

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Mergers and acquisition turn out to be the main source in the dynamic environment. Organizations now face the domestic and international competition due to globalization and liberalization in the corporate world. Merger and Acquisition is important financial tool that enable company to grow faster and provide return to owners and investors. Mergers & acquisitions (M&A) refer to the management, financing, and strategy involved with buying, selling, and combining companies. A Merger is the combination of two similarly sized companies combined to form a new company. An Acquisition occurs when one company clearly purchases another and becomes the new owner.

Merger and Acquisition is considered a vital tool to facilitate the sound and efficient performance of the financial industry while subjugating the problems underlying the system. The instrument also plays a key role in bringing down the cost of operations and increasing the market competitiveness and profitability of the firms (Gautam, 2016). In the international financial markets, M&A is often conducted to fulfill the demands of regulatory bodies and as an attempt to enhance the competitive advantage and expand the operations of the financial institutions. But, despite these hopeful expectations, almost half of the M&A fail to meet the initial expectations (Cartwright and Cooper, 1993).

According to Ross, Westerfield, & Jordan (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross, 2003).

Mergers and acquisitions is another and mostly preferable option a firm adopts for recapitalization. Nepal Rastra Bank announces time to time minimum paid up capital requirements for Bank and financial institutions in Nepal. When the Nepal Rastra Bank increases the minimum paid up capital requirements, ordered to increase the number of branches and also to maintain capital adequacy ratio at certain level, then it becomes very difficult for banks to meet these criteria alone and the banks started to combine together, equal level banks merged and larger banks acquire the certain smaller banks. This has sent some of banks on the move to consider merger and acquisition as a survival strategy.

In the beginning, the merger bylaws had failed to create immediate impression in the banking industry and the merger bylaws in the form of consolidation have gained acceleration over the years in 2011 and 2013 when the Himchuli Development Bank and Birgunj Finance first sparked the merger trend and consolidated to become the H&B Development Bank. The merger bylaws policy introduced by the Nepal Rastra Bank in the year 2011 has been successful as almost one fourth of the financial institutions have opted mergers (Singh 2013).

A lot of speculations have been going on in the financial sector whether the merger policy is to be fruitful to strengthen the Nepalese bank and financial institutions. Some positive signals have been visible in the financial institutions as above 179 financial institutions including commercial banks, development banks and finance companies have involve in merging process and 121 bank and financial institutions license collapsed. Out of 179 bank and financial institutions 112 were merged with each other and remaining 67 BFIs were acquired. So far and a few bank and financial institutions are in pipelines and some have got the letter of intent. This depicts that merger and consolidation has gradually taken place in the banking industry. The goal of this research is to find out the impact of the merger policy adopted by the Nepal Rastra Bank and its impact on financial performance of Nepalese bank and financial institutions. The research is aim to analyzing the financial statements of the BFIs involved in the merger and acquisitions activity. A comparison is made between pre-merger and acquisitions performance and post-merger performance of the Bank and financial institutions (BFIs) based on profitability, Liquidity and Asset quality performance.

1.2 Statement of the Problem

Mergers and acquisitions is another and mostly preferable option a firm adopts for recapitalization. Nepal Rastra Bank announces from time to time minimum paid up capital requirements for Bank and financial institutions in Nepal. When the Nepal Rastra Bank increases the minimum paid up capital requirements, ordered to increase the number of branches and also to maintain capital adequacy ratio at certain level, then it becomes very difficult for banks to meet these criteria alone and the banks started to combine together, equal level banks merged and larger banks acquire the certain smaller banks. This has sent some of banks on the move to consider merger and acquisition as a survival strategy, There is a whole list of the challenges the banks encounter after the consolidation which is also a source of increasing unemployment in the country which hampers the growth of economy largely. The challenges are listed as; Inappropriate corporate governance practices, Insufficient risk management, Non- durable infrastructure, Extra dependence over public financial means, Improper regulations and check and balance, Insufficient credit assessment skills and techniques, Lack of professional behaviors and poor skills and training (Ahmed & Ahmed 2014). All these factors become the reason of illiquidity in the banking sector and hampering its prosperity even more. These causes have provided the ground for this research and it aims to go deep in all these problems and digging out the reasons behind the failure of banks in achieving the profit levels they intend to reach and how these reasons can be avoided and changed to others that can make the flow of growth smoother. The completion of this research would cater all these problems. To cater this problem of banking systems, particularly of Nepal, I intend to study that how much and in what way mergers and acquisitions have contributed towards the inclination of financial performance of banks.

In this way this study will be aim to answering the following research questions:

- i. What are the impact of merger and acquisition on profitability in BFIs?
- ii. What are the impact of merger and acquisition on Liquidity in BFIs?
- iii. What are the impact of merger and acquisition on Asset quality in BFIs?

1.3 Purpose of the Study

The objective of this research is to explore the effects on acquiring bank's performances in Nepal in order to investigate the probable value addition or value deduction of acquiring firms. Other objectives of this study are:

- i. To analyze the post-mergers and acquisitions impact on profitability.
- ii. To evaluate the post-merger and acquisitions impact on liquidity.
- iii. To examine the post-merger and acquisitions impact on assets quality.

1.4 Significance of the Study

This study has enormous significance for a number of users of the literature. Firstly, it has the ability to create awareness in the general public about the mergers and acquisitions and its possible effects on the growth and performance of the firms indulged and also the challenges they face. The study put a light on the repercussion the banking sector faces because of the mergers and acquisitions which intends to make the banking system stronger and more diversified. This research also intends to give the foreign potential and existing investors more elaborative reasons to invest in Nepalese banking system by enlightening them about the profits it has generated and benefits it has given to the sector under question. Through this research banking industry may be able to maintain their liquidity and profitability position during post-merger and acquisition. Industry may be able to know the effects of business combinations on the financial position of concerned industry.

It is believed that the outcome of this study is benefited to many stakeholders in the banking industry of Nepal. The banks that are being merged in future have an overview of the condition and the impact of mergers in the country and make possible strategies to make it successful. Besides that, investors have an overview of the impact of mergers in the Nepalese banking industry. They analyze the trend and growth of the banks being merged and pull out or invest more money in the banks according to their interest. With the help of this paper we try to identify the areas

where the merged banks are doing good and where they are going down which can be taken as reference by the banks to be merged in future and can work upon those factors which may take down the performance of the bank. Also, the result obtained from this paper is helpful for the regulatory bodies to take necessary steps and make appropriate rules and regulation which facilitate the mergers and acquisition in the country and save the interest of the investors. It helps to identify either merger is the only solution for the growth and expansion of the banks in Nepal or we should identify more scope and explore more areas for the expansion and growth of banking industry in Nepal. Also, increased level of mergers can lead to existence of few big banks in terms of capital and customer base, which can exploit the financial market of the country and society too. So, this paper bears a great level of significance for every stakeholders of the banking industry to know, where the banking industry is going towards, in order to save their own interest.

1.5 Hypothesis of the Study

In order to achieve the research objectives, research hypothesis needs to be formulated. On the basis of the research problem, research objectives and the review of literature, the researcher has identified the following broad hypothesis for this study.

H1: Mergers and Acquisitions in Nepal in the post-merger period have improved the profitability performance indicators of acquiring banks.

H2: Mergers and Acquisitions in Nepal in the post-merger period have improved the liquidity performance indicators of acquiring banks.

H3: Mergers and Acquisitions in Nepal in the post-merger period have improved the Asset quality performance indicators of acquiring banks.

1.6 Limitation of the study

Some of the limitations of this study are as follows:

- i. The data for the analysis is only based on secondary data. Therefore the reliability of the result is based on the reliability of available data.

- ii. The study is based on three sample bank and financial institutions so the result may not generalize.
- iii. The analysis will based on limited year financial data 2011-2017.
- iv. This study only covers financial aspects.

1.7 Organization of the Study

The study is to be organized in the following five different chapters.

Chapter I: Introduction

This chapter includes introduction, Background of the study, Statement of the problem, Purpose of the study, Significance of the study, Hypothesis of the study, Limitation of the study and Organization of the study.

Chapter II: Review of Literature

This chapter Include conceptual as well as theoretical review of the study. It include the review of various general, book, published and unpublished article, thesis and other materials concerned with the study.

Chapter III: Research Methodology

This chapter answers the question of how research is conducted. It includes Research design, Population and sample, Source and technique of data collection and Data analysis tools.

Chapter IV: Data analysis

In this chapter, the collected data is to be tabulated and analyzed by the use of various statistical tool, financial tool and accounting tools, graph and figures. It also include major finding of the study.

Chapter V: Summary, Conclusion and Recommendation

This chapter includes summary, Conclusion and Implications of the study. This is the last chapter of the study. The main conclusions were drawn on the basis of analysis of data and some recommendation and suggestion were made on the basis of the study.

CHAPTER: TWO

LITERATURE REVIEW

2.1 Nepalese Banking Industries:

The Nepalese financial system development has a very recent history, starting just from the early twentieth century. The full period, from initiation to the present, can be broken down into three distinct phases which are determined by different milestones.

