

IMPACT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE IN NEPALESE BANKING

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by

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled “**Impact of Merger and Acquisition on Financial Performance in Nepalese Banking**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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September, 2024

REPORT OF RESEARCH COMMITTEE

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ABBREVIATIONS

EMR	: Expressed Market Return
EPS	: Earning Per Share
F/Y	: Fiscal Year
GDP	: Gross Domestic Product
MBVR	: Market Book Value Ratio
MD	: Medium
MPPS	: Market Price Per Share
N	: Number of Observation
NEPSE	: Nepal Stock Exchange Limited
NICA	: NMB Bank Limited
NPV	: Net Percent Value
NRB	: Nepal Rastra Bank
P/E Ratio	: Price Earnings Ratio
R	: Expected Return
ROE	: Return on Equity
S.D.	: Standard Deviation
SEA	: Security Exchange Act
SEBON	: Security Board of Nepal
SEC	: Security Exchange Centre
SMC	: Security Market Centre

ABSTRACT

The research explores how mergers and acquisitions (M&A) affect the financial performance of banks in Nepal, with a specific focus on Global IME Bank Ltd and NMB Bank. M&A activities are a recent development in Nepal, aimed at enhancing the efficiency of the banking sector and rebuilding public trust. This research aims to evaluate the effects of M&A on various financial metrics, including return on assets, return on equity, earnings per share, and market value per share.

By analyzing secondary data from the annual reports of the two banks, the study compares pre-merger and post-merger financial performance over a period of eight years. Key findings suggest that while M&A activities have led to a more stable and efficient banking environment, the financial performance improvements are mixed. Global IME Bank showed a modest reduction in earnings per share variability post-merger, whereas NMB Bank experienced increased variability and a moderate decrease in mean earnings per share. Both banks witnessed a decrease in return on equity post-merger, indicating a potential area for strategic focus.

This research contributes to the understanding of M&A impacts in the Nepali banking sector, providing valuable insights for policymakers, investors, and banking professionals. The findings underscore the importance of strategic planning and effective integration processes to maximize the benefits of M&A activities in developing countries like Nepal.

CHAPTER -1

INTRODUCTION

1.1 Background of the Study

Banks and financial institutions (BFIs) change their leading decisions in response to changes in the structure of the banking market. One of the issues arising in this context is bank has been a wide spread phenomenon all over the world. Specially, in developed and developing countries the number of merger deals in significant. But in case of Nepal merger and acquisition of financial institutions is comparatively new phenomenon. Mergers can alter market structures, which in turn can significantly affect bank lending practices. In Nepal, the Nepal Rastra Bank has introduced bank mergers as a regulatory measure to enhance the banking sector's ability to mediate between savers and borrowers and to rebuild public trust. Globally, mergers often aim to achieve similar goals, primarily focusing on increasing efficiency and reducing costs (Shrestha, 2009).

Merger and acquisition is an aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector. The benefits of merger and acquisition are manifold. Meager and acquisition can generate cost efficiency through economies of scale, enhance revenue through gain in market share, generate tax gains and reduce cost of capital.

The terms "mergers" and "acquisitions" are often used interchangeably, but they have distinct meanings. An acquisition occurs when one company takes over another, becoming the new owner. Legally, the acquired company ceases to exist independently; its operations and assets are absorbed by the acquiring company, and its stock is no longer traded, while the acquiring company's stock continues to be traded (Gaughan, 2011).

In contrast, a merger involves two companies of similar size combining to form a new, single entity. This type of transaction is known as a "merger of equals." Both companies surrender their stocks, and new shares of the combined entity are issued. Mergers can also occur when both companies' CEOs agree that joining forces is beneficial, regardless of whether the deal is friendly or not. Unfriendly acquisitions, where the target company does not wish to be acquired, are always categorized as

acquisitions. The classification of a deal as a merger or acquisition depends on the nature of the transaction and how it is communicated to the target company's board, employees, and shareholders. For example, Nestlé has recently engaged in several acquisitions (Straub, 2007).

In acquisitions, payment can be made with cash, stock, or a combination of both. In smaller transactions, a company might acquire all the assets of another company for cash, leaving the acquired company with cash (and possibly debt) and typically leading to its liquidation or reorientation. Additionally, a "reverse merger" allows a private company to become publicly listed quickly. In this scenario, a private company with strong growth prospects acquires a publicly traded shell company with minimal assets and operations. The private company then merges with the shell company, creating a new public corporation with tradable shares. Companies should be aware of the issues and challenges associated with both mergers and acquisitions. Why is there a need for merger, what is the scope of merger in Nepalese BFI, what are the motives behind merger, whether practice of merger will be successful or not in developing country like ours is the main concern of Nepalese academician and researcher. The aggressive encouragements for merger and accusation in Nepal had led to the question of what drives the company towards merger, what are the factors critical in merger and what are its potential impact to the banking sectors. Thus, it is the interest of this study to analyze the merger and accusation of NMB Bank. This study is an effort to analyze different factors critical in merger of NMB Bank Ltd.

Creating an efficient banking system is an important objective of banking regulating agencies. So, central bank as a regulator should always works for maintaining perfection in the banking industry. For the purpose, central bank formulates and implements various financial tools/policies to check-out the imperfection. The degree of competition in banking industry determines the effectiveness of policy measures. In this connection, detecting the degree to which the banking industry is competitive is a crucial issue for regulating agencies like Nepal Rastra Bank. The current situation highlights a lack of foresight among policymakers. The frequent implementation of short-term market controls, such as those affecting interest rates, cash reserve ratios, spread rates, and credit flow, reflects poorly defined policies. For instance, the Nepal Rastra Bank (NRB) unexpectedly quadrupled the required paid-up capital for banks through the 2072/2073 monetary policy without fully considering the potential impact on the stock market. While the policy itself was not necessarily flawed, policymakers

did not prevent banks from issuing additional shares to meet the new capital requirements.

As a result, instead of focusing on substantial mergers and acquisitions, the stock market became saturated with bank shares. Consequently, stocks that were previously valued at Rs 3,000 have now dropped to below Rs 600. This situation underscores the importance of thorough research and careful consideration before implementing policies, as failure to do so can negatively affect both the financial industry and the broader economy.

With NRB preparing to announce the monetary policy for 2075/76 and Governor Chiranjibi Nepal encouraging banks to seek suitable merger partners, it is essential to evaluate both the benefits and drawbacks of such mergers. There has been considerable discussion about reducing the number of commercial banks in Nepal, which currently stands at 27. Some economists and policymakers advocate for a reduction to no more than 15 banks. However, these arguments lack substantial research backing.

Understanding the benefits of mergers requires a clear grasp of the existing challenges in the Nepali financial market. One major issue is the high number of urban-based financial institutions with inadequate paid-up capital. As of 2075, there were 151 such institutions, a number that seems excessive given the size of the economy. This results in unhealthy competition for deposits and loans, limited capacity to fund large projects, increased sensitivity to interest rate fluctuations, and a rise in non-performing loans.

Additionally, smaller banks are highly sensitive to changes in interest rates due to their lower capital bases. Even minor fluctuations in interest rates can significantly impact these banks, making it difficult for them to lower rates without sacrificing profitability. This, in turn, affects their performance in the stock market and the overall economy.

Reverse mergers, another aspect of mergers and acquisitions, allow private companies to become publicly listed quickly. In a reverse merger, a private company with promising prospects acquires a publicly traded shell company that lacks significant operations or assets. The private company then merges with the shell company, creating a new public entity with tradable shares.

Companies should be familiar with issues and challenges before and after merger. Why is there a need for merger, what is the scope of merger in Nepalese BFIs, what are the motives behind merger, whether practice of merger will be successful or not in developing country like ours is the main concern of Nepalese academician and researcher. The aggressive encouragements for merger and acquisition in Nepal had led to the question of what drives the company towards merger, what are the factors critical in merger and what are its potential impact to the banking sectors. Thus, it is the interest of this study impact of merger and acquisition on financial performance of NMB Bank.

1.1.1 An Introduction of Selected Company

NMB Bank Limited

Established in May 2008, NMB Bank is a Class "A" financial institution formed through the merger of four entities: Bhrikuti Development Bank, Pathibhara Bikas Bank, Prudential Finance Company, and Clean Energy Development. In September 2016, the bank entered into a joint venture with the Dutch Development Finance Company (FMO), which became its largest shareholder.

NMB Bank has been recognized for its leadership and innovation in the Nepali financial sector. It was named "Bank of the Year in Nepal" by The Banker, a Financial Times publication, for both 2017 and 2018, thanks to its adoption of advanced digital technologies. Additionally, the bank received the "SAARC Anniversary Award for Corporate Governance 2018" and a "Certificate of Merit" at the South Asian Federation of Accounts (SAFA) Awards for its Best Presented Annual Report. Notably, NMB is the only bank in Nepal to hold ISO/IEC 27001:2013 certification for information security.

In 2019, NMB Bank expanded its reach by merging with Om Development Bank Limited (ODBL), one of the country's largest development banks, which had a significant presence in Gandaki Province. This merger made NMB the bank with the most extensive branch network in the province. The bank has also agreed to acquire Kanchan Development Bank Limited (KADBL), a regional development bank located in the Far West of Nepal.

Global IME Bank Limited

Global IME Bank Limited was founded in 2007 as a Class 'A' commercial bank in Nepal, offering a comprehensive range of banking services. At its inception, it had the largest capital base among Nepali banks, with a paid-up capital of NPR 1 billion. This capital has since grown to NPR 4.14 billion. The bank's shares are publicly traded on the Nepal Stock Exchange as a Class 'A' company.

In line with the government's liberalized economic policies, many commercial banks, including Global IME, have established their head offices in the Kathmandu Valley. The bank maintains correspondent relationships with 74 international banks, facilitating trade, remittances, and other cross-border transactions. Through these partnerships, Global IME can handle transactions in major global currencies. The bank also operates extension offices in India and the Middle East to support remittance services for Nepali workers abroad, with plans to expand these services to South Korea.

Currently, Global IME Bank operates 94 branches and 6 extension counters across Nepal, all of which offer full-service banking. Additionally, the bank manages 103 ATMs nationwide.

1.2 Problem Statement

Amid the current challenges facing the Nepalese banking sector, the Nepal Rastra Bank (NRB) has introduced a new merger bylaw, positioning it as a crucial solution to the sector's pressing issues. This bylaw aims to address and rectify the weaknesses and problems within the financial sector. Many experts and analysts agree that the Nepalese financial market is overly saturated with financial institutions, given its relatively small size. If unaddressed, this overcrowding could exacerbate existing problems.

Historically, NRB's liberal licensing policy led to a significant increase in the number of banking and financial institutions (BFIs). This surge has contributed to overcrowding, which is now negatively impacting the sector. The new merger bylaw represents an attempt by NRB to reverse the effects of its previous liberal licensing policy by consolidating and strengthening the sector.

The rapid expansion of BFIs has resulted in regulatory challenges, including the proliferation of banking malpractices, unfair competition, and difficulties for NRB in effectively managing and controlling the institutions. Given these issues, this thesis aims to assess the effectiveness of the NRB's merger bylaw and determine whether it can address and resolve the problems plaguing the Nepalese financial sector.

