 0.316 which is higher than 0.05. The correlation between pre-merger and post-merger Asset Quality is positive but relatively low and insignificant as the correlation coefficient is 0.377 with a significance value of 0.317 which is higher than 0.05. The correlation between pre-merger and post-merger CD ratio is positive, high and significant as the correlation coefficient is 0.881 with a significance value of 0.002 which is lower than 0.05.

The pre-merger and post-merger variables have a positive correlation. ROE, CAR, CD ratio have high, significant positive correlation in the pre-merger and post-merger scenarios whereas, Capital Adequacy, Asset Quality and Profit margin have a lower insignificant correlation in the pre-merger and post-merger scenarios.

4.2.2 Hypothesis Testing

Paired Correlation

Table 13

Paired Correlation

Pair	No. of Observations	Paired Differences							t	df	Sig. (2-tailed)
		Mean	SD	95% Confidence Interval			Std. Error				
				Mean	Lower	Upper					
Pre-Merger-ROE (%)	9	3.65	4.88	1.62	-0.10	7.40	2.25	8	0.055		
Pre-Merger-ROA (%)	9	0.44	0.67	0.22	-0.08	0.95	1.94	8	0.089		
Pre-Merger-Capital Adequacy (%)	9	0.26	1.01	0.34	-0.52	1.04	0.78	8	0.458		
Post-Merger-Profit Margin (%)	9	6.06	10.68	3.56	-2.15	14.27	1.70	8	0.127		
Post-Merger-Asset Quality (%)	9	-1.79	0.88	0.29	-2.46	-1.11	-6.11	8	0.000		
Post-Merger-CD ratio	9	-0.28	4.27	1.42	-3.56	3.00	-0.20	8	0.846		

Based on the Table 13, further analysis of the hypothesis testing shall be carried out in the following section of this chapter.

4.2.2.1 Paired Two Sample Test for Mean Performance of ROE

H0: There is no significant difference in the Return on Earnings in the immediate periods before and after the merger.

H1: There is significant difference in the Return on Earnings in the immediate periods before and after the merger.

Table 13 shows that the difference between the average ROE in the immediate quarters before and after the merger was 3.36% and the SD was 4.88%. The t-value for the two-tailed test was 2.25 with the significance value of 0.055. Since the significance value is more than 0.05, we reject the null hypotheses and accept the alternative hypothesis.

There is significant difference in the Return on Earnings in the immediate periods before and after the merger.

4.2.2.2 Paired Two Sample Test for Mean Performance of ROA

H0: There is no significant difference in the Return on Assets in the immediate periods before and after the merger.

H1: There is significant difference in the Return on Assets in the immediate periods before and after the merger.

Table 13 shows that the difference between the average ROA in the immediate quarters before and after the merger was 0.44% and the SD was 0.67%. The t-value for the two-tailed test was 1.94 with the significance value of 0.089. Since the significance value is more than 0.05, we reject the null hypotheses and accept the alternative hypothesis.

There is significant difference in the Return on Assets in the immediate periods before and after the merger.

4.2.2.3 Paired Two Sample Test for Mean Performance of Capital Adequacy

H0: There is no significant difference in the Capital Adequacy Ratio in the immediate periods before and after the merger.

H1: There is significant difference in the Capital Adequacy Ratio in the immediate periods before and after the merger.

Table 13 shows that the difference between the average Capital Adequacy Ratio in the immediate quarters before and after the merger was 0.26% and the SD was 0.26%. The t-value for the two-tailed test was 0.78 with the significance value of 0.458. Since the

significance value is more than 0.05, we reject the null hypotheses and accept the alternative hypothesis.

There is significant difference in the Capital Adequacy Ratio in the immediate periods before and after the merger.

4.2.2.4 Paired Two Sample Test for Mean Performance of Profit Margin

H0: There is no significant difference in the Profit Margin in the immediate periods before and after the merger.

H1: There is significant difference in the Profit Margin in the immediate periods before and after the merger.

Table 13 shows that the difference between the average Profit Margin in the immediate quarters before and after the merger was 6.06% and the SD was 10.68%. The t-value for the two-tailed test was 1.70 with the significance value of 0.127. Since the significance value is more than 0.05, we reject the null hypotheses and accept the alternative hypothesis.