2.1.1 The first phase:

This phase corresponds with the initiation of formal domestic banking system in Nepal with the establishment of Tejarath-Adda in 1880 A.D. The establishment of Tejarath-Adda is the beginning of the process of credit mobilization in Nepal. However, this institution, although formally established, was not allowed to take public deposit and provide credit to public. The fund had been provided by the government for credit to their staff and landlords only. Even the urban people in need of the financial support had to rely on Shahus (merchants) and landlords because of the limited activities of Tejarath-Adda. It was only with the establishment of Nepal Bank Limited (NBL) in 1937 A.D. that the financial services were made available to the general public.

2.1.2 The Second phase:

This phase commences with the establishment of NRB in 1956 A.D. under the NRB Act 1955. With the establishment of NRB in 1956 A.D., the process was made easier for establishment of banks and financial institutions in the country. However, this phase can be further subdivided into two sub-periods: The first sub-period (or second phase A), was a period of restriction where the Nepalese payment system was characterized as "predominantly a cash-economy" (NRB, 1965) but, this period took a different turn with the establishment of Nepal Arab Bank Limited as the first joint-venture bank in 1984 A.D., under the Government's liberalized policy. The first sub-period saw more directed role of NRB in terms of credit control (including directed credit programs) and control of different categories of interest rates. In this sub-period, three institutions of diverse nature were established under the full ownership of the Government of Nepal (GON). They were (i) Nepal Industrial Development

Corporation (NIDC in 1959 A.D.) (ii) Rastriya Banijya Bank (RBB in 1966 A.D.) and (iii) Agriculture Development Bank, Nepal in 1968 A.D. The second sub-period (or second phase B) witnessed greater financial liberalization that practically started from 1984 A.D. until the enactment of new NRB Act in 2002 A.D. This sub period corresponds with the overall economic liberalization policy of GON after the nation underwent sustained balance of payment crisis in the early 1980s. This later sub period saw major shifts in the policy measures such as: from a controlled to a deregulated framework of interest rate; from direct to indirect methods of monetary control, emphasizing open market operations as the main policy tool; and permitting market determined exchange rate of the Nepalese currency against convertible currencies and full convertibility of the Nepalese currency in the current account (NRB, 1996). During this sub-period, Nepal Indosuez Bank (later named as Nepal Investment Bank) and Nepal Grindlays Bank (now Standard Chartered Bank Nepal) were established in 1986 A.D. and 1987 A.D. respectively as the second and third joint-venture banks. However, no fully owned domestic-funded banks were established during this period. The entry of other development banks, finance companies, micro-credit development banks, savings and credit cooperatives and Non-government organizations (NGOs) for limited banking transactions started after 1992 A.D. under three major acts namely Finance Company Act 1985, Company Act 1964 and Development Bank Act 1996.

2.1.3 The Third phase:

The NRB Act of 2002 marks the initiation of the currently undergoing third phase. This act replaced the NRB Act 1955 and allowed NRB to be more autonomous in exercising decisions relating to formulation of monetary and foreign exchange policy as well as monitoring and regulating banks and financial institutions across the nation. However, it was felt that the existing situation of multiple numbers of acts under banking and financial institution sector made the process of regulation and monitoring system very cumbersome. As a result and as a process of financial sector reform program, all those diversified acts were grouped together under the 'Bank and Financial Institution Act (BAFIA), 2006. This Act, also known as Umbrella Act, categorized all the banks and financial institutions under four heads on the basis responsibility differences: Group A as commercial bank; Group B as development bank; Group C as finance company; and Group D as microcredit development banks.

The other two forms of institutions, namely saving and credit cooperatives and Non-Government Organizations (NGOs), both allowed by NRB for limited banking transactions, are however not put in any of those groups and are being operated under specific directives and rules. After the formulation of Merger and Acquisition act under the Central bank regulations act Himchuli Development bank and the Birgunj finance were the first two financial institutions merged for the first time in the history of Nepal and was named as H & B Development Bank ltd in the year 2068 B.S. The major objective of the central bank towards this regulation seem to be creation of safe credit lending in the banks, competitive work environment in the overall banking system, cost reduction as well as availability of adequate funds within the financial institutions to cope with the global situation. However the provision for merger between the two different financial institutions within the country is likely to create the condition of Monopolistic competition in remote areas of Nepal where NRB need to be aware in time. This study intends to make an analysis of the financial performance of the banking system after the NRB regulations for the Merger and Acquisition with special regard on the effectiveness of the banking sector.

Moreover World trading organization had encouraged countries to open up their financial markets to allow entry of foreign banks. Nepal cannot be excepted as all of the countries are now moving towards consolidating their banking system. In fact, Nepal cannot be seen to fall backward in the consolidating of the banking industry. The process of merger started in the year 2011 A.D. in Nepal.

2.2 Meaning of Merger and Acquisition

According to Anthony (2008), a merger refers to the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). An acquisition, on the other hand, is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. Umar (2009), a merger is a transaction involving two or more companies in which shares are exchanged but in which only one company survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. The resulting firm is likely to have a name derived from its composite firms,

while an acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring company. Okpanachi (2011), views mergers and acquisitions as global business terms used in achieving business growth and survival. A merger entails the coming together of two or more firms to become one big firm while acquisition is the taking over or purchase of a small firm by a big firm, both of which are pursuing similar motives.

Therefore, a merger can be seen as the combination or amalgamation of two or more separate companies into a single company where one survives and the others lose their corporate existence while acquisitions can be seen as the taking over of the controlling shareholding interest of another company. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes a division or a subsidiary of the acquiring company.

According to Ransariya (2010), a merger can be taken as an abbreviation which means:

M: Mixing

E: Entities

R: Resources for

G: Growth

E: Enrichment and

R: Renovation

Thus, one can conveniently refer to a merger as the mixing of entities' resources for growth and renovation. Basically, mergers and acquisitions are forms of consolidation. The terms mergers, acquisitions and consolidation are often confused, appear similar and are mostly used interchangeably. However, the three have different meanings. Unlike mergers and acquisitions, consolidation refers to the fusion of two or more existing companies into a new company in which the former companies are extinguished or losses their identities. According to Okonkwo (2004), consolidation is a business combination where two or more companies join to form an entirely new company, all the combining companies are dissolved and only the new entity continues to operate. Ajayi (2005), consolidation is viewed as the reduction in the number of banks and other deposit- taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector.

2.3 Types of Mergers:

2.3.1 Horizontal Mergers:

Horizontal mergers happen when a company merges or takes over another company that offers the same or similar product lines and services to the final consumers, which means that it is in the same industry and at the same stage of production. Companies, in this case, are usually direct competitors. Horizontal merger is merger between NIC bank and Bank of Asia Nepal.

2.3.2 Vertical Mergers:

A vertical merger is done with an aim to combine two companies that are in the same value chain of producing the same good and service, but the only difference is the stage of production at which they are operating. Vertical merger can be merger between sugar mills and sugar cane producer.

2.3.3 Concentric Mergers:

Concentric mergers take place between firms that serve the same customers in a particular industry, but they don't offer the same products and services. Their products may be complements, product which go together, but technically not the same products. For example, Coca Cola working with Six Flags Entertainment Company, merger between Bread and biscuit Industry .

2.3.4 Conglomerate Merger:

When two companies that operate in completely different industry go for merger regardless of the stage of production, then such merger is known as conglomerate merger. This is usually done to diversify into other industries, which helps reduce risks. The example of conglomerate merger can be between Walt Disney Company and American Broadcasting Company.

2.4 Types of acquisition:

“An acquisition is a transaction in which an individual or company, known as the offer or (or acquirer) gains control of the management and assets of another company, known as the offered (or target), either by becoming the owner of these assets or

indirectly by obtaining control of the management of the company, or by acquiring the shares” (Firer et al., 2004).

2.4.1 Stock Acquisition:

The acquirer buys the target’s stock of from the selling shareholders. In a stock purchase, all of the assets and liabilities of the seller are sold upon transfer of the seller's stock to the acquirer. As such, no tedious valuation of the seller's individual assets and liabilities is required and the transaction is mechanically simple. The acquirer does not receive a stepped-up tax basis in the acquired net assets but, rather, a carryover basis. Any goodwill created in a stock acquisition is not tax- deductible.

2.4.2 Asset Acquisition:

The acquirer buys some or all of the target’s assets/liabilities directly from the seller. If all assets are acquired, the target is liquidated. The acquirer can choose ("cherry pick") which specific assets and liabilities it wants to purchase, avoiding unwanted assets and liabilities for which it does not want to assume responsibility. The asset purchase agreement between the buyer and seller will list or describe and assign values to each asset (or liability) to be acquired, including every asset from office supplies to goodwill. Takeovers can be friendly or hostile. A friendly acquisition occurs when the acquiring company gives information to the target company's Board of Directors that it plans to purchase a controlling interest. The proposed buyout is then voted upon by the Board of Directors. The votes would decide whether the proposal should be accepted or not. If they voted in favor of proposal, then the acquiring company then takes control of the target company's operations. However, the acquiring company may or may not choose to keep the target company's board of directors in place. A hostile acquisition happens when the target company's board of directors does not vote in favor of the stock sale to the acquiring company. Agents of the acquiring company then will try to buy the target company's stock from other available sources, gain a controlling interest and force out the board members who voted against the acquisition. When this happens, the acquiring company will aggressively go after shares of the target firm, while the target's board of directors prepares to fight for survival (Hanks, 2016).