Additionally, Nepal's financial institutions are facing issues such as low turnover, high lending interest rates, wide interest rate spreads, inefficient management, and inadequate project financing institutions. The share market, capital merchants, and finance sectors have also suffered from weak supervision and poor corporate governance. There is a need for a thorough evaluation of the impact of the merger bylaw on these sectors to understand its effectiveness in addressing these challenges.

This study addresses the following issues based on the identified problems:

- i. What are the current situation on merger and acquisition on its effect on financial performance (return on assets, total non-performing loan, dividend per share, dividend payout ratio, dividend yield and P/E ratio)?
- ii. What are the relationships between pre and post merger on their performance of the selected commercial banks?
- iii. What is the impact of merger and acquisition on financial performance of the selected commercial banks?

1.3 Objectives of study

The objective of this study is to evaluate the financial performance of selected commercial banks before and after mergers and acquisitions, using the CAMEL criteria. Specifically, the study aims to:

- i. To analyze the impact of mergers and acquisitions on the financial performance of selected commercial banks.
- ii. To identify and assess the relationship between mergers and acquisitions and the financial performance of these banks, both prior to and following the mergers.
- iii. To evaluate the effect of mergers and acquisitions on the financial performance of the selected commercial banks.

1.4 Rationale of the Study

This study highlights key factors in the mergers and acquisitions of Nepalese financial institutions. Its findings are intended to address the interests of students, experts,

academicians, and investors regarding the critical elements involved in the merging process of financial institutions in Nepal. Additionally, financial institutions that have already completed or are planning future mergers will benefit from this research, as it may provide valuable insights and serve as a reference for effective management practices.

1.5 Limitation of the Study

The main limitations of this study are as follows:

- i. The research focuses exclusively on NMB Bank Limited and Global IME Bank.
- ii. The study relies solely on secondary data derived from the annual financial reports of the selected banks.
- iii. The analysis covers a period of eight years, from 2015/16 to 2022/23.
- iv. The study employs a limited range of financial and statistical tools for its analysis.

CHAPTER-2

LITERATURE REVIEW

This chapter reviews the relevant conceptualizations as they affect the variables of the study. Various empirical studies in line with the dependent as well as the independent variables are also reviewed and a theoretical framework developed for the study. A literature review is a survey of scholarly sources on a specific topic. It provides an overview of current knowledge, allowing the identify relevant theories, empirical review and gaps in the existing research.

2.1 Theoretical Review

2.1.1 Concept of Merger & Acquisition

Mergers and acquisitions (M&As) provide organizations with opportunities for enhancing market share, achieving technological advancements, and realizing economies of scope through vertical integration. These strategic actions can also offer employees various benefits, including skill development, expanded market knowledge, and career growth. However, despite these potential advantages, M&As often face significant challenges that can lead to value erosion. One major issue is cultural conflict between the merging entities, which can hinder the process of "acculturation" the integration of differing organizational cultures into a unified whole. Employees may resist these integration efforts, resulting in what is commonly referred to as "culture clash." This resistance can lead to lower employee commitment, reduced cooperation, increased turnover, and a decline in operational performance (Lubatkin, Calori & Veiga, 1997).

Historically, mergers and acquisitions have been a common corporate strategy aimed at expanding organizational capabilities and improving competitive positioning, a practice that has been prevalent since at least the 1990s (Gaughan, 1999). A merger typically involves the combination of two or more companies into a single new entity, while an acquisition involves one company purchasing another's assets and liabilities, which may result in the target company becoming a subsidiary of the acquiring firm (Bertrand, 2004). In the banking sector, a merger consolidates multiple banks into a new single entity with unified control, while an acquisition involves the acquiring bank taking over the target bank's assets and operations (Coffey, Garrow & Holbeche, 2002).

There are various reasons for pursuing mergers and acquisitions. These include achieving economies of scale, gaining access to new markets, acquiring new technologies, eliminating competition, and obtaining valuable intellectual property and talent (Coffey, Garrow & Holbeche, 2002; David, 1999). Mergers can be categorized as conglomerate, diversification, horizontal, or vertical, each serving distinct strategic purposes depending on the nature of the firms involved (Symes & Luescher, 2004). For instance, horizontal mergers, common in sectors like banking, involve companies within the same industry consolidating their operations to enhance market position (Cartwright & Cooper, 1997).

However, M&As also carry risks, such as the potential creation of monopolies and market inefficiencies. These risks can lead to market failure and decreased economic welfare if mergers create substantial barriers to entry that restrict competition (Dingba, 2009). Despite the anticipated benefits, the actual outcomes of M&As often fall short of projections, leading to disappointments among investors and stakeholders. Market imperfections and management inefficiencies can contribute to merger failures, underscoring the need for thorough planning and regulatory oversight to ensure successful integration (Gaughan, 1999).

2.1.2 Merger by Laws of NRB 2011

2.1.2.1 Introduction

By 2010, Nepal's banking and financial sectors were navigating a challenging period. According to a report by the International Monetary Fund (2008), nearly one-third of Nepalese banking and financial institutions (BFIs) faced issues such as excessive liquidity, high operating expenses, inadequate working capital, unhealthy competition, and mismanagement. Data from the third quarter of that year revealed a decline in profits for most banks, with a rise in the proportion of bad loans. The persistent political instability and uncertainty exacerbated the situation, leading to decreased bank income and reduced investor confidence. This environment resulted in a lower demand for loans for large projects, forcing banks to choose between investing in high-risk sectors like real estate and failing to effectively utilize their capital (New Spotlight News Magazine, 2011).

In response to these challenges, Nepal Rastra Bank, the primary regulatory body overseeing BFIs, became increasingly concerned about the sector's deteriorating

condition. To address these issues, the Central Bank introduced the Merger Bylaw 2011, based on provisions in the Company Act 2063 and the BAFIA 2063. This regulation mandated that all BFIs pursue mergers as a consolidation strategy. Rather than being a voluntary choice, mergers were seen as a necessary measure to boost capital levels and enhance the institutions' ability to compete effectively. Without such consolidation, many BFIs faced the risk of failing (Gautam, 2012).

2.1.2.2 Guidelines and Conditions for Opting Merger By laws 2011

Nepal Rastra Bank has established three specific conditions under which it can mandate mergers among banking and financial institutions (BFIs). The first condition stipulates that BFIs owned and operated by the same family, relatives, or business groups are subject to mandatory merger. The central bank can require these institutions to consolidate if they are under common ownership or control. The Merger Bylaw policy further supports this, allowing the central bank to encourage mergers among BFIs that are managed by a single family or group.

The second condition involves capital adequacy. According to Nepal Rastra Bank's regulations, commercial banks must maintain a minimum Capital Adequacy Ratio (CAR) of 10 percent, while development banks are required to have a CAR of 11 percent. The CAR is crucial for assessing a bank's ability to cover its liabilities and manage risks such as credit and operational risks. If a BFI fails to meet the CAR requirements, the central bank can compel it to merge with another institution to bolster its capital and improve its competitive position (Subedi, 2012).

2.1.2.3 Major Provisions of Merger By laws 2011

The New Business Age (2013) outlines the key provisions of the Merger Bylaws established by the Nepal Rastra Bank (NRB) for the consolidation of financial institutions. These provisions include that institutions classified as A, B, or C can merge with each other, while D class institutions must merge only with others of the same class. Institutions seeking to merge must form dedicated merger committees, sign a Memorandum of Understanding (MOU), and submit a detailed action plan and MOU to the NRB. The NRB is required to review the Letter of Intent (LOI) within 15 days of receipt. After the LOI is granted, a due diligence audit must be completed within six months, and a comprehensive evaluation of assets, liabilities, and transactions must be submitted. Furthermore, a final agreement detailing the new

name, address, and share distribution must be submitted to the NRB, along with an action plan outlining the merger's implementation schedule.

In addition to these provisions, the NRB specifies conditions under which it may mandate mergers. These include situations where institutions are owned by the same family or group, experience a capital shortfall (with commercial banks required to maintain a 10% Capital Adequacy Ratio and development banks 11%), have received multiple reformative penalties, face systematic risks that impair payment responsibilities, or if a merger would enhance the overall financial sector's stability.

The merger process for Nepalese banks and financial institutions involves several key steps: forming a merger committee with representatives from all involved institutions, holding a Special Annual General Meeting to obtain shareholder approval, drafting and submitting an MOU to the NRB, applying to the NRB with details of the institutions' current positions and merger objectives, conducting a due diligence audit by an independent firm, and finally, obtaining the NRB's approval based on the financial statements, MOU, asset valuations, and other relevant documentation.

2.2 Empirical Review

Adhikari, Kavanagh, and Hampson (2022) conducted an analysis of the financial performance of banks in Nepal before and after mergers and acquisitions (M&A). Their study highlights M&A as a strategic approach used to consolidate Banks and Financial Institutions (BFIs) in Nepal, aiming to boost capital, expand business operations, and enhance financial stability. The researchers evaluated the financial performance of two commercial banks from 2014 to 2021 using twelve accounting ratios and a paired sample t-test. For the first bank, the results indicated a varied impact of the merger on financial performance ratios, showing notable improvements in return on assets, net interest margin, and earnings per share. Conversely, for the second bank, the impact of M&A on financial ratios was largely insignificant, with the exception of dividends per share (DPS) during the pre- and post-M&A periods.

Baniya and Adhikari (2018) explored the effects of mergers and acquisitions on employee turnover intentions within financial institutions. Their study aimed to identify factors influencing employees' intentions to leave their jobs following M&A activities. They developed a conceptual framework based on previous research, considering variables such as pre-merger organizational identification, procedural

justice, perceived utility of the merger, non-monetary benefits, monetary benefits, trust in the merger process, and authority delegation. The study found that pre-merger organizational identification, perceived utility of the merger, and trust in the merger was significant predictors of post-merger organizational identification. Trust in the merger was also a significant predictor of satisfaction with the merger. Additionally, the study revealed that strong post-merger organizational identification could mitigate employees' turnover intentions. These findings offer valuable insights into employee sentiments during the consolidation process and provide a foundation for developing strategies to reduce employee turnover during mergers and acquisitions.

Kim and Kim (2020) examined the effects of mergers and acquisitions (M&A) within the entertainment and media (E&M) industry, focusing on whether such M&A events enhance shareholder wealth. Their study utilized event study methodology to assess stock price reactions to M&A announcements in the Korean E&M sector from 2000 to 2019. The findings reveal that acquiring firms experienced an average cumulative abnormal return (CAR) of approximately 0.08 over 20 days leading up to the announcement and a 0.04 average abnormal return (AAR) on the announcement day. They also found that firms with higher debt ratios tended to have lower CARs, while firm size did not significantly impact CARs. Overall, the study concluded that M&A announcements positively affect stock prices, thereby benefiting shareholders of the acquiring firms.

Borodin, Ziyadin, Islyam, and Panaedova (2020) investigated how M&A transactions affect the financial performance of companies in the US and Europe. Their analysis covered 138 M&A transactions between 2014 and 2018, exploring the correlation between return on sales (ROS) and variables like the equity-to-enterprise value ratio. The study also considered the impact of the financial crisis and industry-relatedness on M&A outcomes. Despite finding that many companies remained profitable post-M&A, the data showed a significant decline in ROS in both regions—averaging -6.8% in the US and -5.3% in Europe. Regression analysis did not reveal a strong link between M&A activities and performance indicators, with regional differences partly attributed to the timing of the crisis. The study highlighted that while the "attractiveness" of target companies improved ROS, the overall impact of M&A on post-merger performance was not substantial.