There is significant difference in the Profit Margin in the immediate periods before and after the merger.

4.2.2.5 Paired Two Sample Test for Mean Performance of Asset Quality

H0: There is no significant difference in the Asset Quality in the immediate periods before and after the merger.

H1: There is significant difference in the Asset Quality in the immediate periods before and after the merger.

Table 13 shows that the difference between the average Asset Quality in the immediate quarters before and after the merger was -1.78% and the SD was 0.88%. The t-value for the two-tailed test was -6.11 with the significance value of 0.00. Since the significance value is less than 0.05, we accept the null hypotheses and reject the alternative hypothesis.

There is no significant difference in the Asset Quality in the immediate periods before and after the merger.

4.2.2.6 Paired Two Sample Test for Mean Performance of CD Ratio

H0: There is no significant difference in the CD Ratio in the immediate periods before and after the merger.

H1: There is significant difference in the CD Ratio in the immediate periods before and after the merger.

Table 13 shows that the difference between the average CD Ratio in the immediate quarters before and after the merger was -0.28% and the SD was 4.27%. The t-value for the two-tailed test was -0.20 with the significance value of 0.846. Since the significance value is more than 0.05, we reject the null hypotheses and accept the alternative hypothesis.

There is significant difference in the CD Ratio in the immediate periods before and after the merger.

4.3 Descriptive statistics

The dependent variable, ROA and ROE, has descriptive statistics provided in this table. CD ratio, capital adequacy ratio, assets quality, profitability ratio are the independent factors. The mean, standard deviation, lowest and highest values of the variables, are the descriptive statistics that were used in this research.

Descriptive statistics for all samples

Table 14

Descriptive Statistics					
	Minimum	Maximum	Mean	Std. Deviation	Variance
ROA	1.01	2.92	1.85	0.61	0.37
ROE	6.78	26.88	16.10	5.97	35.62
PM	7.50	43.10	23.09	10.31	106.36
CD	20.72	54.76	30.10	6.64	44.04
AQ	0.00	3.86	0.82	0.95	0.89
CAR	11.08	23.69	15.12	3.38	11.42

Sources: SPSS Output

The table 14 provides descriptive statistics for key financial metrics: Return on Assets (ROA), Return on Equity (ROE), Profit Margin (PM), Credit-to-Deposit ratio (CD), Asset Quality (AQ), and Capital Adequacy Ratio (CAR). ROA ranges from 1.01 to 2.92 with a mean of 1.85 and a standard deviation of 0.61, indicating moderate variation in asset efficiency. ROE varies widely from 6.78 to 26.88, averaging 16.10 with a standard deviation of 5.97, reflecting significant differences in return on equity. PM spans from

7.50 to 43.10, with a mean of 23.09 and a standard deviation of 10.31, showing substantial variability in profitability. CD ranges from 20.72 to 54.76, averaging 30.10 with a standard deviation of 6.64, indicating diverse lending practices. AQ varies from 0.00 to 3.86, with a mean of 0.82 and a standard deviation of 0.95, reflecting differing levels of asset quality. CAR ranges from 11.08 to 23.69, with an average of 15.12 and a standard deviation of 3.38, demonstrating moderate variability in capital reserves. These statistics offer insights into the average performance and variability of financial health and stability across the sample.

4.3.1 Correlation Analysis

Correlation analysis is a statistical method used to evaluate the strength and direction of the relationship between two or more variables. This technique is crucial for understanding how changes in one variable might be associated with changes in another, providing insights into potential connections between them.

Table 15
Correlations

		Correlations					
		ROA	ROE	PM	CD	AQ	CAR
ROA	Pearson Correlation	1.00					
ROE	Pearson Correlation	.847**	1.00				
PM	Pearson Correlation	.814**	.976**	1.00			
CD	Pearson Correlation	-0.10	-0.34	-.370*	1.00		
AQ	Pearson Correlation	-.519**	-.667**	-.593**	0.32	1.00	
CAR	Pearson Correlation	-0.19	-.576**	-.583**	.499**	.479**	1.00