2.5 Difference between Merger and Acquisition

Though merger and acquisition term is used interchangeably, there are some differences between them. Following are the differences between merger and acquisition:

Merger	Acquisition
1. A type of corporate strategy in which two companies amalgamate to form a new company is known as merger.	1. A corporate strategy, in which one company purchases another company and gain control over it, is known as acquisition.
2. In the merger, the two companies dissolve to form a new enterprise	2. In acquisition, the two companies do not lose their existence.
3. Generally, two companies of the same nature and size go for merger.	3. Acquisition, in which the smaller company is overpowered by the larger company.
4. In a merger, the minimum number of companies involved is three.	4. In acquisition, the minimum number of companies involved is two.
5. The merger is done voluntarily by the companies.	5. Acquisition is done either voluntarily Or involuntarily.
6. In a merger, there are more legal formalities as compared to acquisition.	6. In an Acquisition There are less legal formalities as compared to merger.

Merger and acquisition in the banking sector is not a new phenomenon. Many international as well as national banks have been through merger and acquisition activities. Normally there is involvement of at least two parties in merger and acquisition process. Merger and acquisition normally occurs when both parties see a chance to increase the advantage of working together rather than performing alone. Both parties hope to benefit from the greater efficiency and competitive strength found in the combined company (Giddy, 2006). Therefore, the variables discussed are the factors that affect both parties prior to merger and acquisition for the decision to undertake M&A.

2.6 Acts for Merger and Acquisition in Nepal

2.6.1 Companies Act, 2006 A.D.

According to this act the provision about Merger of a company is mentioned in section 177. It also includes 8 subsections which are the essential criteria for any kind of merger. Those essential criteria included are as follow:

- i. For all public companies they have to pass special resolution in its general meeting about merger however for the private companies it should be according to the Memorandum of articles or consensus agreement.
- ii. A public company merging into a private company or a private company merging into a public company shall stand as a public company.
- iii. After passing the resolution they shall make application to Company Registrar Office within 30 days.

Additional document required are : for public companies they must include a copy of the decision of general meeting whereas for private companies, copies of the related provisions contained in the memorandum of articles or consensus agreement authorizing the merger, last year balance sheet and auditor's report of the company, copy of the letter of consent in writing of the creditors of the merging company and of the merged company, valuation of the movable and immovable properties, and actual details of the assets and liabilities, the merging company.

In addition to these if the merging company and merged company have made a decision as to the creditors and employees and workers of the merging company, a copy of such decision; the scheme of arrangement concluded between the companies for merger with each other.

Once the documents are provided the company registrar office shall give its decision within three months and after an approval from the company registrar office for merger all the assets and liabilities of the merging company shall be deemed to have been transferred to the merged company. All the records are maintained by the

company registrar office in the company registration book. However if such merger appears to create a monopoly or unfair trade restriction or to be contrary to public interest the company shall not give an approval.

2.6.2 Bank and Financial Institution Act 2017 A.D. (BAFIA)

This act has made 'Provision Relating to Merger of Licensed Institutions' on Chapter-10 (Sections 69 & 70). According to this act if any licensed institution wants to merge with each other, they must follow the procedure mentioned in this act.

- i. If any licensed institution wishes to be merged with or merging another licensed institution, both the merging and merged licensed institutions shall adopt a special resolution to that effect in their respective general meetings and make a joint application, setting out the following matters, to the Rastra Bank for approval.
- ii. Audit report of the last fiscal year of the merging licensed institution, along with its audited balance sheet, Profit and loss account, cash flow statement and other financial institutions.
- iii. A copy of the written consent of the creditors of both the merging and merged licensed institutions to merge or to be merged.
- iv. Valuation of the movable and immovable properties of and actual details of the assets and liabilities of the merging licensed institution.
- v. A copy of the decision as to the employees of the merging licensed institution
- vi. Such other necessary matter as prescribed by the Rastra Bank in relation to the merger of the licensed institutions.

After receiving application for approval, the central bank shall examine the documents and returns attached with the application and decide whether or not to grant approval for the merger of the licensed institutions with each other and give information thereof to the concerned licensed institutions within forty five days, and within a period of additional fifteen days if the central bank has demanded any returns or documents in the course of making decision. However there shall not be any decision for merger and acquisition of a licensed institution if it is likely to create an environment of unhealthy competition or to give rise to the monopoly or controlled

practices of any licensed institution in the financial sector. Once the merger is approved by the central bank all the assets and liabilities of the merging licensed institution shall maintain records of the merged licensed institutions. However the central bank may issue necessary directives in relation to the other procedure relating to the merger of the licensed institutions. Furthermore there shall be published news in a national newspaper at least once within thirty days after the date of decision, a notice containing the particulars of the decision made by it in relation to the merger of any licensed institutions for the information of the general public.

2.6.3 Provision for Income Act

- i. In order to promote the voluntary retirement plan once the companies undergoes merger, there is provision of income tax rebate of 50% out of the total outstanding salaries and expenses.
- ii. There is no tax on capital gains earned from the share market for those companies who have completed the consecutive two years of the merger period.
- iii. There is no tax in dividends to those shareholders who were already in the company's two years before the merger process.

The above mentioned criteria are supposed to be fulfilled within the fiscal year 2015/2016 according to the economic act 2015.

2.6.4 Provisions according to the Central Bank of Nepal

- 1) Monetary Policy: Monetary policies directed towards the maintenance of good corporate governance, free competition among the financial institutions and hedging the corporate risk are also continued in the fiscal year 2016/17 to motivate the merger process.
- 2) Bank and Financial institution act (BAFIA): Section 10 subsection 68 and 69 of BAFIA includes the provision for merger in Nepal. Before the merger both merging and merger institutions need to provide the written consent passed by the majority of shareholders through annual general meeting to the Central bank.

- 3) The special act for merger 2012 has already been implemented in Nepal thus any kind of financial institutions can undergo the merger is included there but still there are four categories in the Nepalese banking sectors namely “ A” , “B”, “C” and “D”. Out of these four categories “D” can undergo merger with “D” whereas the rest can undergo either of the class for merger but with the written consent through annual general meeting.
- 4) Acquisition act 2013 has also been implemented strictly to promote the healthy competition among the banking sector however similar to the merger act only A , B and C categories bank can acquire the either of the groups whereas D can acquire any institutions belonging to the category D only.

Existing literature review proves that there is a positive impact of merger and acquisition policy. It is a basis for cost evaluation to generate positive impact in the economy as well as to generate the synergy benefit. Also some of the articles are focused on analyzing the employee’s impact and have found generation of negative impacts on employees. Since Merger and Acquisition in Nepal is a new concept this paper tries to analyze the effectiveness of Merger policy at present as most of the financial institutions are interested to adopt the merger policy. However this paper has tried to analyze the effectiveness of merger policy in the banks of Nepal through analysis of basic financial indicators before and after the merger period.

2.7 Steps in merger process of Nepalese banks and financial Institutions:

The steps in the merger process of Nepalese banks and financial institutions are:

1. Formation of merger committee

There is to be formation of the committee including the directors from all the BFIs that are subjected to merge.

2. Special Annual General Meeting

Here, the AGM should be held with the discussion of objectives and reasons to the shareholders. The decision is to be taken into consideration only if majority of shareholders agree on it.

3. Memorandum of Understanding

It explains the future plans after merger backed up by at least two third of consensus and also is used as a tool for legal commitment. This is submitted to Nepal Rastra Bank for merger.

4. Application to Nepal Rastra Bank for merger

Application is submitted to Nepal Rastra Bank stating current positions of the companies and their future objectives after merger.

5. Due diligence report

Prepared by the independent third party audit firm, it explains the information regarding net worth, capital adequacy, liquidity condition, types of loans etc.

6. Final approval

The decision regarding merger is done by Nepal Rastra Bank based upon financial statements, memorandum of understanding, valuation of companies' asset and liabilities, location details and name of the companies about merge along with share valuation report, business plan after merger and the like.

2.8 REVIEW OF LITERATURE

Literature review means to gather the information which had been previously collected by other researchers related to subject. The sources of information are; books, research papers and internet search engines. All these gathered secondary data will helped us to better understand the research topic.

Sufian & Abdul (2007) analyzed the mergers effect on the performance of Singaporean banking sector. The aim of this study is to trace the answer of questions such as did the mergers result in increasing the post- merger efficiency in Singapore banking, can low efficient bank is the target of acquisition, can low efficient target bank reduces the post- merger efficiency of the acquiring bank, can more profitable and efficient bank increases the post- merger efficiency of acquiring bank and how the relative performance of Singapore banks can be determined. The results suggest that bank profitability has a significant positive impact on the efficiency of banks; on

the other hand poor credit quality has a significant negative impact on the performance of banks.

Said, Nor, Wah Low & Rahman (2008) investigated the effect of mergers and acquisitions in the banking sector of Malaysia. The objective of this study is to make available proof of the proficiency improvements that banks experienced from the 1998-2004 merger application in Malaysia and also to assess the performance of banking institutions. In this research a sample of ten Malaysian banks are selected that underwent merger and acquisitions during the 1998 to 2004. Three approaches to analyze the impact of mergers are used in this study namely paired sample t-statistics, Data envelopment analysis and regression analysis to test the significance. The variables of study called camel –type variables includes advances/loan loss reserves to capital ; growth of loans; in order to measure the liquidity risks of banks, a ratio of loan to deposits is used. The efficiency impact of mergers is measured by using the DEA. Paired sample t-statistics is used to measure the pre and post-merger average performance of camel type variables. The results of this study show that mergers do not result in improving the productive efficiency of merged banks.