Pachulia (2018) explored the impact of mergers and acquisitions on the financial performance of JSC Silknet, a Georgian company. The study analyzed financial reports to assess the effects of M&A on corporate performance, including metrics such as return on equity, return on assets, and return on sales. The research indicated that Silknet's M&A strategy, which focused on product diversification and expanding its business portfolio, led to positive changes in financial performance. The analysis demonstrated that the company's financial metrics improved favorably as it engaged in merging with and acquiring new firms.

Adhikari (2022) investigated the effects of mergers on the financial performance of Nepalese commercial banks, focusing on how such mergers impact financial performance, market share, and shareholder wealth. The study analyzed two mergers that occurred in 2016: the merger of Prabhu Bank Limited and Grand Bank Limited, resulting in the formation of Prabhu Bank Limited, and the merger of Lumbini Bank Limited with Bank of Kathmandu Limited, which formed the new Bank of Kathmandu Limited. By comparing pre-merger data (2011–2015) with post-merger data (2016–2020) using t-tests and regression analysis, the study found a significant correlation between financial performance and shareholder value with the mergers. However, no significant relationship was observed between the market share of the banks and the mergers.

Goet (2020) explored the impact of mergers on the performance of Citizens Bank International Ltd. in Nepal. The study employed accounting ratios to evaluate the bank's financial performance before and after its merger, analyzing financial statements over a six-year period. Despite some limitations, accounting ratios remain a widely accepted tool for financial analysis. The results indicated that the merger positively influenced the bank's profitability and stability, suggesting that the merger was successful in enhancing its financial performance.

Banerjee and Nayak (2015) compared domestic and cross-border mergers and acquisitions (M&As) in the pharmaceutical industry. Their study found that companies with substantial past research and development (R&D) investments but limited recent drug approvals were more likely to pursue cross-border mergers. Domestic mergers, involving firms within the same country, typically had lower R&D expenditures and fewer recent drug approvals. The study noted that domestic mergers led to short-term increases in drug approvals, but this effect diminished over time. In

contrast, cross-border mergers, which involve companies from different countries, generally resulted in lasting positive impacts on new drug approvals for up to five years.

Mall and Gupta (2019) examined the impact of mergers on stock performance and risk for acquiring firms in India. The study analyzed 429 merger announcements from 2008 to 2015, focusing on changes in stock returns and volatility during a 21-day event window surrounding the announcements. The findings revealed a noticeable increase in stock returns and volatility immediately following the announcements, with average abnormal returns for acquiring firms during and shortly after the event. However, these returns tended to become negative in the long run, indicating that while mergers initially benefited shareholders, the long-term effects were less favorable.

Rathinam and Sridharan (2015) examined the post-merger and acquisition (M&A) performance of selected banks in India, focusing on financial efficiency. The study employed ratio analysis to assess changes in profitability, liquidity, solvency, and overall efficiency from 2008 to 2013. Their findings indicated significant improvements in shareholder earnings and long-term solvency, while liquidity showed minimal change. Overall, the study concluded that M&As had a notable impact on the financial performance of banks, enhancing their ability to generate value.

Chiu, Shih, Chu, and Chen (2023) explored the integration and implementation strategies in mergers and acquisitions within the Chinese sports brand industry. Their research highlights the frequent failure of brand M&As to create value, often due to poor resource management and ineffective integration strategies. By analyzing case studies from China's sporting shoe sector between 2014 and 2021, the study identified four main strategic motives for cross-border M&As: accelerated growth, resource integration, brand synergy, and rapid international market entry. The research also underscores the importance of aligning resource management and brand strategy for successful M&As and provides strategic insights for improving M&A outcomes in the sports industry.

Njambi and Kariuki (2018) investigated the impact of mergers and acquisitions on the financial performance of Kenyan financial institutions. The study assessed various

factors such as capital base, income diversification, asset quality, and liquidity in 16 institutions that underwent M&As between 2005 and 2015. Using secondary data from six years, including three years before and after the M&As, the analysis employed correlation and regression techniques. The findings revealed significant effects of capital base, income diversification, asset quality, and liquidity on the performance of the institutions post-merger. The study recommended that institutions with weak capital bases consolidate through M&As to enhance performance and financial stability.

Austin (2021) examined the effects of mergers and acquisitions on the normative practices of commercial banks in Nigeria. The study utilized cross-sectional data from 13 banks over the period 2011-2020 to analyze how M&As impacted liquidity, return on equity (ROE), and return on assets (ROA). The fixed effect model revealed that M&As accounted for 85.1% of the variation in liquidity, with positive effects from bank efficiency, capital adequacy, and financial intermediation, while asset quality and branch numbers had negative impacts. For ROE, 74.9% of the variation was explained, with capital adequacy and branch numbers negatively affecting ROE, while efficiency and asset quality had positive impacts. The study found that 75.4% of the variation in ROA could be explained by the predictor variables, with mixed effects from different factors. The study recommended enhancing regulatory compliance to address challenges in the Nigerian banking sector.

Mashkour, SadaKhlaif, and Imran (2021) analyzed the effect of mergers and acquisitions on the financial performance of Iraqi companies. The research aimed to identify performance changes using financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Net Profit Margin (NPM). Data from 10 publicly traded companies involved in M&As from 2008 to 2013 were analyzed. The results showed significant improvements in ROA, ROE, and EPS, though NPM did not exhibit significant changes. The study concluded that while some financial ratios improved post-M&A, NPM remained stable, suggesting that the expected synergies from M&As were partially realized.

Table: 1*Empirical Summary*

Author & Date	Topic	Objectives	Methodology	Findings
Kim & Kim (2020).	The Effect of Mergers and Acquisitions in the Entertainment and Media Industry.	This paper aims to show whether M&A events in the E&M industry increase the shareholders' wealth and investigates the stock price responses to the M&A announcements and, furthermore, examines firm factors influencing the responses.	For the analysis, the event study methodology was applied, using M&A events in the Korean E&M industry from 2000 to 2019.	The test results reveal that, in the E&M industry, shareholder value of acquiring firms earn about 0.08 cumulative abnormal returns (CAR) over 20 days until the announcement date and 0.04 average abnormal return (AAR) on the announcement date. The firms with high debt ratio are associated with lower CAR, while firm size does not exhibit any influence. The results indicate that M&A announcements in the E&M industry have a positive impact on stock prices and, thus, benefit shareholder wealth of the acquiring firms.
Borodin, Ziyadin, Islyam&Panaedova (2020).	Impact of mergers and acquisitions on companies' financial performance.	This study explores the influence of M&A transactions on the financial performance of US and European companies.	This study has studied the sample of 138 M & A transactions performed within these two regions during the period between 2014 and 2018. We investigate the correlation between return on sales (ROS) and such variables as equity-to-enterprise value ratio.	This study found significant deterioration in ROS in both regions. At the same time, in the USA the change in the EBIT/Total Revenue ratio averaged -6.8 %, and in the European countries -5.3 %. Regression analysis did not reveal a significant relationship between mergers and acquisitions and company performance indicators, and the difference in values by region can be interpreted by the fact that the US entered the crisis at an earlier point in time.
Pachulia (2018).	Impact of Mergers and Acquisitions on Corporate Performance: A Case Study of Silknet Company.	To examine the impact of mergers and acquisitions on corporate financial performance in Georgian company using data from financial reports.	In this study, return on Equity, Return on Assets, returns on Sales are used.	The results show, if the financial performance changed positively to the company's favor while the company was merging and acquiring new firms.
Adhikari (2022).	Effects of mergers in financial performance of Nepalese Commercial Banks.	This paper attempts to evaluate the synergistic effect of the merger on financial performance, market share, and the wealth of the shareholders of the selected BFIs.	Two cases of mergers of commercial banks have been taken as samples for the study. First is the merger between Prabhu Bank Limited and Grand Bank Limited (forming Prabhu Bank Limited) and second is the merger between Lumbini Bank	The result of the study reveals that there is a significant relationship between financial performance and shareholder value and the merger, whereas there is no relationship between the market share of the BFIs and the merger.

			Limited and Bank of Kathmandu Limited (forming Bank of Kathmandu Limited). Both the mergers happened in 2016. To analyze the mentioned variables of the selected BFIs, pre-merger (2011–2015) and post-merger (2016–2020) data have been compared using a t-test and regression analysis.	
Goet (2020).	Impact of merger on bank performance	To analyze the impact of merger on bank performance.	In this study, accounting ratios has been used to analyze the financial performance of Citizens Bank International Ltd. in Nepal before and after merger. This study analyzed their financial statements for six years by using various ratios.	The results show that the financial performance of CBI Ltd. in the areas of profitability and stability has been most satisfactory after merger. It means that merger deal success to improve the financial performance of the bank.
Banerjee & Nayak (2015).	Comparing Domestic and Cross-Border Mergers and Acquisitions in the Pharmaceutical Industry.	To analyze the determinants and effects of domestic versus cross-border mergers and acquisitions (M&As) in the pharmaceutical industry.	This paper considers the determinants and effects of domestic versus cross-border mergers and acquisitions (M&As) in the pharmaceutical industry.	Results show that companies that have had large research and development (R&D) expenditures as a percentage of sales in the past, but which have not had a significant number of drug approvals in the previous five years, tend to merge with foreign firms.
Mall & Gupta (2019).	Impact of Mergers on Stock Performance and Risk of Acquiring Firms: Evidence from India.	This study examines the wealth effects of merger announcements on acquirer firms in India, by primarily focusing on two stock characteristics i.e. stock return and stock volatility.	Sample of 429 merger announcements in India from 2008 to 2015 are examined and an event window of 21 days is taken to analyses the impact of such announcements on acquirer's stock return and stock volatility.	It is found that there is change in return and a jump in spread of returns after event day, and it continues up to two days post event. These findings imply that shareholders of acquirer firms generate average abnormal returns from merger events during and after announcement and returns become negative in long run in context to India.
Rathinam and Sridharan (2015).	Post-Mergers and Acquisitions Performance of Select Indian Banks.	The study examines the impact of Mergers and Acquisitions (M&As) on the financial efficiency of selected banks in India.	The post-M&A performance is measured using the ratio analysis. The main focus is on the overall profitability parameters, liquidity parameters, solvency parameters and overall efficiency parameters.	This study found significant change in the earnings of the shareholders; a little change in liquidity position; significant change in the long-term solvency position of the firms; and significant change in the overall efficiency. The results of the study indicate that M&As in India have significant impact on the financial performance of banks and that the acquiring firms were able to