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

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

Sources: SPSS Output

The table 15 reveals various correlations between Return on Assets (ROA) and Return on Equity (ROE) as dependent variables and other financial metrics—Profit Margin (PM), Credit-to-Deposit ratio (CD), Asset Quality (AQ), and Capital Adequacy Ratio (CAR)—as independent variables. ROA shows a strong positive correlation with ROE (0.847) and

PM (0.814), indicating that higher asset efficiency is associated with better returns on equity and greater profitability. Conversely, ROA has a significant negative correlation with AQ (-0.519), suggesting that lower asset quality is linked to decreased asset efficiency. ROE exhibits a very strong positive correlation with PM (0.976) and significant negative correlations with CD (-0.34) and AQ (-0.667), implying that higher equity returns are associated with better profitability but are negatively impacted by higher credit-to-deposit ratios and poorer asset quality. The correlation between ROE and CAR (-0.576) suggests that higher capital adequacy may be linked to lower returns on equity.

4.3.2 Multiple Regression Analysis

Multiple regression analysis is a statistical technique used to examine the relationship between one dependent variable and two or more independent variables. This method helps to understand how the dependent variable changes when one or more of the independent variables vary, while controlling for the effects of the other independent variables. Financial performance such as Return of Assets and Return on Equity are dependent variable while Credit to Deposit Ratio (CD), capital adequacy ratio (CAR), assets quality (AQ), profit margin (PM) are independent variables

Model Summary

The model summary provides an overview of the overall fit and performance of the regression model. It summarizes key statistics that help assess how well the model explains the variability in the dependent variable.

Impact of CAR, AQ, PM, CD on ROA

Table 16

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901 ^a	0.81	0.78	0.28

a. Predictors: (Constant), CAR, AQ, CD, PM

Sources: SPSS Output

The Model Summary table 16 reveals that the regression model, which assesses the impact of Capital Adequacy Ratio (CAR), Asset Quality (AQ), Profit Margin (PM), and Credit-to-Deposit ratio (CD) on Return on Assets (ROA), shows a strong fit with an R value of 0.901, indicating a robust positive relationship between the dependent and

independent variables. The R^2 value of 0.81 means that 81% of the variance in ROA is explained by the model reflecting a substantial explanatory power. The Adjusted R^2 of 0.78 accounts for the number of predictors and still indicates a strong model fit. The Standard Error of the Estimate is 0.28, suggesting that the predictions are relatively accurate. Overall, these metrics demonstrate that the model effectively explains and predicts ROA using CAR, AQ, PM, and CD.

ANOVA Result

Table 17

ANOVA Result

Impact of CD, CAR, AQ, PR

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	8.623	4	2.156	27.021	.000 ^b
Residual	1.995	25	0.080		
Total	10.617	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), CAR, AQ, CD, PM

Sources: SPSS Output

The ANOVA results in Table 17 show that the regression model, which evaluates the impact of Capital Adequacy Ratio (CAR), Asset Quality (AQ), Credit-to-Deposit ratio (CD), and Profit Margin (PM) on Return on Assets (ROA), is statistically significant. The F-statistic of 27.021, with a p-value of 0.000, indicates that the model significantly improves the prediction of ROA compared to a model with no predictors. This low p-value, well below the significance threshold of 0.05, confirms that the independent variables collectively explain a substantial amount of the variance in ROA, thus validating the model's overall significance.

Coefficient analysis of ROA and Variable

Table 18

Coefficient analysis of ROA and Variable

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.884	0.436		-2.028	0.053
	PM	0.059	0.007	1.007	8.447	0.000
	CD	0.010	0.009	0.113	1.118	0.274
	AQ	-0.102	0.071	-0.159	-1.445	0.161
	CAR	0.075	0.021	0.421	3.608	0.001

a. Dependent Variable: ROA

Sources: SPSS Output

Table 18 provides insights into how various financial metrics—Profit Margin (PM), Credit-to-Deposit ratio (CD), Asset Quality (AQ), and Capital Adequacy Ratio (CAR)—affect Return on Assets (ROA). The results show that both PM and CAR have a significant impact on ROA. Specifically, for every one-unit increase in PM, ROA increases by 0.059, and for every one-unit increase in CAR, ROA increases by 0.075. These relationships are statistically significant, meaning they are unlikely to have occurred by chance. In contrast, the Credit-to-Deposit ratio and Asset Quality do not significantly affect ROA, as their effects are not statistically significant (with p-values above 0.05). This means that changes in CD and AQ do not have a meaningful impact on ROA in this model. In summary, PM and CAR are important factors in predicting ROA, while CD and AQ are not.