Kumar & Bansal (2008) studied the impact of mergers on banking performance. This study concluded that mergers increased the efficiency of sample banks. But it is also pointed out drawback of mergers which was creation of monopolies and synergies.

Anand & Singh (2008) studied the impact of merger announcements of five banks in the Indian Banking Sector on the return of the shareholders of the bank. These mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had positive and significant impact on shareholder's wealth. Using the single-factor model, the study finds that the average cumulative abnormal return (CAR) of the bidder banks is positive and substantial. These results are also statistically significant. Thus, the bidder banks got significant positive abnormal returns.

Raiyami (2010) analyzed the merger effects on the efficiency and productivity of banks in India. The purpose of this study is to explore the motivations of mergers and acquisitions in the Indian banking sector. In this study a sample of six Indian banks are selected that underwent merger and acquisition during year 2000-2006. In this study the author used the financial ratios. Ratios are used to examine the profitability, efficiency, liquidity assets quality and capital position of Indian banks. The researchers used an independent t test to examine the statistical significance of this test is to verify not only the analysis of the situation, but also the impact of mergers and acquisitions on the performance of banks. The result of the study shows that banks have a positive impact on mergers and acquisitions.

Joshua (2011) analyzed the pre and post- merger operating performance of banks merged in Nigeria. Mergers were carried out in order to achieve greater efficiency prevent financial operational difficulties and eliminating bottlenecks. In this study a sample of three banks are selected that underwent merger transactions during 2002-2008. This study used the secondary form of data. Financial ratios are computed to measure the operating performance of acquiring firms. The study used the paired sample t-test to test the significance. The results of this study also reveal that an increase financial performance results in an improved financial efficiency.

Liargovas & Repousis (2011) investigated the effects of mergers and acquisitions on the financial and operating performance of banking industry in Greek. The author also explained the impact of relaxation in financial regulations in Greek. In this study a sample of 26 commercial banks are chosen that engaged in mergers and acquisitions in Greek during 1996-2004. This study also include 15 non merged banks in study sample. The author also explained that financial ratios are used to examine the four important areas of banks such as profitability, productivity, operating and liquidity. The statistical tool paired sample t-test is used to measure the significance. The overall results show that bank mergers and acquisitions have no effect and do not create wealth. It is finally concluded that operating performance does not improve after mergers and acquisitions. There are also controversial results when comparing non-merger.

Kadel (2013) in the Nepalese banking and financial sector merger is a new practices and employee enjoys in working in large organization with good name and fame. In his study, most of the respondents are found to be agreed on the positive relationship of the organizational commitment, intend to turnover and stress with job satisfaction after merger of Nepalese banking and financial institutions. Employee commitment, turnover intention, stress and job satisfaction shows positive relation with all the variables. Employee perceptions across the concerned constructs indicated that there was a positive sentiment towards Job Satisfaction within the organization, while a neutral feeling emerged toward Turnover Intentions, Organizational Commitment and stress.

Adhikari (2014) studied the impact of merger and acquisition in the Nepalese banking and financial institutions when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. It assesses and evaluates the impact of M&A on the employees, customers, shareholders of the merged entity and offers recommendations for further investigations to the concern authorities. The result of the research provides a remarkable effect of M&A on the merged BFIs. In overall, 20 percent employees were lay-offs from different working department of the merged entity. Similarly, 80 percent of the merged entity clients and customer are not aware of recent structural changes in Nepalese financial sector. However, M&A has created a high degree of confidence and hope in doing better performance by the merged entity among employers, corporate clients and customer as well as shareholder's. A positive signal has been visible in the whole financial market injected by M&A.

Muhammad & Zahid (2014) studied Mergers and Acquisitions: Effect on Financial Performance of Banking Institutions of Pakistan. Understandably sufficient, banks still carry on merging in order to advantage from the economic efficiency of alliance for instance the synergy effect.

Sinha, Kaushik & Chaudhary (2016) investigated the impact of mergers and acquisitions on the financial performance of certain financial institutions in India. This study is concerned only with the financial sector of India. In this study a sample of 17 companies are selected that underwent merger and acquisition activity in India during 2000-2008. In this study two measurement tools are used, ratios analysis and

Wilcoxon test. In this study financial ratios and Wilcoxon test are used for four parameters such as overall profitability measure, liquidity measure, solvency measures and overall efficiency parameters. This study found a significant change in the results of the shareholders, there is no significant change in the liquidity situation of the company.

Sethia (2016) studied the impact of mergers on the profitability of BFIs and also to show its relation with welfare of BFIs' stakeholders including customers, employees, investors and government. From the analysis of the financial ratios, the researcher find out that the profitability of the merged entities has increased. However, NPL has increased post the merger of BFIs. Their findings suggest that the merging BFIs may have used mergers a tool to avoid risk associated if it had been an individual entity. It also indicates that there has been inefficient DDA. Even, if CAR has decreased in case of merged BFIs, the merged entities fulfill the CAR to be maintained by BFIs, which is 11 percent for commercial banks and 12 percent for development banks and finance companies. Hence, the researcher concluded that merger has been forceful in case of BFIs in Nepal. Now, with the capital requirement to be increased by 4 times, more BFIs shall be opting for the merger process.

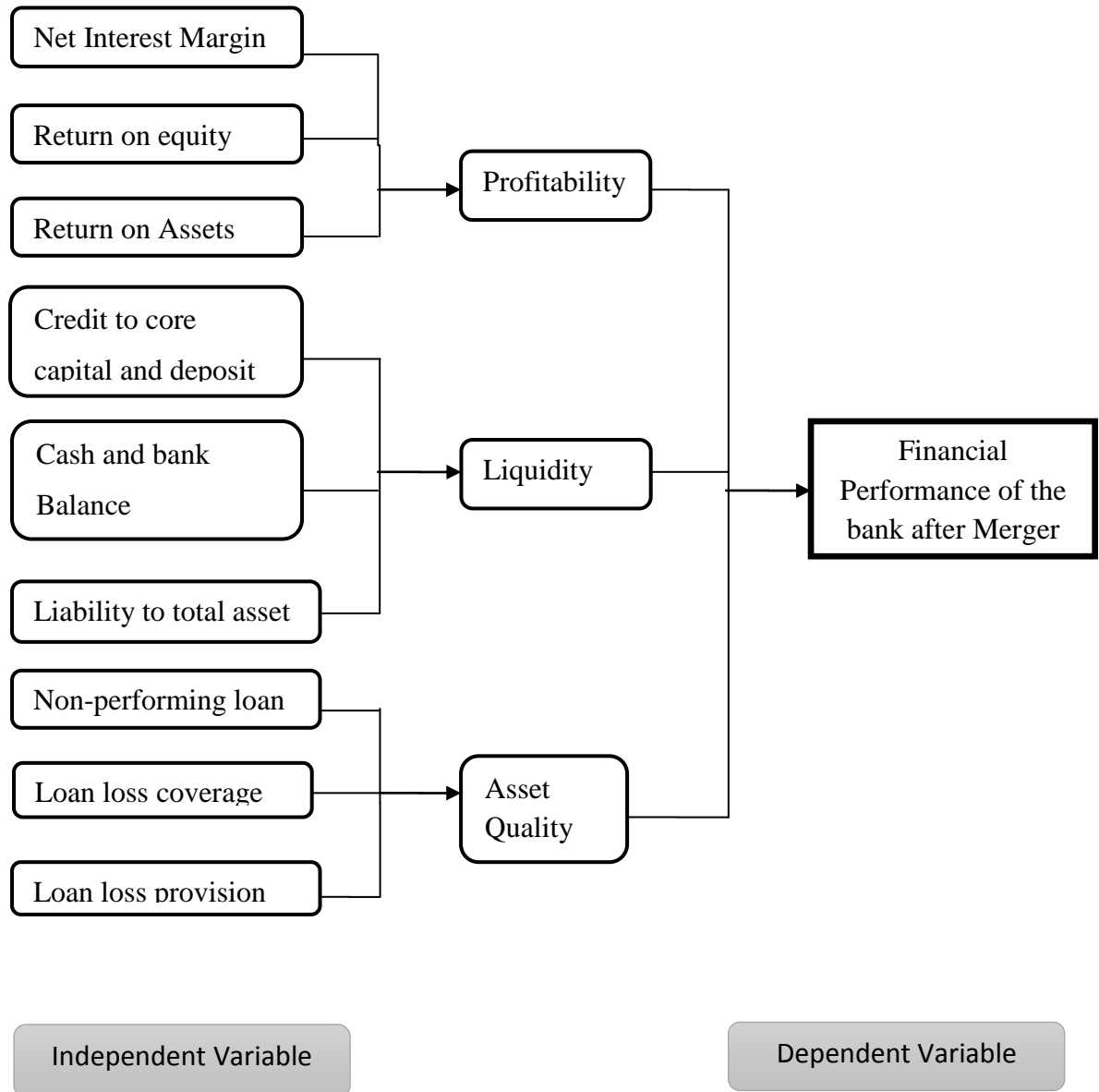
Gupta (2017) investigate mergers and acquisitions and its effects on financial performance of bank and financial institutions. In this study a sample of five banks are selected that underwent merger transactions during 2011-2016. This study used the secondary form of data. Financial ratios are computed to measure the financial performance of acquiring firms. The results of this study also reveal that an increase financial performance results in an improved financial efficiency.