Chiu, Shih, Chu and Chen (2023).	Merger and Acquisitions Integration, Implementation as Innovative Approach Toward Sustainable Competitive Advantage: A Case Analysis From Chinese Sports Brand.	The purpose of the research was first to discuss brand M&As and corporate strategies in the Taiwanese context. Secondly, it discusses the issue of the use of resources by the acquired party in specific to emerging trends in consumer resistance to innovation and acceptance of technological innovativeness in the sports industry brands. Third, it analyzes the effectiveness of brand strategy integration and implementation. Finally, it provides a strategic reference for brand M&As in the industry.	Taking 03 of China's sporting shoe industry cases, this study uses the literature to collect, analyze, and organize the conversations of high-level managers to compare and integrate the motivations of corporate M&As to conduct confirmatory analysis. Using case studies and cross-border M&A related secondary data from 2014 to 2021 and supplemented by senior executives' conversations, 1,836 articles were collected as analysis units.	generate value. The research results show that Chinese companies' cross-border M&A's main corporate strategic motives have four key elements: accelerated expansion, integration of resources, brand integration, rapid entry into the international market, and obstacles to the construction of new entrants. The research results also show that integrating resources and brand execution strategies after M&As correlates to their success or failure.	
Njambi & Kariuki (2018).	Effect of mergers and acquisitions on financial performance of financial institutions in Kenya.	The main objective of the study was to assess the effect of mergers and acquisitions on financial performance of financial institutions in Kenya.	This study focused on 16 firms which had undergone mergers and acquisition between period 2005 and 2015.	The study revealed that capital base, income diversification, asset quality and liquidity had a significant effect on performance of financial institutions in Kenya upon mergers.	
Austin (2021).	Z.A.	The effect of mergers and acquisitions and the normative approach to commercial banks in the post consolidated era in Nigeria.	This study examined the effect of mergers and acquisitions and the normative approach to commercial banks in the post consolidated era in Nigeria.	In this study, Liquidity, return on equity and return on assets were modeled as the function of capital adequacy ratio, bank efficiency; asset quality, financial intermediation and percentage are used.	The beta coefficient of the variables proves that number of banks branch, capital adequacy ratio have negative effect on return on equity while financial intermediation, bank efficiency, and assets quality have positive effect on return on equity of the post-merger commercial banks.
Mashkour S.C., SadaKhlaif A.A. & Imran I.K. (2021),	The Effect of Merger And Acquisition on Financial Performance of Companies in Iraq.	This research aims to analyze the differences in company financial performance before and after mergers and acquisitions on company merger and acquisition activity.	Company performance is measured by using financial ratio: Return on Assets (ROA), on Rreturn on Equity (ROE), Earnings per Share (EPS), Net Profit Margin (NPM).Quantitative methods is used in this research, take the data from all public companies doing mergers and acquisitions in Iraq Stock Exchange through the period from 2008 to 2013.	The results of this research revealed, through the use of the four financial indicators ROA, ROE, EPS, NPM, a number of conclusions, the most prominent of which was showed significant results in several years of observation, comparison before and after mergers and acquisitions.	

2.3 Research Gap

Merger and Acquisition of financial institutions in Nepal has been popular culture in the recent years and is in increasing trend. It might be due to merger by law policy and capital enhancement policy of NRB. The Corporate mergers and acquisitions are aimed at amplifying efficiency, enhancing competitive advantage, achieving synergy and improving firm value. However, factors such as emphasis on increasing income, emphasis on financial diversification, emphasis on obtaining stronger position in market, emphasis on achieving security and emphasis on fulfilling regulations from regulatory authorities; do not have any significant effect leading to merger and acquisition decision in case of Nepalese banking sector. In case of emphasis on better branding, the relationship was found to be negatively correlated. The reason for it might be because merger and acquisition is not accepted as normal activity in Nepalese context and is carried out only in case of problematic situations.

Mergers and Acquisitions pursue the profitability, liquidity and solvency objectives of an organization. This is supported by the fact that merging/acquisition had a significant impact on the financial performance. It can clearly be said that majority of the bank employees' agreed that the merger and acquisition exercise which took place in their bank is being able to keep them busy all the time with the highest percentage rate of response rate on very satisfied/ satisfied. Human Resource department raise awareness of the opportunities available within a new company and shows the employees what makes the new or acquiring company a great company to work for. This will enhance the employees' knowledge and understanding of the company and enable them to feel that they are working for the best organization. It is strongly recommended that employees and management should work together to embrace the dynamic and diverse culture of the acquiring company. This study tries to find out impact of merger and acquisition on financial performance of NMB Bank Limited and Global IME Bank Limited. This study provides guideline for similar known of organization having merger and acquisition pattern. This study will serve as source of reference for similar researcher.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Research Design

The research design of the study is descriptive and casual. A descriptive research approach entails the use of information from other studies and qualitative analyses. In casual research is used to identify the cause-and-effect relationship between variables and provides conclusive results that can answer the research problem. Secondary data by using different financial indicators has been used to measure the financial performance of the merged entity. The financial and accounting data to examine the impacts of mergers and acquisitions on the performance of banks selected as sample has been collected from published annual reports of the sample bank. Also, the data has been collected from the websites of Sample banks and NRB website. For this paper, pre-merger and post-merger data have been used to analyze the impacts of mergers on banks.

3.2 Population and Sample

At present, there are 20 (https://en.wikipedia.org/wiki/Commercial_banks_of_Nepal, 2080-06-06) commercial banks are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. All the commercial banks that are operating in Nepal are considered as the population. From the commercial banks of Nepal, only two banks, NMB Bank Limited and Global IME Bank Limited are taken as a sample bank for the research study.

3.3 Sampling Design

Among the total commercial banks only two commercial banks were selected for the study. Recently merged companies were selected for the study, i.e. NMB Bank Limited and Global IME Bank Limited. These companies were merged and accruing their competitors through giving swap ratio.

3.4 Nature and Sources of Data

This study is based on secondary data.

i. Secondary data

The secondary data will be collected from a wide array of research papers, Journals, Magazines, Books, Websites and banks database etc. The financial data were extracted from the annual reports of the merged banks. Different Journal and Paper were studied to have the strong knowledge about the subject and calculations for the study.

3.5 Instrument of Data Collection

In this study, the data were collected from the annual report of the sampled commercial banks. Collected data were analyzed through the statistical and financial tools and results were elaborated.

3.6 Methods of Analysis

To assess the impacts of merger on their financial performance for the selected banks, the financial performance pre and post-merger is analyzed by calculating various financial ratios namely EPS, ROE, ROA, PE Ratio, CRR, CAR and Market value per share.

3.6.1 Financial tools

The financial parameter helps to measure the financial status of the organization. The parameter is found from financial statement and financial disclosure. Some of the financial variables, stated below, have been employed to analyze market capitalization, market price of share, earnings price per share and dividend per share.

a) Earning Price per Share

The profitability of a firm from the point of view of the ordinary shareholders is the EPS. It measures the profit available to the equity holders on a per share basis, i.e. the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of outstanding shares. The profits ordinary shareholders are represented by net profits after taxes and preference dividends. EPS is closely watched by the investing public and is considered an important indicator of corporate success. Thus,

$$\text{EPS} = \frac{\text{Net Profit to equity holders}}{\text{No of stocks outstanding}}$$

b) Price Earnings Ratio

Price earnings ratio is the relationship between earning per share and market price of the stock. Earnings per share shows the company's performance in the sense that how well the company has managed its material as well as human resources to satisfy the interest of stockholders. So, P/E multiple reflects the price currently being paid by the market for each rupee of currently reported EPS.

$$\text{P/E ratio} = \frac{\text{Market Price of a Share}}{\text{Earning Price of a Share}}$$

c) Return on Assets

Here, the profitability ratio is measured in terms of the relationship between the net profits and assets. The ROA may also be called profit-to-assets ratio. It measures the overall effectiveness of management in generating profits with its available assets. The higher the firms return on total assets, the better. The return on total assets is calculated as follows.

$$\text{Return on Total Assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

d) Return on Equity

The return on common equity measures the return earned on the common stockholders' investment in the firm. Generally, the higher these returns, the better off are the owners. Return on common equity is calculated as follows;

$$\text{Return on Common Equity} = \frac{\text{Net Profit after Tax}}{\text{Shareholders Equity}}$$

e) Cash reserve ratio

The cash reserve ratio (CRR) is a monetary policy tool used by central banks to regulate the amount of cash that commercial banks must hold as reserves. It is expressed as a percentage of a bank's total deposits that must be kept in reserve, which cannot be lent out. The formula for calculating the CRR is:

$$\text{Cash reserve ratio} = \frac{\text{Required Reserves}}{\text{Total Deposits}} \times 100$$

f) Capital adequacy ratio

The Capital Adequacy Ratio (CAR) is a measure of a bank's financial strength and stability, assessing its ability to absorb potential losses and meet its financial obligations. It is calculated by dividing a bank's capital by its risk-weighted assets. The formula for calculating the CAR is:

$$\text{Capital adequacy ratio} = \frac{\text{Capital}}{\text{Risk - Weighted Assets}} \times 100$$

g) Market value per share

The Market Value per Share (MVPS) is a financial metric that represents the current price of a single share of a company's stock in the open market. It is calculated by dividing the total market value of the company's outstanding shares by the total number of shares outstanding. The formula for calculating the Market Value per Share is:

$$\text{Market value per share} = \frac{\text{Market value of outstanding shares}}{\text{Total number of share outstanding}}$$

3.6.2 Statistical tools

The most well-known Statistical tools are mean, standard deviation, coefficient the variance, descriptive, correlation, regression, ANOVAs test etc. There are also software packages like excel and SPSS which are useful in interpreting the results for large sample size.

i. Mean

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where

\bar{X} = Mean of the values

$\sum X$ = Summation of the values

n = No. of Observations

ii. Standard Deviation (σ)

Standard deviation is the positive square root of average sum of squares of deviations of observation from the arithmetic mean of the distribution. Standard deviation is the popular and useful measure of dispersion and gives uniform, correct and stable results. A small standard deviation means a high degree of uniformity of the observation as well as Homogeneity of a series; a large standard deviation means just the opposite. In this, standard deviation is calculated for selected dependent and independent variables specified in the model presented above.

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

3.7 Research Framework and definition of variables

The following conceptual framework is the foundation on which this study is based upon. The framework shows that the different ratios of the pre-merger period of the sampled bank (Global IME Bank and NMB Bank) is taken and compared with the post-merger period.

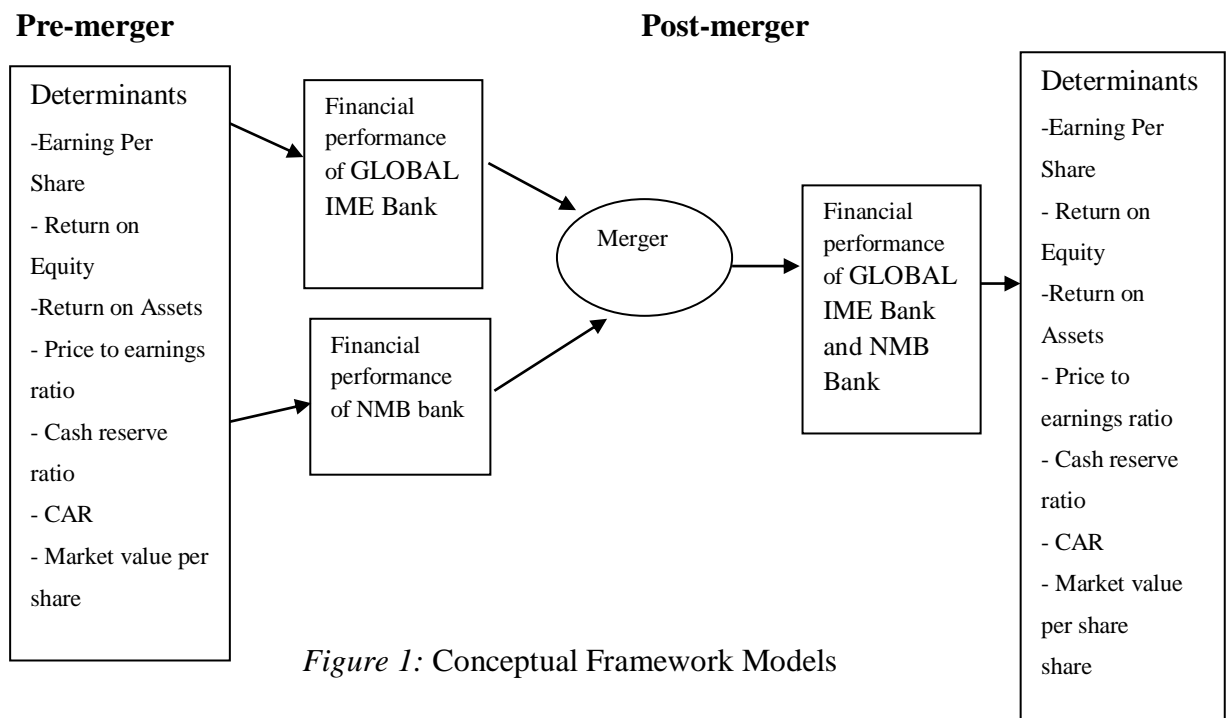


Figure 1: Conceptual Framework Models

Source: Adhikari, Kavanagh & Hampson (2022), Baniya & Adhikari (2018)

Earning Price per Share

The profitability of a firm from the point of view of the ordinary shareholders is the EPS. It measures the profit available to the equity holders on a per share basis, i.e. the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of outstanding shares. The profits ordinary shareholders are represented by net profits after taxes and preference dividends. EPS is closely watched by the investing public and is considered an important indicator of corporate success (Adhikari, Kavanagh & Hampson, 2022).