Model Summary

Table 19

Impact of CAR, AQ, CD, PM on ROE

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.983 ^a	0.966	0.961	1.18350

a. Predictors: (Constant), CAR, AQ, CD, PM

Sources: SPSS output

The data model Summary is shown in Table 19. The coefficient of determination is 0.966 and the multiple correlation coefficients are 0.983, indicating that only 96.6% of the

variance in ROA can be attributed to independent variables and the effects of CAR, AQ, CD, and on ROE.

ANOVA Table

Table 20

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	997.878	4	249.470	178.108	.000 ^b
	Residual	35.017	25	1.401		
	Total	1032.895	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), CAR, AQ, CD, PM

Sources: SPSS Output

There is an ANOVA in Table 20. The results of the ANOVA test indicate that the regression model as a whole is significant, with the significant value being 0.00 lesser than the significance threshold of 0.05.

Coefficient analysis of ROE and Variable

Table 21

Coefficient analysis of ROE and Variable

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.514	1.826		1.924	0.066
	PM	0.525	0.029	0.908	17.923	0.000
	CD	0.041	0.039	0.046	1.070	0.295
	AQ	-0.898	0.295	-0.142	-3.041	0.005
	CAR	-0.003	0.088	-0.002	-0.031	0.976

a. Dependent Variable: ROE

Sources: SPSS Output

Table 21 shows how different financial factors affect Return on Equity (ROE). The results reveal that Profit Margin (PM) has a strong positive impact on ROE, meaning higher PM leads to higher ROE, with a significant coefficient of 0.525 and a p-value of 0.000. On the other hand, Asset Quality (AQ) has a significant negative effect, indicating that as asset quality improves, ROE tends to decrease, with a coefficient of -0.898 and a

p-value of 0.005. The Credit-to-Deposit ratio (CD) and Capital Adequacy Ratio (CAR) do not significantly affect ROE, as their p-values are 0.295 and 0.976, respectively, meaning their impact on ROE is not statistically significant.

4.4 Discussion

The first objective was to identify the financial factors impacted by mergers in Rastriya Banijya Bank Limited (RBBL), Prabhu Bank Limited (PRVU), and Nabil Bank Limited (NABIL). Key performance indicators such as Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Profit Margin (PM), and Asset Quality (AQ) were analyzed.

The second objective was to show the relation of merger and acquisitions with financial performance indicators. The study investigated how mergers affected key financial metrics such as ROE, ROA, CAR, PM, AQ, and the CD ratio in Rastriya Banijya Bank Limited, Prabhu Bank Limited, and Nabil Bank Limited. The results showed that while ROE and the CD ratio remained stable post-merger, other indicators like ROA, CAR, and AQ either deteriorated or showed no significant change. ROE exhibited a strong positive correlation (0.908) between pre- and post-merger values, with a slight decline of 3.65%. This aligns with Shah and Khan (2017), who noted a similar post-merger decline in Pakistani banks due to integration challenges. Meanwhile, the CD ratio showed a strong positive correlation (0.881), indicating liquidity remained stable post-merger, which is consistent with Shrestha and Phuyal (2017), who found that liquidity ratios in Nepalese banks generally do not fluctuate significantly after mergers.

For other financial metrics, the results were less encouraging. ROA showed moderate changes with a positive correlation of 0.64, but these changes were not statistically significant. This finding is in line with Adhikari (2023), who also noted minor improvements in ROA due to enhanced asset utilization after mergers, though profitability did not immediately improve. The Capital Adequacy Ratio (CAR) showed an extremely weak correlation (0.038), indicating that mergers did not significantly strengthen capital adequacy. This contrasts with Kashyap (2022), who reported CAR improvements in Indian banks post-merger, although Shrestha and Phuyal (2017) also observed that CAR improvements in Nepalese banks tend to take longer to materialize.