2.9 Conceptual framework

This study compared the pre and post-merger operating performance of various banks on the basis of some variables like Net Interest Margin, Return on Equity, Return on Assets, CCD, Cash and bank balance, liability to total assets, Non-performing loan, loan loss coverage, loan loss provision etc. They had compared the level of significance between the pre and post-merger financial health of the selected banks

using paired sample t-test and found that banking sector had shown some positive impact on profitability Liquidity and Assets quality.

Figure 2.1 Conceptual Framework



2.10 Research Gap

Merger and Acquisition is one of the most important diversification tools for any business in today's world. In 2011, NRB has also decided to merge the Nepalese Financial Institution for healthy financial market by directive of M&A bylaws to compete in global market allowing foreign bank branches in Nepal. As observed from the above studies, most of the works have been done on trends, policies and their

framework. Few research papers were found regarding the Indian Banking Industry. However, it can be clearly seen that, we cannot find much of the concerns or research being done on Nepalese Banking Industry. Subjective analysis was mostly found in case of analyzing the impact of merger on banking industry. Secondary data analysis has not been done much in past due to unavailability of data. But in this paper we have attempted to analyze the impact (pre and post analysis) of merger with the help of secondary data.

So, the present paper investigates the details of mergers with a great focus on Nepalese Banking Industry. The study will also discuss the pre and post-merger financial performance of the selected banks in terms of various ratios such as, profitability, liquidity and asset quality ratio etc. Also through this paper we evaluate the need and importance of merger in the Nepalese Banking Industry and try to find out whether it is going good for banks in Nepal or is deteriorating the environment of banking industry through unethical mergers.

CHAPTER THREE

METHODOLOGY

This chapter describes the nature of research design, sampling and data collection and analysis procedure.

3.1 Research Design

The study is based on descriptive analysis and analytical research design. This study depends on the secondary data. It include all the process collecting, verifying, evaluating the past evidence systematically and objectively to reach final conclusion. This thesis is based on convenience sampling method. Data have been collected through NRB supervision, annual report of sampling bank. In this thesis there have been used some statistical and financial tools for analyzing for their performance.

3.2 Population of study

The population of this study consists of those banks that gone through the wave of merger and acquisition from the period of 2011/12 to 2017/2018. In this period 179 BFIs are gone the wave of merger and acquisition. Out of 179 BFIs 112 were merged with each other and remaining 67 BFIs were acquired. These are various types of BFIs such as commercial bank, Development Banks and Financial institutions. Three year before and after data of merger and acquiring banks has been compared pre and post- merger and acquisition so that deviations in profitability, liquidity, assets quality can be measured.

3.3 Data Collection

This study is based on the secondary data. The data relating to the selected units under study is obtained from prospectus and annual reports of the selected BFIs, NRB supervision report, different websites etc. Financial information over a period of 2011/12 to 2017/2018 is studied that involve collection of financials data for three years before and after merger and acquisitions of selected bank and financial institutions.

3.4 Sampling Method and Sample Size

Restricting this research to public limited banks reduces expected confusion of unnecessary variables. The sample had to satisfy the following criteria:

- i. The acquirer and target firm had to be listed bank in Nepal.
- ii. Three years pre and post-data were available.
- iii. The non-probability sampling technique has been used in this study.
- iv. A sample of three banks NIC ASIA bank, Mukhtinath Bikas bank and Citizen bank International are selected by using convenience sampling.

3.5 Source of Data:

This Study is to be based on secondary data. Data obtained from some published or unpublished source. Secondary data collect through; Research Report, Journals, Annual Report, Websites and Internets.

3.6 Tools use for analysis of Data:

Statistical and Financial tool is to be applied for the purpose of this study. For analyzing data following tools are used:

Financial Tools

Ratio Analysis:

- i. Net Interest Margin Ratio:

Net interest margin is the expression of numerical relationship between net interest income and total earning assets of BFIs. Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. For the purpose of the study following model is used to determine net interest margin:

$$\text{Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Total Earning Assets}} \times 100$$

ii. Return on Equity:

Return on Equity (ROE) is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested. Higher the ROE the better the company is in terms of profit generation. For the purpose of the study following model is used to determine the return on equity ratio:

$$\text{Return on Equity} = \frac{\text{Net Income after Tax}}{\text{Total Equity}} \times 100$$

iii. Return on Assets:

Return on assets is the numerical relationship between net incomes after taxes to total assets of a bank. This ratio measures the ability of the bank management to generate income by utilizing company assets at their disposal. Higher the ROA, higher is the quality of assets and efficient asset utilization. It is calculated by using the following model.

$$\text{Return on Assets} = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \times 100$$

iv. Credit to Core Capital and Deposit Ratio:

Credit to Core Capital and Deposit Ratio is measure the bank liquidity. It is the relationship between total loan and advance of bank and sum of total deposit and core capital. It can be measure as follows

$$\text{Credit to Core Capital and Deposit Ratio} = \frac{\text{Total loan and advances}}{\text{Core Capital} + \text{Deposit}} \times 100$$

v. Cash and Bank Balance Ratio:

The ratio measures the bank ability to meet immediate obligation. This ratio is employed to measure whether bank's cash balance is sufficient to cover unexpected demand made by the depositors. Higher ratio shows higher liquidity and great ability of the bank to meet unexpected demand made by the depositor. It is calculated as follows:

$$\text{Cash \& Bank Balance Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}} \times 100$$

vi. Liability to Total Assets Ratio:

The Liability to Total Assets ratio indicates the proportion of a company's assets that are being made with liability, rather than equity. The ratio is used to determine the financial risk of a business. To calculate the Liability to Total Assets ratio, divide total liabilities by total assets. The formula is:

$$\text{Liability to Total Asset Ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} \times 100$$

vii. Non-Performing Loan Ratio:

The non-performing loan ratio indicated the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advance. Higher non-performing loan ratio indicates that the bank's assets are not doing well or the loan department is not so conscious while passing loan. The ratio is determined by using the given model.

$$\text{Non-performing Loan Ratio} = \frac{\text{Total Non-Performing loan}}{\text{Total Loan \& Advances}} \times 100$$

Where,

$$\text{Total Non-Performing loan (NPL)} = \text{Sub Standard Loan} + \text{Doubtful Loan} + \text{Bad Loan}$$

$$\text{Total Loan \& Advances} = \text{Total Performing Loan} + \text{Total Non-Performing Loan}$$

viii. Loan Loss Coverage Ratios:

Loss Coverage Ratio is the relationship between Total Loan Loss Provision and Total Non-Performing Loan. It measures the proportion of Total Loan Loss Provision in relation to Total Non-Performing Loan. The ratio is determined by using the given model:

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non-Performing loan}} \times 100$$

Where,

Total Loan Loss Provision = Provision on (Pass Loan + Watch list Loan + Sub Standard Loan + Doubtful Loan + Bad Loan)

Total Non-Performing loan = Sub Standard Loan + Doubtful Loan + Bad Loan

ix. **Loan Loss Provision Ratio:**

This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower the loan loss provision significant that the bank has higher volume of good loan. LLP can calculate as follows:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan \& Advances}} \times 100$$

Where,

Total Loan Loss Provision (LLP) = Provision on (Pass Loan + Watch list Standard Loan + Doubtful Loan + Bad Loan)

Total Loan & Advances = Total Performing Loan + Total Non-Performing Loan

Statistical Tools

- i. **Percentage:** A fraction or ratio with hundred as the fixed and understood denominator. It helps to represent the data comparable. In this study percentage of different ratios are calculate.
- ii. **Average:** average is one single value that represents the entire data. It facilities comparison. In this study average value of different BFIs different year are calculate to compare pre or post merger and acquisitions.

- iii. Tabulation/chart/figure: Tabulation is the process condensing classified data in the form of table so that it may be more easily understood, and so that any comparisons may be more readily made. Chart and figure are pleasant and appealing to the eye and also easier to understand.

- iv. Paired T-Test: Paired t-test is very useful statistical test to measure whether the intervention is effective or not as it measures the same subject or units before intervention and after intervention.

CHAPTER FOUR

RESULT

This chapter includes the presentation and analysis of the relevant data for the achievement of the objectives of the study. This section deals with analysis of secondary data of three banks.

4.1 Profitability Analysis

Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company's capability of generating profits from its operations. Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Profitability is a bank's first line of defense against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. All the strategies designed and activities which are operated in the bank with the aim of maximizing the profit. For the purpose of measuring profitability: Profitability is measured using the following tools:

4.1.1 Net Interest Margin

Net interest margin is the expression of numerical relationship between net interest income and total earning assets of a bank. It measures how large a spread between interest revenues and interest costs management has been able to achieve by close control over the bank's earning assets and the pursuit of the cheapest sources of funding (Rose, 1999). The Net interest margin variable is defined as the net interest income divided by total earnings assets. Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability.