Return on Assets

Here, the profitability ratio is measured in terms of the relationship between the net profits and assets. The ROA may also be called profit-to-assets ratio. It measures the overall effectiveness of management in generating profits with its available assets. The higher the firms return on total assets, the better (Baniya & Adhikari, 2018).

Return on Equity

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing (Adhikari, Kavanagh & Hampson, 2022).

Price-to-Earnings ratio

The Price-to-Earnings (P/E) ratio is a valuation metric used to evaluate a company's current share price relative to its earnings per share (EPS). It is calculated by dividing the market price per share by the earnings per share. The P/E ratio provides insights into how much investors are willing to pay per dollar of earnings and is commonly used to assess a company's relative valuation and growth potential Baniya & Adhikari (2018).

Cash Reserve Ratio

The Cash Reserve Ratio (CRR) is a regulatory requirement that mandates commercial banks to maintain a certain percentage of their deposits in the form of cash reserves

with the central bank. It is set by the monetary authority (such as the central bank) to control the liquidity in the banking system and influence credit creation. By adjusting the CRR, central banks can regulate the amount of money banks can lend out, thereby affecting inflation, money supply, and overall economic stability (Adhikari, Kavanagh & Hampson, 2022).

Market Value per Share

Market Value per Share refers to the current price at which a single share of a company's stock is traded on the open market. It is determined by dividing the total market capitalization of the company by the number of outstanding shares. This metric reflects investors' perception of the company's worth and is influenced by various factors such as earnings, growth prospects, and market sentiment (Adhikari, Kavanagh & Hampson, 2022).

CHAPTER-4

RESULTS AND DISCUSSION

In this chapter, we present and analyze the relevant data to address the objectives of our study, focusing on the financial performance of Global IME Bank and NMB Bank before and after merger and acquisition activities. Through a meticulous examination of secondary data sourced from annual reports, we delve into key financial metrics such as EPS, return on equity, price to earning rate, cash reserve rate, return on assets, market value per share and capital adequacy ratio. Our analysis aims to provide insights into the impact of mergers and acquisitions on the financial health of these Nepalese banks, shedding light on potential implications for stakeholders and informing strategic decision-making in the banking sector.

4.1 Pre and post-merger comparison of performance

In comparing the pre and post-merger performance of Global IME Bank and NMB Bank, a nuanced examination reveals shifts in various financial indicators. Prior to the merger or acquisition events, both banks exhibited distinct operational and financial characteristics. However, post-merger, the consolidated entity's performance reflects a blend of these individual traits, often resulting in synergistic effects or operational efficiencies. Financial key metrics are scrutinized to gauge the impact of the merger or acquisition on overall financial health. While pre-merger performance provides a baseline for assessment, the post-merger period offers insights into how strategic restructuring or integration initiatives have influenced the banks' operational dynamics. This comparative analysis elucidates the effectiveness of the merger or acquisition in enhancing financial performance and underscores potential areas for further improvement or strategic focus. Additionally, it serves to inform stakeholders, including investors, regulators, and management, about the implications of such corporate actions on the banks' long-term viability and competitiveness in the Nepalese banking landscape.

4.1.1 Earnings per share (EPS)

Earnings per share (EPS) are a fundamental financial metric that indicates the portion of a company's profit allocated to each outstanding share of common stock. It is calculated by dividing the net income attributable to common shareholders by the

average number of outstanding shares during a specific period, providing insight into a company's profitability on a per-share basis.

Table: 2

Earnings per Share

Pre Merger			Post Merger		
Fiscal Year	Global IME Bank	NMB Bank	Fiscal Year	Global IME Bank	NMB Bank
2015/16	22.42	22.1	2019/20	17.99	11.18
2016/17	25.51	22.24	2020/21	19.25	14.76
2017/18	23.64	21.86	2021/22	20.84	17.92
2018/19	26.46	23.54	2022/23	20.06	17.55
Minimum	22.42	21.86	Minimum	17.99	11.18
Maximum	26.46	23.54	Maximum	20.84	17.92
Mean	24.51	22.44	Mean	19.54	15.35
SD	1.82	0.75	SD	1.22	3.12

Source: Appendix I and II

From the table 2, before the merger, Global IME Bank exhibited a consistent trend in its Earnings Per Share (EPS) from fiscal year 2015/16 to 2018/19, with EPS values ranging from a minimum of 22.42 to a maximum of 26.46. The mean EPS during this period stood at 24.51, with a standard deviation of 1.82. Following the merger, the EPS figures for Global IME Bank witnessed a slight decrease in variability, with EPS values for the fiscal years 2019/20 to 2022/23 ranging from a minimum of 17.99 to a maximum of 20.84. Despite this decrease, the mean EPS remained relatively stable at 19.54, with a lower standard deviation of 1.22. This suggests that while the merger may have led to a modest reduction in EPS variability for Global IME Bank, the overall trend remained steady over the post-merger period.

Similarly, prior to the merger, NMB Bank's EPS showed consistent performance, with values ranging from 21.86 to 23.54, and a mean EPS of 22.44 and a standard deviation of 0.75. Post-merger, NMB Bank experienced fluctuations in its EPS values, with figures ranging from 11.18 to 17.92 for the fiscal years 2019/20 to 2022/23. Despite this wider range, the mean EPS for NMB Bank post-merger stood at 15.35, indicating a moderate decrease compared to the pre-merger period. Additionally, the standard deviation increased to 3.12, suggesting higher variability in

EPS post-merger. This indicates that the merger had a more pronounced impact on the EPS performance of NMB Bank, leading to increased variability and a moderate decrease in the mean EPS.

4.1.2 Return on equity

Return on equity (ROE) is a key financial ratio that measures a company's profitability by assessing its ability to generate profit from shareholders' equity. In the context of the provided data, analyzing ROE pre and post-merger for both Global IME Bank and NMB Bank can offer insights into how effectively the banks utilize shareholders' equity to generate earnings. Fluctuations in ROE over time may indicate shifts in profitability, asset management, or leverage strategies, providing valuable information for stakeholders assessing the financial health and performance of the banks.

Table: 3

Return on equity

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	16.99	21.96	2019/20	12.88	8.94
2016/17	19.33	16.49	2020/21	13.38	12.08
2017/18	16.19	35.54	2021/22	13.39	12.95
2018/19	18.47	13.32	2022/23	14.19	11.65
Minimum	16.19	13.32	Minimum	12.88	8.94
Maximum	19.33	35.54	Maximum	14.19	12.95
Mean	17.75	21.83	Mean	13.46	11.41
SD	1.42	9.81	SD	0.54	1.73

Source: Appendix I and II

Based on the table 3 data, before the merger, Global IME Bank demonstrated a relatively stable Return on Equity (ROE) performance, with values ranging from a minimum of 16.19 to a maximum of 19.33 for fiscal years 2015/16 to 2018/19. The mean ROE during this period stood at 17.75, with a standard deviation of 1.42. Following the merger, there was a discernible decrease in the variability of ROE for Global IME Bank, with values ranging from 12.88 to 14.19 for fiscal years 2019/20 to

2022/23. Despite this reduction in variability, the mean ROE post-merger decreased to 13.46, suggesting a slight decline compared to the pre-merger period. The standard deviation also decreased to 0.54, indicating a lower level of variability in ROE post-merger. This implies that while the merger may have led to a more consistent ROE performance for Global IME Bank, there was a slight decrease in the overall ROE compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a diverse range of ROE values, with figures fluctuating from a minimum of 13.32 to a maximum of 35.54 for fiscal years 2015/16 to 2018/19. The mean ROE during this period stood at 21.83, with a relatively high standard deviation of 9.81. Post-merger, NMB Bank's ROE values showed a narrower range, with figures ranging from 8.94 to 12.95 for fiscal years 2019/20 to 2022/23. Despite this decrease in variability, the mean ROE post-merger also decreased to 11.41, indicating a notable decline compared to the pre-merger period. The standard deviation decreased to 1.73, suggesting reduced variability in ROE post-merger. This indicates that the merger had a significant impact on the ROE performance of NMB Bank, leading to decreased variability and a notable decline in the mean ROE compared to the pre-merger period.

4.1.3 Return on assets

Return on Assets (ROA) is an essential financial indicator that assesses how effectively a company utilizes its assets to generate profit. Examining ROA pre and post-merger for both Global IME Bank and NMB Bank offers insights into how effectively the banks utilize their assets to generate earnings. Fluctuations in ROA over time can indicate changes in operational efficiency, asset utilization, or profitability strategies, providing valuable information for stakeholders assessing the banks' financial performance and resource management.

Table: 4*Return on assets*

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	1.55	1.92	2019/20	1.06	1.09
2016/17	1.75	1.82	2020/21	1.21	1.32
2017/18	1.67	1.8	2021/22	1.38	1.35
2018/19	1.82	1.83	2022/23	1.27	1.19
Minimum	1.55	1.8	Minimum	1.06	1.09
Maximum	1.82	1.92	Maximum	1.38	1.35
Mean	1.70	1.84	Mean	1.23	1.24
SD	0.12	0.05	SD	0.13	0.12

Source: Appendix I and II

Based on the data presented in Table 4, Prior to the merger, Global IME Bank displayed a consistent performance in Return on Assets (ROA), with values ranging from a minimum of 1.55 to a maximum of 1.82 for fiscal years 2015/16 to 2018/19. The mean ROA during this period stood at 1.70, with a standard deviation of 0.12. Following the merger, Global IME Bank experienced a decrease in ROA variability, with values ranging from 1.06 to 1.38 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean ROA post-merger decreased to 1.23, indicating a decline compared to the pre-merger period. The standard deviation slightly increased to 0.13, suggesting a marginally higher level of variability in ROA post-merger. This suggests that while the merger may have led to a decrease in ROA variability for Global IME Bank, there was a notable decline in the overall ROA compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a stable ROA performance, with values ranging from a minimum of 1.8 to a maximum of 1.92 for fiscal years 2015/16 to 2018/19. The mean ROA during this period stood at 1.84, with a low standard deviation of 0.05. Post-merger, NMB Bank's ROA values showed minimal variability, with figures ranging from 1.09 to 1.35 for fiscal years 2019/20 to 2022/23. The mean ROA post-merger remained relatively stable at 1.24, indicating a slight decline compared to the pre-merger period. The standard deviation increased slightly to 0.12, suggesting a marginally higher level of variability in ROA post-merger. This indicates

that the merger had a limited impact on the ROA performance of NMB Bank, with the overall trend remaining stable but showing a slight decline compared to the pre-merger period.