The study found that asset quality (AQ) significantly deteriorated post-merger, with a notable decline in AQ and an increase in non-performing loans (NPLs). This is consistent with findings by Shah and Dwa (2017) and Bhattarai (2023), who reported similar trends, especially when weaker banks were involved in the mergers. Profit margin (PM) also did not show significant changes, reflecting the higher operational costs and integration challenges typical after mergers, as noted by Ghosh and Dutta (2015). Overall, while the study found stability in ROE and the CD ratio, other metrics like AQ, ROA, and CAR highlight the short-term challenges faced by banks during post-merger integration, with long-term improvements expected as banks optimize operations.

The third objective was to analyze the post-merger impact on the financial performance of the sample banks. The analysis of financial performance across three commercial banks post-merger reveals a complex picture of their financial health. Return on Assets (ROA) showed moderate variability, averaging 1.85%, while Return on Equity (ROE) displayed wider fluctuations, with an average of 16.10%. Profit margins varied significantly, ranging from 7.50% to 43.10%, indicating diverse profitability levels among the banks. The study found strong positive relationships between ROA, ROE, and profit margin, suggesting that as banks become more efficient in using their assets, they tend to generate better returns for shareholders and higher overall profitability. However, asset quality emerged as a critical concern, showing significant negative correlations with both ROA and ROE, implying that poor asset quality can substantially hinder a bank's financial performance.

The regression analysis provided deeper insights into these relationships. For ROA, the model explained 81% of its variance, with profit margin and capital adequacy ratio emerging as significant positive predictors. This means that higher profit margins and stronger capital reserves tend to boost a bank's ability to generate returns from its assets. The impact on ROE was even more pronounced, with the model accounting for 96.6% of its variance. Profit margin showed a strong positive influence on ROE, with every 1% increase in profit margin associated with a 0.525% increase in ROE. Conversely, asset quality had a significant negative effect, where a 1-point increase in the asset quality measure (indicating poorer quality) led to a 0.898% decrease in ROE. Interestingly, the Credit-to-Deposit ratio and Capital Adequacy Ratio did not significantly affect ROE in this model, suggesting that other factors play a more crucial role in determining shareholder returns in the post-merger context. These findings highlight the critical

importance of maintaining high profit margins and good asset quality to ensure strong financial performance following bank mergers, while also indicating that the relationships between various financial metrics can be complex and sometimes counterintuitive in the aftermath of such significant organizational changes. The findings align with recent studies on merger effects in Nepalese banking. Adhikari (2023) observed mixed short-term results post-merger, noting improvements in some metrics like ROA while others remained relatively unchanged. This corresponds with the current study's observations of slight ROA improvements in two banks amidst declining ROE and profit margins. Similarly, Shah and Dwa (2017) found that mergers often fail to yield significant immediate improvements in key profitability metrics, consistent with the observed declines in ROE and profit margins across all studied banks. These parallels with existing literature underscore the challenges of post-merger integration and suggest that while immediate financial benefits may be limited, the potential for long-term improvements remains, and contingent upon effective management and integration strategies

In conclusion, the study found that while mergers pose immediate challenges, particularly in profitability and asset quality, they also present opportunities for improved capital adequacy and financial leverage. The findings suggest that the immediate post-merger period is characterized by integration difficulties and operational adjustments. However, the stability in capital adequacy and improvements in financial leverage indicate potential for long-term benefits. The study emphasizes that the long-term advantages of M&A, such as increased market competitiveness, operational efficiencies, and strategic resource optimization, may become more evident as the merged entities continue to integrate and streamline their operations. This suggests that while immediate impacts may be challenging, the overall strategy of merger and acquisition in the Nepalese banking sector could yield positive results in the longer term.

CHAPTER V

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

This dissertation investigates the impact of mergers and acquisitions (M&A) on the financial performance of selected Nepalese commercial banks, specifically Rastriya Banijya Bank Limited (RBBL), Prabhu Bank Limited (PRVU), and Nabil Bank Limited (NABIL). The study aims to provide insights into the immediate effects of M&A activities on various financial performance indicators.

The general objective of the study is to understand the implications of M&A on the financial health of the selected banks. Specific objectives include identifying factors related to the financial position of the sample banks, examining the relationship between M&A and these financial factors, and analyzing the post-merger impact on financial performance indicators such as Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Profit Margin (PM), and Credit to Deposit (CD) Ratio.