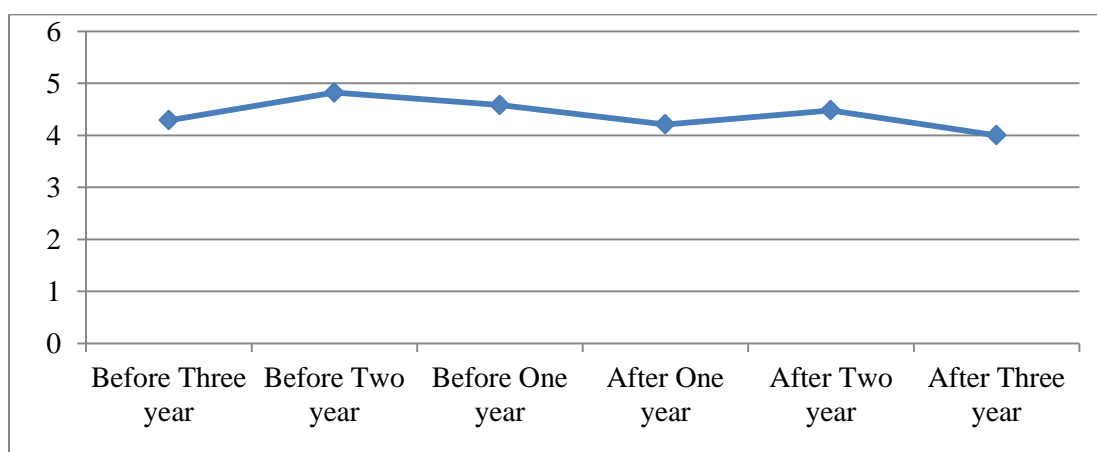
Table 4.1
Net Interest Margin (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC	Net Interest Income	12,456	14,946	14,402	12,433	17,982	15,774
ASIA	Total Earning Asset	330,993	356,815	363,761	389,688	440,311	531,364
	Net Interest Margin	3.76	4.19	3.96	3.19	4.08	2.97
MNBBL	Net Interest Income	1,769	2,449	3,515	4,854	6,908	10,318
	Total Earning Asset	31,333	42,907	59,955	81,526	115,332	173,042
	Net Interest Margin	5.65	5.71	5.86	5.95	5.99	5.96
CZBIL	Net Interest Income	6,749	11,023	11,387	12,684	16,215	17,580
	Total Earning Asset	195,916	242,357	291,327	363,205	482,723	574,273
	Net Interest Margin	3.44	4.55	3.91	3.49	3.36	3.06
Average Net Interest Margin		4.28	4.81	4.58	4.21	4.48	4.00
Before and After Average		4.56			4.23		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.1 shows that the average net interest margin of sample BFIs. The average net interest margin before three year of M&A is 4.29 percentage, two year before 4.82 percentages, one year before 4.58 percentages where after the first year of M&A average NIM is 4.21 percentage and two year after 4.48 percentage and three year after merger it is decline to 4.00 percentages. The Figure of average NIM of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.1
Average Net Interest Margin (in Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.1 display that average net interest margin of first year of after merger and acquisition is decline as compare to before one and two year of M&A but second year after merger it is increase and after third year it can be decrease. It shows that after the merger and acquisition the gap between interest income and interest expenses should be decrease it means the NIM should decrease. It is not just for cause of M&A but at that time BFIs face liquidity problem but it reflects the BFLs earn higher profit in long term.

4.1.2 Return on Equity (ROE)

The return on equity indicates the relationship between net profits after taxes to total equity capital. Return on Equity (ROE) is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested. ROE is what the shareholders look in return for their investment. It measures of the rate of return flowing to the bank's shareholders. Higher is the return on equity, higher the investment which the shareholders will undertake. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE better the company is in terms of profit generation.

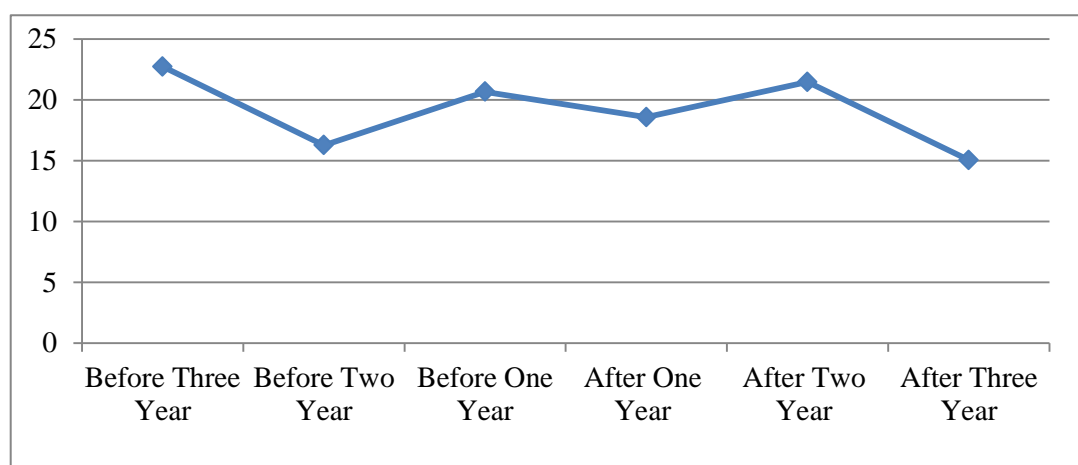
Table 4.2
Return on Equity (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Net Income After Tax	6,577	7,055	5,643	6,421	8,315	6,803
	Total Equity	33,499	41,527	42,392	43,881	48,730	54,987
	Return on Equity	19.63	16.99	13.31	14.63	17.06	12.37
MNBBL	Net Income After Tax	714	1,022	1,617	2,176	3,613	4,869
	Total Equity	3,114	4,396	6,389	9,720	13,443	22,898
	Return on Equity	22.93	23.25	25.31	22.39	26.88	21.26
CZBIL	Net Income After Tax	3,961	2,026	6,772	6,183	10,880	10,779
	Total Equity	15,460	23,697	28,987	33,114	53,131	93,924
	Return on Equity	25.62	8.55	23.36	18.67	20.48	11.48
Average Return on Equity		22.73	16.26	20.66	18.56	21.47	15.04
Before and After Average		19.88			18.36		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.2 indicates that average return on equity of sample BFIs before and after merger and acquisition. before three year of M&A the average ROE of sample BFIs is 22.73 percentage and two year before it can be decline to 16.27 percentage and one year before it can increase to 20.66 and after the first year of M&A it can be decline to 18.57 percentage and two year after it is increase to 21.47 but in three year after it is decrease to 15.04 percentage. Compare to before and after merger and acquisitions return on equity after merger and acquisition is declining. The Figure of average return on equity of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.2
Average Return on Equity (in Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.2 presents average ROE of sample BFIs first year of after M&A is decline but second year it is increase but again third year it is decrease due to the other factor such as issue higher quantity of right share, bonus share, FPOs. It reflects bank and financial institutions are failed to utilize fund as compare to increase paid up capital of shareholders equity fund. But we analyze the after first to second year and as compare to before first and second year of M&A it indicate that in a long term the ROE is to be increase and the shareholders take higher benefits.

4.1.3 Return on Assets (ROA)

Return on assets is the numerical relationship between net incomes after taxes to total assets of a bank. Return on Asset (ROA) is a financial ratio that shows the financial

performance of a bank. The return on assets (ROA) is the net income for the year divided by total assets, usually the average value over the year. This ratio measures the ability of the bank management to generate income by utilizing company assets at their disposal. It is primarily an indicator of the quality of assets, managerial efficiency to utilize the institution's assets into net earnings (Rose, 1999). Higher the ROA, higher is the quality of assets and efficient asset utilization.