4.1.4 Price to earnings ratio

The price-to-earnings (P/E) ratio is a critical valuation metric that compares a company's current share price to its earnings per share (EPS). Examining the P/E ratio pre and post-merger for Global IME Bank and NMB Bank provides insight into investors' perception of the banks' growth prospects and future earnings potential. Fluctuations in the P/E ratio over time may indicate shifts in market sentiment, risk perceptions, or growth expectations, which can be crucial for stakeholders evaluating investment opportunities in the merged entity.

Table: 5

Price to earnings ratio

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	22.97	29.15	2019/20	13.29	31.45
2016/17	15.21	20.27	2020/21	22.9	26.41
2017/18	12.27	12.48	2021/22	12.06	14.57
2018/19	11.15	16.23	2022/23	8.43	12.88
Minimum	11.15	12.48	Minimum	8.43	12.88
Maximum	22.97	29.15	Maximum	22.9	31.45
Mean	15.40	19.53	Mean	14.17	21.33
Standard Deviation	5.33	7.16	Standard Deviation	6.17	9.04

Source: Appendix I and II

Based on the data from the Table5, prior to the merger, Global IME Bank demonstrated a relatively diverse range of Price to Earnings Ratio (P/E ratio) values, with figures fluctuating from a minimum of 11.15 to a maximum of 22.97 for fiscal years 2015/16 to 2018/19. The mean P/E ratio during this period stood at 15.40, with a standard deviation of 5.33. Following the merger, there was a discernible decrease in the variability of P/E ratio for Global IME Bank, with values ranging from 8.43 to

22.9 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean P/E ratio post-merger slightly decreased to 14.17, indicating a modest decline compared to the pre-merger period. The standard deviation increased to 6.17, suggesting a slightly higher level of variability in P/E ratio post-merger. This implies that while the merger may have led to a more consistent P/E ratio performance for Global IME Bank, there was a slight decrease in the overall P/E ratio compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a diverse range of P/E ratio values, with figures ranging from a minimum of 12.48 to a maximum of 29.15 for fiscal years 2015/16 to 2018/19. The mean P/E ratio during this period stood at 19.53, with a relatively high standard deviation of 7.16. Post-merger, NMB Bank's P/E ratio values showed a narrower range, with figures ranging from 12.88 to 31.45 for fiscal years 2019/20 to 2022/23. Despite this decrease in variability, the mean P/E ratio post-merger slightly decreased to 21.33, indicating a moderate decline compared to the pre-merger period. The standard deviation increased to 9.04, suggesting increased variability in P/E ratio post-merger. This indicates that the merger had a significant impact on the P/E ratio performance of NMB Bank, leading to increased variability and a notable decline in the mean P/E ratio compared to the pre-merger period.

4.1.5 Cash reserve ratio

The Cash Reserve Ratio (CRR) is a regulatory requirement that mandates banks to maintain a certain percentage of their total deposits as cash reserves with the central bank. Analyzing the CRR pre and post-merger for both Global IME Bank and NMB Bank offers insights into their liquidity management strategies and compliance with regulatory norms. Fluctuations in the CRR over time may indicate changes in liquidity needs, risk management practices, or regulatory environments, which are essential considerations for stakeholders evaluating the banks' financial stability and regulatory compliance in the merged entity.

Table: 6*Cash reserve ratio*

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	6.3	10.81	2019/20	5.72	5.93
2016/17	6.44	7.72	2020/21	7.59	5.66
2017/18	6.21	6.68	2021/22	3.18	5.33
2018/19	4.34	4.19	2022/23	4.16	5.63
Minimum	4.34	4.19	Minimum	3.18	5.33
Maximum	6.44	10.81	Maximum	7.59	5.93
Mean	5.82	7.35	Mean	5.16	5.64
Standard Deviation	0.99	2.74	Standard Deviation	1.93	0.25

Source: Appendix I and II

From the Table 6, Prior to the merger, Global IME Bank maintained a relatively stable Cash Reserve Ratio (CRR), with values ranging from a minimum of 4.34 to a maximum of 6.44 for fiscal years 2015/16 to 2018/19. The mean CRR during this period stood at 5.82, with a standard deviation of 0.99. Following the merger, there was a slight decrease in the variability of CRR for Global IME Bank, with values ranging from 3.18 to 7.59 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean CRR post-merger decreased to 5.16, indicating a decline compared to the pre-merger period. The standard deviation increased to 1.93, suggesting a slightly higher level of variability in CRR post-merger. This implies that while the merger may have led to a more consistent CRR performance for Global IME Bank, there was a slight decrease in the overall CRR compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a diverse range of CRR values, with figures fluctuating from a minimum of 4.19 to a maximum of 10.81 for fiscal years 2015/16 to 2018/19. The mean CRR during this period stood at 7.35, with a relatively high standard deviation of 2.74. Post-merger, NMB Bank's CRR values showed reduced variability, with figures ranging from 5.33 to 5.93 for fiscal years 2019/20 to 2022/23. The mean CRR post-merger remained relatively stable at 5.64,

indicating a slight increase compared to the pre-merger period. The standard deviation decreased significantly to 0.25, suggesting a much lower level of variability in CRR post-merger. This indicates that the merger had a notable impact on the CRR performance of NMB Bank, leading to reduced variability and a slight increase in the mean CRR compared to the pre-merger period.

4.1.6 Capital adequacy ratio

The Capital Adequacy Ratio (CAR) is a regulatory measure that assesses a bank's financial health and ability to absorb potential losses. Analyzing the CAR pre and post-merger for both Global IME Bank and NMB Bank provides insights into their capital management practices and regulatory compliance. Fluctuations in the CAR over time may indicate changes in risk exposure, capital allocation strategies, or regulatory requirements, which are critical considerations for stakeholders evaluating the banks' financial stability and resilience in the merged entity.

Table: 7

Capital adequacy ratio

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	12.35	10.98	2019/20	12.48	15.08
2016/17	11.37	13.61	2020/21	13.2	15.08
2017/18	11.47	15.75	2021/22	12.67	13.59
2018/19	12.31	15.43	2022/23	13.34	13.33
Minimum	11.37	10.98	Minimum	12.48	13.33
Maximum	12.35	15.75	Maximum	13.34	15.08
Mean	11.88	13.94	Mean	12.92	14.27
Standard Deviation	0.53	2.19	Standard Deviation	0.41	0.94

Source: Appendix I and II

Based on the table 7 data, before the merger, Global IME Bank maintained a consistent Capital Adequacy Ratio (CAR), with values ranging from a minimum of 11.37 to a maximum of 12.35 for fiscal years 2015/16 to 2018/19. The mean CAR during this period stood at 11.88, with a standard deviation of 0.53. Following the merger, there was a slight increase in the variability of CAR for Global IME Bank,

with values ranging from 12.48 to 13.34 for fiscal years 2019/20 to 2022/23. Despite this increase in variability, the mean CAR post-merger increased to 12.92, indicating a slight improvement compared to the pre-merger period. The standard deviation decreased to 0.41, suggesting a lower level of variability in CAR post-merger. This implies that while the merger may have led to a slightly more variable CAR performance for Global IME Bank, there was an overall improvement in the CAR compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a diverse range of CAR values, with figures fluctuating from a minimum of 10.98 to a maximum of 15.75 for fiscal years 2015/16 to 2018/19. The mean CAR during this period stood at 13.94, with a relatively high standard deviation of 2.19. Post-merger, NMB Bank's CAR values showed reduced variability, with figures ranging from 13.33 to 15.08 for fiscal years 2019/20 to 2022/23. The mean CAR post-merger remained relatively stable at 14.27, indicating a slight increase compared to the pre-merger period. The standard deviation decreased significantly to 0.94, suggesting a much lower level of variability in CAR post-merger. This indicates that the merger had a notable impact on the CAR performance of NMB Bank, leading to reduced variability and a slight improvement in the mean CAR compared to the pre-merger period.

4.1.7 Market value per share

The market value per share denotes the current trading price of a company's stock on the market. Analyzing the market value per share pre and post-merger for both Global IME Bank and NMB Bank provides insights into market sentiment, investor perceptions, and the impact of the merger on shareholder value. Fluctuations in market value per share over time may reflect changes in profitability, growth prospects, or market conditions, which are essential considerations for stakeholders assessing the banks' performance and market competitiveness in the merged entity.

Table: 8*Market value per share*

Fiscal Year	Pre Merger		Fiscal Year	Post Merger	
	Global IME Bank	NMB Bank		Global IME Bank	NMB Bank
2015/16	515	810	2019/20	239	397
2016/17	388	545	2020/21	441	440
2017/18	290	358	2021/22	251.4	261
2018/19	295	382	2022/23	186	226
Minimum	290	358	Minimum	186	226
Maximum	515	810	Maximum	441	440
Mean	372.00	523.75	Mean	279.35	331.00
Standard Deviation	105.45	208.13	Standard Deviation	111.44	103.54

Source: Appendix I and II

Based on the provided data, prior to the merger, Global IME Bank demonstrated a diverse range of Market Value per share (MVPS) values, with figures fluctuating from a minimum of Rs. 290 to a maximum of Rs. 515 for fiscal years 2015/16 to 2018/19. The mean MVPS during this period stood at Rs. 372.00, with a standard deviation of Rs. 105.45. Following the merger, there was a notable decrease in the variability of MVPS for Global IME Bank, with values ranging from Rs. 186 to Rs. 441 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean MVPS post-merger decreased to Rs. 279.35, indicating a significant decline compared to the pre-merger period. The standard deviation increased to Rs. 111.44, suggesting a higher level of variability in MVPS post-merger. This implies that while the merger may have led to a more consistent MVPS performance for Global IME Bank, there was a notable decrease in the overall MVPS compared to the pre-merger period.

Similarly, prior to the merger, NMB Bank exhibited a diverse range of MVPS values, with figures fluctuating from a minimum of Rs. 358 to a maximum of Rs. 810 for fiscal years 2015/16 to 2018/19. The mean MVPS during this period stood at Rs. 523.75, with a relatively high standard deviation of Rs. 208.13. Post-merger, NMB Bank's MVPS values showed reduced variability, with figures ranging from Rs. 226 to Rs. 440 for fiscal years 2019/20 to 2022/23. The mean MVPS post-merger

remained relatively stable at Rs. 331.00, indicating a slight decrease compared to the pre-merger period. The standard deviation decreased significantly to Rs. 103.54, suggesting a much lower level of variability in MVPS post-merger. This indicates that the merger had a notable impact on the MVPS performance of NMB Bank, leading to reduced variability and a slight decrease in the mean MVPS compared to the pre-merger period.