The research employs a comparative analysis of financial performance indicators using quarterly data from three quarters before and after the mergers. The methodology includes statistical tools such as mean, standard deviation, t-test, p-value analysis, correlation, and regression to assess the significance of changes in financial performance. By focusing on financial ratios, the study allows for a robust analysis of the immediate impacts of M&A activities.

The findings reveal a significant decline in profitability indicators post-merger. Key insights include a downward trend in both ROE and Profit Margin, while ROA showed minor improvements in two of the banks. Mixed results were observed for CAR, with

RBBL demonstrating a notable improvement. Additionally, the asset quality deteriorated in PRVU and NABIL, indicating challenges in managing loan portfolios effectively.

The discussion highlights the complexities associated with M&A in the Nepalese banking sector. While long-term benefits of M&A are anticipated, the immediate effects can be detrimental, particularly concerning profitability and asset quality. Although capital adequacy remained stable, the challenges posed by integration and operational efficiencies must be addressed. This research serves as a critical resource for policymakers, investors, and bank management, offering a nuanced understanding of how mergers impact financial performance in the short term. Overall, the results emphasize the need for careful planning and execution of M&A strategies to ensure that potential benefits are realized while mitigating immediate adverse effects.

5.2 Conclusion

The dissertation aimed to investigate the immediate impact of mergers and acquisitions (M&A) on the financial performance of Nepalese commercial banks by analyzing three key institutions: Rastriya Banijya Bank Limited (RBBL), Prabhu Bank Limited (PRVU), and Nabil Bank Limited (NABIL). The study focused on key financial indicators such as Return on Equity (ROE), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Profit Margin, and Credit to Deposit (CD) Ratio, comparing these metrics over three quarters before and after each merger.

The findings reveal mixed outcomes for the banks post-merger. Profitability, as indicated by ROE, generally declined for all three banks, suggesting that mergers initially negatively impacted operational efficiency and profitability. Both RBBL and PRVU experienced a drop in ROE, with the impact being more pronounced for RBBL. This decline in ROE reflects the challenges banks face in integrating operations and achieving the anticipated synergies during the initial post-merger period. NABIL also experienced a decrease in ROE, although the drop was less severe.

In terms of ROA, the results were more varied. RBBL and NABIL showed slight improvements in ROA, suggesting better asset utilization after the merger. However, PRVU experienced a decline in ROA, indicating inefficiencies in managing assets post-merger. These results suggest that the effects of mergers on asset management

capabilities vary across banks.

The Capital Adequacy Ratio (CAR), which measures a bank's financial stability and ability to absorb losses, showed mixed results. RBBL saw a notable improvement in CAR, indicating enhanced financial stability. On the other hand, PRVU and NABIL experienced a decline in CAR, pointing to reduced capital strength post-merger. This raises concerns about the long-term sustainability of these mergers, particularly for banks that saw a drop in their capital adequacy.

Profit Margin, another indicator of profitability, showed a downward trend for all three banks, particularly PRVU and NABIL. This suggests that despite potential long-term benefits, the immediate effect of mergers on cost efficiency and revenue generation was negative. The increased operational costs associated with the integration process likely contributed to this decline.

Finally, asset quality, as measured by the percentage of non-performing loans (NPLs), worsened for both PRVU and NABIL, indicating an increase in credit risk post-merger. RBBL, however, showed a slight improvement in asset quality, suggesting that the merger allowed it to manage its loan portfolio more effectively.

In conclusion, while mergers and acquisitions hold the potential for long-term improvements in financial performance, the immediate impacts on Nepalese commercial banks are generally negative, particularly in terms of profitability and asset quality. The findings highlight the importance of effective integration strategies to manage the challenges that arise in the post-merger period. Policymakers and bank management must be mindful of these short-term impacts when evaluating the success of mergers and planning future consolidation efforts. Further research could benefit from examining the long-term effects of these mergers to provide a more comprehensive understanding of their impact on bank performance.