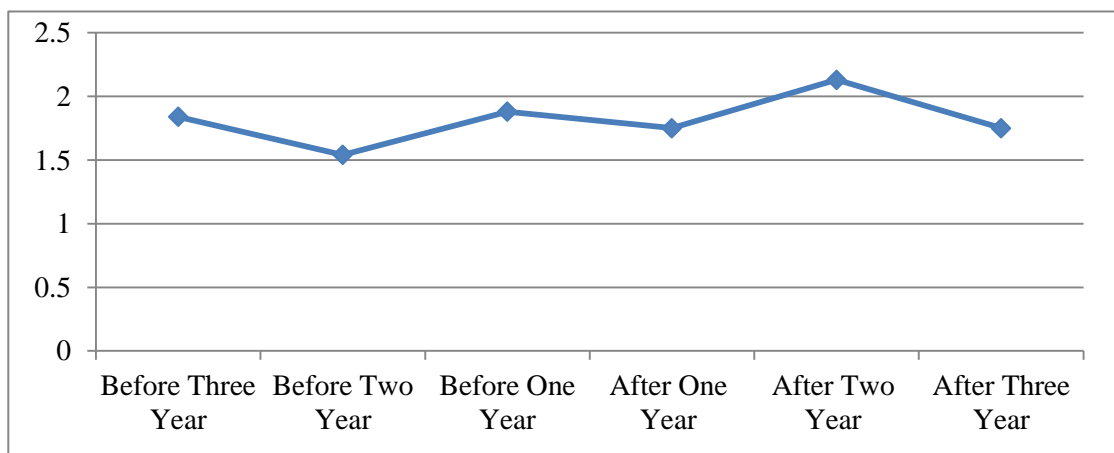
Table 4.3
Return on Assets **(Rs. in Lakh)**

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Net Income After Tax	6,577	7,055	5,643	6,421	8,315	6,803
	Total Assets	358,529	397,899	434,505	465,352	515,004	605,193
	Return on Assets	1.83	1.77	1.30	1.38	1.61	1.12
MNBBL	Net Income After Tax	714	1,022	1,617	2,176	3,613	4,869
	Total Assets	34,459	47,355	65,107	90,004	129,367	195,923
	Return on Assets	2.07	2.16	2.48	2.42	2.79	2.49
CZBIL	Net Income After Tax	3,961	2,026	6,772	6,183	10,880	10,779
	Total Assets	244,908	298,165	362,102	426,051	551,183	661,148
	Return on Assets	1.62	0.68	1.87	1.45	1.97	1.63
Average Return on Assets		1.84	1.54	1.88	1.75	2.13	1.75
Before and After Average		1.75			1.88		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.3 shows that the average Return on Assets of sample BFIs. Three year before of M&A average ROA is 1.84 percentages where as two year before it is decline to 1.54 percentages and one year before it is increase to 1.88 percentages. After the First to second year of merger and acquisition average return on assets is increase 1.75 percentages to 2.13 percentages but after three year it is decrease to 1.75 percentages. As compare to before and after merger and acquisition Returns on assets ratio after M&A is to be increase. The Figure of average return on assets of sample bank and financial institutions plotting them on a graph, they give the following picture.

Figure 4.3
Average Return on Assets (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17s

The figure no. 4.3 reflects that after the first to second year of merger and acquisition average ROA of sample BFIs is increase but third year it is reduce but we compare before and after M&A. After the M&A the average ROA is higher. It indicates that after M&A the BFIs should effective management of Assets to earn higher profit.

4.2 Liquidity Analysis

Liquidity indicates the ability of the bank to meet its financial obligations in a timely and effective manner. Samad (2004) states that “liquidity is the life and blood of a commercial bank”. Financial liabilities are attracted through retail and wholesale distribution channels. Retail generated funding is considered less interest elastic and more reliable than deposits attracted from wholesale distribution channels. The following ratios are used to measure Liquidity can be measured in following ways:

4.2.1 Credit to Core Capital and Deposit Ratio

Credit to Core Capital and Deposit Ratio is measure the bank liquidity. It is the relationship between total loan and advance of bank and sum of total deposit and core capital. As per the regulation made by the NRB, the bank and financial institution should maintain 80% CCD ratio. The higher the CCD ratio indicate lower the liquidity and lower the CCD ratio indicate higher the liquidity both higher and lower

CCD ratio is harmful for the bank, so bank should maintain adequate CCD ratio to earn higher profit and maintain liquidity.

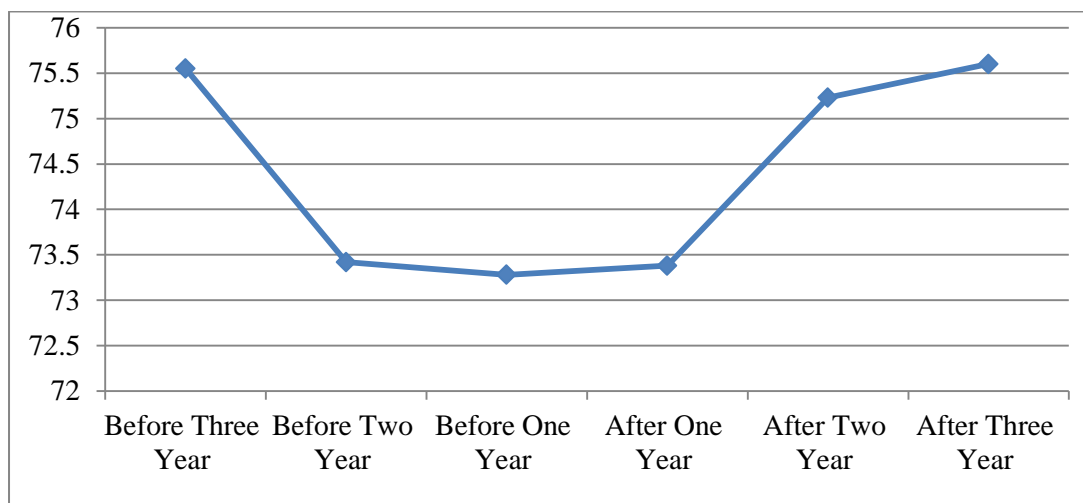
Table 4.4
Credit to Core Capital and Deposit Ratio (Rs in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Total Loan and Advance	247,868	265,729	294,082	315,595	363,250	421,443
	Core Capital + Deposit	317,996	362,245	417,023	442,969	498,572	589,759
	CCD Ratio	77.95	73.36	70.52	71.25	72.86	71.46
MNBBL	Total Loan and Advance	22,461	32,122	46,961	66,252	97,986	151,593
	Core Capital + Deposit	32,044	43,573	62,420	87,536	126,209	190,650
	CCD Ratio	70.09	73.72	75.23	75.69	77.64	79.51
CZBIL	Total Loan and Advance	172,578	202,638	246,852	292,352	396,354	470,792
	Core Capital + Deposit	219,531	276,862	333,183	399,303	527,060	620,953
	CCD Ratio	78.61	73.19	74.09	73.22	75.20	75.82
Average CCD Ratio		75.55	73.42	73.28	73.38	75.23	75.60
Before and After Average		74.08			74.74		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The Table no. 4.4 indicates that the Average CCD ratio of sample bank and financial institutions, it indicate that the liquidity position of BFIs. As per the table it shows that before three year of merger and acquisition the average CCD ratio is 75.55 percentages but respectively second and first year before merger it is decline 73.42 and 73.28 percentage. After the M&A average CCD ratio of first, second and third year it is increasing trend 73.38, 75.23 and 75.60 percentage respectively. Compare to before and after M&A Average CCD ratio is to be increase. The Figure of average CCD ratios of sample bank and financial institutions plotting them on a graph, they give the following picture.

Figure 4.4:
Average Credit to Core Capital and Deposit Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.4 reflects that average Credit to core capital and deposit ratio of sample bank and financial institutions. The chart shows that after the merger and acquisition the credit to core capital and deposit ratio is increase in trend. After the one year of merger and acquisition Average credit to core capital and deposit ratio is higher as compare to before one year. And two year after it is higher as compare to one year after and after three year CCD ratio is higher as compare to after two year of merger and acquisitions. It indicates that the BFIs is to be effectively maintain liquidity. Their liquidity position is below the NRB regulation which is 80 percentage and they reduce over liquidity respectively.

4.2.2 Cash & Bank Balance Ratio

The ratio measures the bank ability to meet immediate obligation. So, optimum balance should maintain in order to meet their paying obligation. Further, this ratio is employed to measure whether bank's cash balance is sufficient to cover unexpected demand made by the depositors. Higher ratio shows higher liquidity and great ability of the bank to meet unexpected demand made by the depositor. Lower ratio indicates that banks might face liquidity crunch while paying its obligations. Therefore, bank and financial institutions effectively maintain their cash and bank balance ratio and invest some amount in NRB and other bank and financial institution.

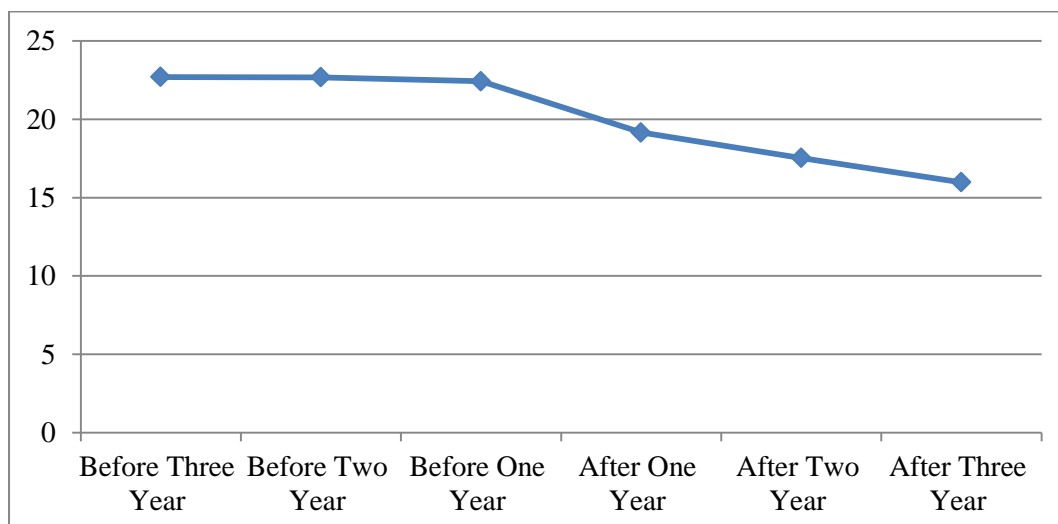
Table 4.5
Cash and Bank balance Ratio (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Cash and bank Balance	37,667	40,657	60,741	56,924	71,833	66,725
	Total Deposit	284,496	320,718	374,630	399,087	449,842	534,771
	Cash and bank Balance Ratio	13.24	12.68	16.21	14.26	15.97	12.48
MNBBL	Cash and bank Balance	9,725	13,839	16,139	21,257	26,697	38,040
	Total Deposit	28,929	39,177	56,030	77,815	112,766	167,752
	Cash and bank Balance Ratio	33.62	35.32	28.80	27.32	23.67	22.68
CZBIL	Cash and bank Balance	43,323	50,695	67,773	58,197	61,413	67,434
	Total Deposit	204,070	253,165	304,195	366,188	473,929	527,028
	Cash and bank Balance Ratio	21.23	20.02	22.28	15.89	12.96	12.80
Average Cash and Bank Balance Ratio		22.70	22.68	22.43	19.16	17.53	15.98
Before and After Average		22.60			17.56		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.5 shows that the average cash and bank balance ratio of sample BFIs before and after merger and acquisitions, which determined the liquidity position of BFIs. Before three year of M&A the ratio is 22.70 percentage which decrease to 22.68 percentage in two year before and decrease to 22.43 percentage in before one year and after M&A it does not stop decline 19.16, 17.53 and 15.98 percentage after one, two and three year of merger and acquisition respectively. Compare to before and after merger and acquisitions after M&A cash and bank balance ratio of sample BFIs is declining. The Figure of average Cash and bank balance ratios of sample bank and financial institutions plotting them on a graph, they give the following picture.