4.2 Major findings on the basis of analysis of data

From the above analysis of impact of merger and acquisition on financial performance on Nepalese banking following major finding have been obtained:

- i. Pre-merger mean EPS stood at 24.51, with a standard deviation of 1.82, reflecting consistent performance.
- ii. Post-merger, EPS exhibited a slight decrease in variability, with a mean of 19.54 and a standard deviation of 1.22, indicating stable but lower EPS.
- iii. Pre-merger mean ROE was 17.75%, with a standard deviation of 1.42, showing relatively stable performance.
- iv. After the merger, the Return on Equity (ROE) showed a modest decline in variability, with a mean of 13.46% and a standard deviation of 0.54, indicating a reduction in ROE.
- v. Before the merger, the mean Capital Adequacy Ratio (CAR) was 5.82%, with a standard deviation of 0.99, reflecting consistent performance.
- vi. Post-merger, the CAR experienced a slight decrease in variability, with a mean of 5.16% and a standard deviation of 1.93, showing a lower yet stable ratio.
- vii. The mean Earnings Per Share (EPS) before the merger was 22.44, with a standard deviation of 0.75, indicating stable performance.
- viii. Following the merger, EPS demonstrated increased variability, with a mean of 15.35 and a standard deviation of 3.12, suggesting a significant drop in EPS.
- ix. Pre-merger, ROE averaged 21.83%, with a standard deviation of 9.81, reflecting considerable variability.
- x. Post-merger, ROE exhibited reduced variability, with a mean of 11.41% and a standard deviation of 1.73, indicating a substantial decrease in ROE.
- xi. The mean CAR before the merger was 7.35%, with a standard deviation of 2.74, showing considerable variability.

- xii. After the merger, CAR demonstrated decreased variability, with a mean of 5.64% and a standard deviation of 0.25, indicating a more stable ratio.

It is summarized that the merger had varying impacts on the financial metrics of both banks. Global IME Bank generally showed more stable but lower performance indicators post-merger, while NMB Bank experienced greater variability and significant declines in its financial performance measures. These results underscore the importance of carefully evaluating the implications of mergers on financial stability and performance.

4.3 Discussion

The financial performance analysis of Global IME Bank and NMB Bank, both before and after their merger, reveals several key observations. Prior to the merger, Global IME Bank maintained a stable trend in its Earnings Per Share (EPS), with an average of 24.51 and a standard deviation of 1.82. Post-merger, the EPS showed a slight reduction in variability, with the mean EPS adjusting to 19.54. This indicates a modest decrease in variability while retaining a generally steady trend. In contrast, NMB Bank's EPS also showed consistent performance before the merger, averaging 22.44 with a low standard deviation of 0.75. After the merger, NMB Bank's EPS exhibited increased variability, with a mean of 15.35 and a higher standard deviation of 3.12, reflecting a significant decrease in EPS.

Similarly, Global IME Bank's Return on Equity (ROE) displayed stability before the merger, with a mean of 17.75 and a standard deviation of 1.42. Post-merger, while there was a decrease in ROE variability, the mean ROE declined slightly to 13.46, indicating a modest reduction in ROE. On the other hand, NMB Bank exhibited diverse ROE values pre-merger, with a mean of 21.83 and a relatively high standard deviation of 9.81. Post-merger, NMB Bank's ROE showed reduced variability, but the mean ROE decreased notably to 11.41, indicating a significant decline compared to the pre-merger period.

Additionally, the analysis of Cash Reserve Ratio (CRR) and Capital Adequacy Ratio (CAR) revealed notable impacts of the merger on the financial performance of both banks. While Global IME Bank showed relatively stable CRR and CAR values pre-merger, NMB Bank exhibited more variability. Post-merger, both banks experienced changes in variability, with Global IME Bank showing slight decreases, and NMB

Bank demonstrating significant reductions, indicating varying impacts of the merger on their financial stability.

Moreover, the Market Value per share (MVPS) analysis highlighted significant changes post-merger for both banks. Global IME Bank experienced a notable decrease in MVPS variability, indicating a more consistent performance, but with a significant decline in the mean MVPS. Similarly, NMB Bank's MVPS showed reduced variability post-merger, with a slight decrease in the mean MVPS compared to the pre-merger period.

Overall, these findings suggest that while the merger had differing impacts on the financial metrics of Global IME Bank and NMB Bank, it generally led to changes in variability and a notable decline in certain performance indicators, such as EPS, ROE, and MVPS, particularly for NMB Bank. This underscores the importance of careful consideration and analysis of the implications of mergers on financial performance and stability.

CHAPTER-5

SUMMARY AND CONCLUSION

This chapter summarizes the results of the study on how mergers and acquisitions affect the financial performance of banks in Nepal. Based on the findings discussed in Chapter Four, the chapter offers recommendations aimed at enhancing the financial outcomes of banks following mergers or acquisitions. These suggestions are designed to align with the study's objectives and provide a foundation for future research.

5.1 Summary

A merger involves the integration of two or more companies to strengthen their capital base and industry position. In the banking sector, mergers are often pursued to achieve efficiency gains through economies of scale and scope. In 2011, the central bank of Nepal sought to improve the financial sector's stability by enforcing merger regulations based on the Company Act of 2006 and BAFIA 2006, specifically Articles 68, 69, and 177. These laws mandated the consolidation of banking and financial institutions (BFIs) to enhance their capital and competitiveness. For the Nepal Rastra Bank, mergers were a compulsory strategy rather than a choice to reinforce market standing and financial stability.

The focus of the study was to evaluate whether mergers contribute to better performance among commercial banks in Nepal. The research aimed to analyze the effects of mergers on the financial performance of these banks. To accomplish this, the study employed a deductive and analytical research approach, selecting Global IME Bank and NMB Bank, which merged in 2019, as the subjects. Data were gathered from the financial statements in the banks' annual reports for the four years preceding and following the merger. The analysis utilized financial ratios and statistical methods, including mean, standard deviation, maximum, and minimum values, to assess the impact of the merger on financial performance.

The analysis of the EPS, before the merger, Global IME Bank maintained a consistent trend in its Earnings Per Share (EPS) from fiscal year 2015/16 to 2018/19, with EPS values ranging from 22.42 to 26.46. The mean EPS stood at 24.51, with a standard deviation of 1.82. However, post-merger, slight changes were observed in Global IME Bank's EPS figures for fiscal years 2019/20 to 2022/23, with values ranging from 17.99 to 20.84. Despite this decrease in variability, the mean EPS remained

relatively stable at 19.54, with a lower standard deviation of 1.22. This suggests that while the merger may have led to a modest reduction in EPS variability for Global IME Bank, the overall trend remained steady over the post-merger period. On the other hand, NMB Bank's EPS exhibited consistent performance before the merger, with values ranging from 21.86 to 23.54 and a mean EPS of 22.44, along with a standard deviation of 0.75. Post-merger, NMB Bank experienced fluctuations in EPS values, ranging from 11.18 to 17.92 for fiscal years 2019/20 to 2022/23. Despite this wider range, the mean EPS for NMB Bank post-merger stood at 15.35, indicating a moderate decrease compared to the pre-merger period. Additionally, the standard deviation increased to 3.12, suggesting higher variability in EPS post-merger. This indicates that the merger had a more pronounced impact on the EPS performance of NMB Bank, leading to increased variability and a moderate decrease in the mean EPS.

The analysis of Return on Equity (ROE) reveals distinct trends before and after the merger for both Global IME Bank and NMB Bank. Before the merger, Global IME Bank demonstrated a relatively stable ROE performance, with values ranging from 16.19 to 19.33 for fiscal years 2015/16 to 2018/19. The mean ROE during this period was 17.75, with a standard deviation of 1.42, indicating consistency. However, following the merger, there was a noticeable decrease in ROE variability for Global IME Bank, with values ranging from 12.88 to 14.19 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean ROE post-merger decreased to 13.46, suggesting a slight decline compared to the pre-merger period. The standard deviation also decreased to 0.54, indicating a lower level of variability in ROE post-merger. This implies that while the merger may have led to a more consistent ROE performance for Global IME Bank, there was a slight decrease in the overall ROE compared to the pre-merger period. Similarly, NMB Bank exhibited a diverse range of ROE values before the merger, fluctuating from 13.32 to 35.54 with a mean ROE of 21.83 and a standard deviation of 9.81. Post-merger, NMB Bank's ROE values showed a narrower range, ranging from 8.94 to 12.95, indicating decreased variability. However, the mean ROE post-merger decreased significantly to 11.41, with a standard deviation of 1.73, suggesting reduced variability but also a notable decline in the mean ROE compared to the pre-merger period. This indicates that the merger had a significant impact on the ROE performance of NMB Bank, leading to

decreased variability and a notable decline in the mean ROE compared to the pre-merger period.

The analysis of Return on Assets (ROA) provides insights into the performance of both Global IME Bank and NMB Bank before and after the merger. Before the merger, Global IME Bank maintained a consistent ROA performance, with values ranging from 1.55 to 1.82 for fiscal years 2015/16 to 2018/19. The mean ROA during this period was 1.70, with a standard deviation of 0.12, indicating stability. However, following the merger, there was a decrease in ROA variability for Global IME Bank, with values ranging from 1.06 to 1.38 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean ROA post-merger decreased to 1.23, indicating a decline compared to the pre-merger period. The standard deviation slightly increased to 0.13, suggesting a marginally higher level of variability in ROA post-merger. This suggests that while the merger may have led to a decrease in ROA variability for Global IME Bank, there was a notable decline in the overall ROA compared to the pre-merger period. Similarly, NMB Bank exhibited a stable ROA performance before the merger, with values ranging from 1.8 to 1.92 for fiscal years 2015/16 to 2018/19, and a mean ROA of 1.84 with a low standard deviation of 0.05. Post-merger, NMB Bank's ROA values showed minimal variability, ranging from 1.09 to 1.35, with a mean ROA of 1.24. The standard deviation increased slightly to 0.12, indicating a marginally higher level of variability in ROA post-merger. This suggests that the merger had a limited impact on the ROA performance of NMB Bank, with the overall trend remaining stable but showing a slight decline compared to the pre-merger period.

The analysis of Price to Earnings Ratio (P/E ratio) sheds light on the financial performance of both Global IME Bank and NMB Bank before and after the merger. Before the merger, Global IME Bank demonstrated a diverse range of P/E ratio values, fluctuating from 11.15 to 22.97 for fiscal years 2015/16 to 2018/19. The mean P/E ratio during this period stood at 15.40, with a standard deviation of 5.33, indicating variability. However, following the merger, there was a discernible decrease in the variability of P/E ratio for Global IME Bank, with values ranging from 8.43 to 22.9 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean P/E ratio post-merger slightly decreased to 14.17, suggesting a modest decline compared to the pre-merger period. The standard deviation increased to 6.17,

indicating a slightly higher level of variability in P/E ratio post-merger. This implies that while the merger may have led to a more consistent P/E ratio performance for Global IME Bank, there was a slight decrease in the overall P/E ratio compared to the pre-merger period. Similarly, NMB Bank exhibited a diverse range of P/E ratio values before the merger, ranging from 12.48 to 29.15. The mean P/E ratio during this period was 19.53, with a relatively high standard deviation of 7.16. Post-merger, NMB Bank's P/E ratio values showed a narrower range, from 12.88 to 31.45, indicating increased variability. The mean P/E ratio post-merger slightly decreased to 21.33, suggesting a moderate decline compared to the pre-merger period. The standard deviation increased to 9.04, indicating higher variability post-merger. This indicates that the merger had a significant impact on the P/E ratio performance of NMB Bank, leading to increased variability and a notable decline in the mean P/E ratio compared to the pre-merger period.