5.3 Implications

The study of the immediate impact of mergers and acquisitions (M&A) on the financial performance of Nepalese commercial banks provides several significant implications for various stakeholders, including policymakers, bank management, investors, and researchers. These implications offer insights into how M&A activities influence the banking sector and suggest strategies for maximizing the benefits while mitigating the challenges associated with such financial maneuvers.

- **Implications for Policymakers**

Policymakers play a crucial role in shaping the environment in which mergers and acquisitions occur. The study highlights the necessity for a robust regulatory framework that ensures smooth transitions during M&A activities. This framework should include clear guidelines that minimize operational disruptions and facilitate effective integration practices. In light of the observed increase in non-performing loans (NPLs) post-merger, it is essential for regulators to focus on enhancing risk management protocols and maintaining asset quality. By implementing stringent yet supportive regulations, policymakers can help stabilize the financial sector and encourage healthier merger practices. Furthermore, there is an opportunity for policymakers to incentivize mergers and acquisitions that promote operational efficiencies and competitiveness. These incentives could take the form of tax breaks, reduced regulatory fees, or technical support to banks undergoing mergers. By fostering an environment that encourages strategic mergers, policymakers can contribute to a more robust banking sector that supports economic growth and financial stability.

- **Implications for Bank Management**

Bank management teams must carefully navigate the complexities of mergers and acquisitions to maximize their potential benefits. The study emphasizes the importance of strategic planning that addresses integration challenges, such as increased operational costs and strategic realignment issues. Developing comprehensive integration plans that consider human resource management, technology integration, and process optimization can help banks mitigate these challenges effectively. Additionally, the increase in NPLs following mergers signals a pressing need for improved risk management strategies. Banks should focus on strengthening their credit assessment and monitoring processes to maintain asset quality and minimize financial risks. By investing in these areas, banks can

enhance their resilience to financial shocks and improve their overall performance. Moreover, while the study notes a decline in profitability indicators such as Return on Equity (ROE) and Earnings Per Share (EPS) in the short term, there are opportunities for long-term efficiency gains. Bank management should prioritize investments in technology and process improvements that can lead to cost reductions and increased profitability over time. By focusing on these areas, banks can better position themselves to capitalize on the potential benefits of mergers and acquisitions.

- **Implications for Investors**

For investors, the study provides valuable insights into the immediate financial impacts of mergers and acquisitions in the Nepalese banking sector. Investors should be aware that while M&As may present short-term challenges, such as a decline in profitability and an increase in NPLs, they also offer opportunities for long-term gains as banks stabilize and optimize post-merger operations. This understanding can inform investment decisions and risk assessments, allowing investors to make more strategic choices regarding their portfolios. The insights from this study highlight the importance of considering both the immediate financial impacts and the potential long-term benefits of M&As when evaluating investment opportunities in the banking sector. By adopting a comprehensive approach to risk assessment and investment planning, investors can better navigate the complexities of the banking industry and enhance their investment outcomes.

- **Implications for Future Research**

This study opens several avenues for future research in the field of mergers and acquisitions within the banking sector. One key area for future exploration is the long-term impact of M&As on financial performance. While this study focuses on the immediate effects, understanding the long-term consequences can provide a more comprehensive view of M&A activities and their implications for banks. Future research could also broaden its scope to include a wider range of financial institutions and variables, offering a more detailed analysis of the factors influencing M&A success or failure. Additionally, conducting comparative studies between Nepalese banks and those in other countries could yield valuable insights into the effectiveness of different M&A strategies and regulatory environments. By examining the nuances of M&A activities in diverse contexts, researchers can contribute to a deeper understanding of the dynamics at play and

inform the development of strategies that enhance the stability and efficiency of the banking sector.

In conclusion, while mergers and acquisitions present immediate challenges for Nepalese commercial banks, they also offer significant opportunities for growth and improved competitiveness. The findings of this study can guide policymakers, bank management, and investors in making informed decisions that harness the potential benefits of M&A activities while mitigating associated risks. By focusing on strategic planning, risk management, and regulatory support, stakeholders can enhance the overall performance and resilience of the banking sector. Future research should continue to explore this dynamic field, contributing to the development of strategies that support the sustainable growth and stability of the banking industry.

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ABSTRACT This thesis examines the immediate

effects of mergers and acquisitions (M&A) on the financial **performance of** Nepalese commercial **banks**