The analysis of Cash Reserve Ratio (CRR) provides insights into the liquidity management of both Global IME Bank and NMB Bank before and after the merger. Before the merger, Global IME Bank maintained a relatively stable CRR, with values ranging from 4.34 to 6.44 for fiscal years 2015/16 to 2018/19. The mean CRR during this period was 5.82, with a standard deviation of 0.99, indicating moderate variability. However, following the merger, there was a slight decrease in the variability of CRR for Global IME Bank, with values ranging from 3.18 to 7.59 for fiscal years 2019/20 to 2022/23. Despite this reduction in variability, the mean CRR post-merger decreased to 5.16, indicating a decline compared to the pre-merger period. The standard deviation increased to 1.93, suggesting a slightly higher level of variability post-merger. This suggests that while the merger may have led to a more consistent CRR performance for Global IME Bank, there was a slight decrease in the overall CRR compared to the pre-merger period. Similarly, NMB Bank exhibited a diverse range of CRR values before the merger, fluctuating from 4.19 to 10.81. The mean CRR during this period was 7.35, with a relatively high standard deviation of 2.74, indicating significant variability. Post-merger, NMB Bank's CRR values showed reduced variability, ranging from 5.33 to 5.93, with the mean CRR remaining relatively stable at 5.64, indicating a slight increase compared to the pre-merger period. The standard deviation decreased significantly to 0.25, suggesting much lower variability post-merger. This indicates that the merger had a notable impact on the

CRR performance of NMB Bank, leading to reduced variability and a slight increase in the mean CRR compared to the pre-merger period.

The analysis of the Capital Adequacy Ratio (CAR) provides valuable insights into the financial stability and risk management of both Global IME Bank and NMB Bank before and after the merger. Before the merger, Global IME Bank maintained a consistent CAR, with values ranging from 11.37 to 12.35 for fiscal years 2015/16 to 2018/19. The mean CAR during this period was 11.88, with a standard deviation of 0.53, indicating relatively low variability. However, following the merger, there was a slight increase in the variability of CAR for Global IME Bank, with values ranging from 12.48 to 13.34 for fiscal years 2019/20 to 2022/23. Despite this increase in variability, the mean CAR post-merger increased to 12.92, indicating a slight improvement compared to the pre-merger period. The standard deviation decreased to 0.41, suggesting a lower level of variability post-merger. This implies that while the merger may have led to a slightly more variable CAR performance for Global IME Bank, there was an overall improvement in the CAR compared to the pre-merger period. Similarly, prior to the merger, NMB Bank exhibited a diverse range of CAR values, fluctuating from 10.98 to 15.75. The mean CAR during this period was 13.94, with a relatively high standard deviation of 2.19, indicating significant variability. Post-merger, NMB Bank's CAR values showed reduced variability, ranging from 13.33 to 15.08, with the mean CAR remaining relatively stable at 14.27, indicating a slight increase compared to the pre-merger period. The standard deviation decreased significantly to 0.94, suggesting a much lower level of variability in CAR post-merger. This indicates that the merger had a notable impact on the CAR performance of NMB Bank, leading to reduced variability and a slight improvement in the mean CAR compared to the pre-merger period.

The analysis of Market Value per share (MVPS) sheds light on the market perception and valuation of both Global IME Bank and NMB Bank before and after the merger. Prior to the merger, Global IME Bank exhibited a diverse range of MVPS values, fluctuating from Rs. 290 to Rs. 515 for fiscal years 2015/16 to 2018/19. The mean MVPS during this period was Rs. 372.00, with a standard deviation of Rs. 105.45, indicating considerable variability. However, following the merger, there was a notable decrease in the variability of MVPS for Global IME Bank, with values ranging from Rs. 186 to Rs. 441 for fiscal years 2019/20 to 2022/23. Despite this

reduction in variability, the mean MVPS post-merger decreased to Rs. 279.35, indicating a significant decline compared to the pre-merger period. The standard deviation increased to Rs. 111.44, suggesting a higher level of variability in MVPS post-merger. This implies that while the merger may have led to a more consistent MVPS performance for Global IME Bank, there was a notable decrease in the overall MVPS compared to the pre-merger period. Similarly, prior to the merger, NMB Bank exhibited a diverse range of MVPS values, fluctuating from Rs. 358 to Rs. 810. The mean MVPS during this period was Rs. 523.75, with a relatively high standard deviation of Rs. 208.13, indicating significant variability. Post-merger, NMB Bank's MVPS values showed reduced variability, ranging from Rs. 226 to Rs. 440 for fiscal years 2019/20 to 2022/23. The mean MVPS post-merger remained relatively stable at Rs. 331.00, indicating a slight decrease compared to the pre-merger period. The standard deviation decreased significantly to Rs. 103.54, suggesting a much lower level of variability in MVPS post-merger. This indicates that the merger had a notable impact on the MVPS performance of NMB Bank, leading to reduced variability and a slight decrease in the mean MVPS compared to the pre-merger period.

5.2 Conclusion

The aim of this research is to investigate the effects of mergers and acquisitions on the financial performance of banks in Nepal, with a particular focus on the mandatory merger regulations enacted by the Nepal Rastra Bank in 2011. The analysis of the impact of merger and acquisition on the financial performance of Nepalese banks yields crucial insights into the dynamics of consolidation within the banking sector. With the merger occurring in 2019 AD, an in-depth examination of various financial indicators across pre and post-merger periods sheds light on the repercussions of this strategic move.

In conclusion, the comprehensive analysis of various financial indicators before and after the merger provides valuable insights into the performance and impact of the merger on both Global IME Bank and NMB Bank. Before the merger, both banks exhibited stable financial metrics across key indicators such as Earnings Per Share (EPS), Return on Equity (ROE), Return on Assets (ROA), Price to Earnings Ratio (P/E ratio), Cash Reserve Ratio (CRR), Capital Adequacy Ratio (CAR), and Market Value per share (MVPS). However, post-merger, there were notable changes observed in the financial performance of both banks.

For Global IME Bank, the merger led to a reduction in variability in some metrics such as EPS, ROE, and ROA, indicating a more stable performance post-merger. However, there were declines observed in the mean values of these indicators, suggesting a slight deterioration in overall financial performance. Similarly, the P/E ratio showed a decrease in variability post-merger, but with a slight decline in the mean value, indicating a less favorable market perception. The CRR exhibited a decrease in variability post-merger, but with a decline in the mean value, signaling a reduction in liquidity. Additionally, the CAR showed a slight increase in variability post-merger, but with a slight improvement in the mean value, reflecting a slightly enhanced capital adequacy post-merger. However, the MVPS demonstrated a significant decrease in both mean value and increase in variability post-merger, indicating a notable decline in market valuation.

For NMB Bank, the merger had a more pronounced impact, with significant changes observed across various financial indicators. The EPS, ROE, ROA, and P/E ratio showed declines in both mean values and increases in variability post-merger, indicating a notable deterioration in financial performance and market perception. However, the CRR and CAR demonstrated improvements post-merger, with reductions in variability and slight increases in mean values, indicating enhanced liquidity and capital adequacy.

Overall, while the merger may have led to improvements in certain aspects such as stability in some financial metrics and liquidity and capital adequacy for NMB Bank, there were also notable declines in financial performance and market valuation for both banks. These findings suggest that mergers in the banking sector can have complex and varied impacts on financial institutions, highlighting the importance of careful planning and management to ensure successful integration and sustained performance in the post-merger period.

5.3 Implications

The implications drawn from the research suggest several key considerations for both policymakers and banking institutions contemplating mergers. Firstly, the findings underscore the need for thorough due diligence and strategic planning before executing a merger, particularly concerning financial performance and market

valuation. This includes assessing potential synergies, risks, and challenges to ensure alignment with organizational objectives and shareholder interests.

Moreover, the observed declines in certain financial indicators post-merger highlight the importance of effective post-merger integration strategies. Banking institutions should focus on enhancing operational efficiency, optimizing resource allocation, and strengthening risk management frameworks to mitigate adverse impacts on financial performance and market perception.

Additionally, the variations in the impact of the merger on different financial indicators for each bank emphasize the need for tailored approaches to integration. Institutions should prioritize areas where improvements are needed most urgently, while also leveraging strengths to capitalize on potential opportunities arising from the merger.

Furthermore, the research underscores the significance of transparent communication and stakeholder engagement throughout the merger process. Clear communication of the rationale behind the merger, its expected benefits, and the strategies for navigating potential challenges can help build trust and confidence among stakeholders, including shareholders, employees, and customers.

In light of these implications, the following recommendations are proposed:

1. **Develop a comprehensive integration plan:** Banking institutions should formulate a detailed integration plan encompassing all aspects of the merger, including organizational structure, operational processes, technology systems, and cultural alignment. This plan should be developed collaboratively with key stakeholders and regularly reviewed to track progress and address emerging issues.
2. **Prioritize talent retention and development:** Given the critical role of human capital in driving post-merger success, banks should prioritize talent retention and development initiatives. This may include offering incentives for key personnel, providing training and development opportunities, and fostering a supportive organizational culture conducive to collaboration and innovation.
3. **Strengthen risk management and compliance frameworks:** To address potential risks associated with the merger, banks should enhance their risk management and compliance frameworks. This involves conducting thorough

risk assessments, implementing robust internal controls, and ensuring compliance with regulatory requirements to maintain the trust and confidence of regulators and stakeholders.

4. **Monitor and evaluate financial performance:** Continuous monitoring and evaluation of financial performance indicators are essential to assess the impact of the merger and identify areas for improvement. Banks should establish key performance metrics aligned with strategic objectives and regularly review and analyze financial data to inform decision-making and course corrections as needed.
5. **Foster a customer-centric approach:** Throughout the merger process, banks should prioritize maintaining a customer-centric approach to preserve customer satisfaction and loyalty. This involves ensuring seamless transitions for customers, addressing their concerns and feedback, and delivering innovative products and services that meet their evolving needs.

By adhering to these recommendations and addressing the implications highlighted by the research, banking institutions can navigate the complexities of mergers more effectively and position themselves for sustainable growth and success in the evolving financial landscape.

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ABSTRACT The research explores how mergers and acquisitions (M&A) affect the financial performance of banks in Nepal, with a specific focus on Global IME Bank Ltd and NMB Bank. M&A activities are a recent development in Nepal, aimed at enhancing the efficiency of the banking sector and rebuilding public trust. This research aims to evaluate the effects of M&A on various financial metrics, including return on assets, return on equity, earnings per share, and market value per share. By analyzing secondary data from the annual reports of the two banks, the study compares pre-merger and post-merger financial performance over a period of eight years. Key findings suggest that while M&A activities have led to a more stable and efficient banking environment, the financial performance improvements are mixed. Global IME Bank showed a modest reduction in earnings per share variability post-merger, whereas NMB Bank experienced increased variability and a moderate decrease in mean earnings per share. Both banks witnessed a decrease in return on equity post-merger, indicating a potential area for strategic focus. This research contributes to the