Figure 4.5
Average Cash and Bank Balance Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.5 indicates that the average cash and bank balance ratio of sample bank and financial institutions is decline in trend before as well as after the merger and acquisition. After the merger and acquisition it decline rapidly. After the first to third year of M&A it decline 19.16 percentages to 17.53 percentages to 15.98 percentages respectively. Which indicate the liquidity position of bank and financial institutions after merger and acquisitions is reduce. It is not the only cause of merger and acquisition, there are many factor which support to increasing liquidity crises.

4.2.3 Liability to Total Asset Ratio

The Liability to Total Assets ratio indicates the proportion of a company's assets that are being made with liability, rather than equity. The ratio is used to determine the financial risk of a business. A ratio greater than 1 shows that a considerable proportion of assets are being made with debt, while a low ratio indicates that the bulk of asset made is coming from equity. A ratio greater than 1 also indicates that a company may be putting itself at risk of not being able to pay back its liability. Therefore, lower the ration is the better for bank and financial institutions as compare to high. To calculate the Liability to Total Assets ratio, divide total liabilities by total assets.

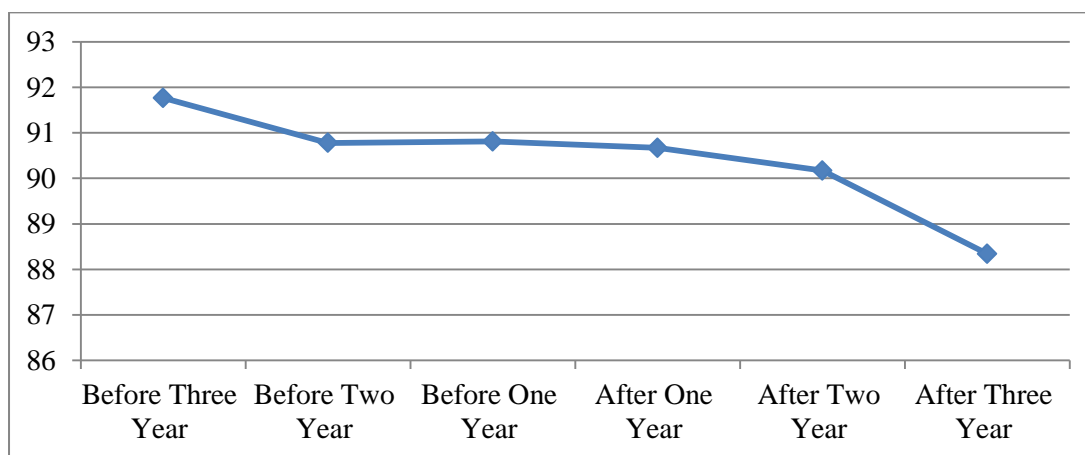
Table 4.6
Liabilities to Total Assets Ratio (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC	Total Liabilities	325,029	356,371	392,113	421,470	466,274	550,206
ASIA	Total Assets	358,529	397,899	434,505	465,352	515,004	605,193
	L/A ratio	90.66	89.56	90.24	90.57	90.54	90.91
MNBBL	Total Liabilities	31,345	42,959	58,717	80,284	115,924	173,025
	Total Assets	34,459	47,355	65,107	90,004	129,367	195,923
	L/A ratio	90.96	90.72	90.19	89.20	89.61	88.31
CZBIL	Total Liabilities	229,447	274,468	333,114	392,937	498,052	567,223
	Total Assets	244,908	298,165	362,102	426,051	551,183	661,148
	L/A ratio	93.69	92.05	91.99	92.23	90.36	85.79
Average L/A ratio		91.77	90.78	90.81	90.67	90.17	88.34
Before and After Average		91.12			89.73		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.6 indicates that the average liability to assets ratio, which indicate liquidity position of BFIs. Before three year of M&A the ratio is 91.77 percentages, in two year before 90.78 percentage and one year before it is 90.81 percentages and after one year the ratio is 90.67 percentages and 90.17 percentages in after two year and after three year the ratio is 88.34 percentages. The Figure of average liability to total assets ratios of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.6
Average Liabilities to Total Assets Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.6 exhibits that the average ratio of liability to total assets ratio of bank and financial institutions is decline in trend after the merger and acquisition process. It indicates the bank and financial institutions are made strong in term of their own assets and there is to be very few chance of Bank and financial institutions gone liquidation. The ability of payment of liability is high.

4.3 Assets Quality

Asset quality is an aspect of bank management entails the evaluation of a firm asset in order to facilitate the measurement of the level and size of credit risk associated with its operation. It relates to the left-hand side of a bank balance sheet and focused on the quality of loans which provides earnings for a bank. Asset quality and loan quality are two terms with basically the same meaning while its management is considered extremely important by the banking sector. According to the Basle Committee on Banking Supervision, the core principles for effective banking supervision comprised twenty-five core principles out of which seven are designed to address the relevant issues of bank asset quality or credit risk management (Basle, 1997). This implied that asset quality is of general concern to financial supervisory authorities in every country throughout the world. This deterioration in bank asset quality affects it's operating and financial performance as well as the general soundness of the financial system in which it is an entity.

4.3.1 Non-Performing loan

Non-Performing loan refers to those loans which are not paying its Principle and Interest in time or overdue more than three months. So, it consists of Sub-standard loan, Doubtful loan and Bad Loan. The non-performing loan ratio indicated the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advance. Higher non-performing loan ratio indicates that the bank's assets are not doing well or the loan department is not so conscious while passing loan. So, lower ratio will be preferred regarding Non-performing Loan Ratio.

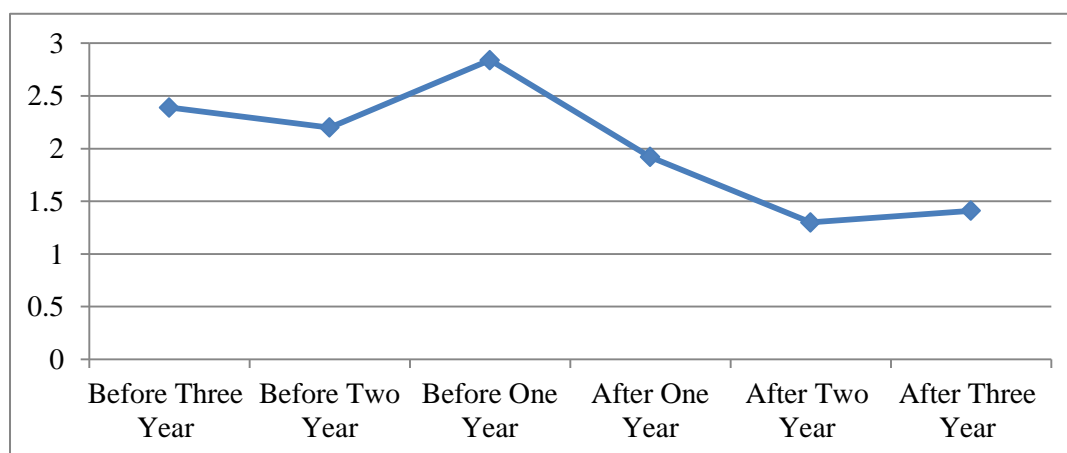
Table 4.7:
Non-Performing Loan Ratio (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC	Non-Performing loan	1,597	2,569	6,213	7,523	8,699	8,984
ASIA	Total Loan and Advances	247,868	265,729	294,082	315,595	363,250	421,443
	NPL Ratio	0.64	0.97	2.11	2.38	2.39	2.13
MNB	Non-Performing loan	187	179	199	124	91	28
BL	Total Loan and Advances	22,461	32,122	46,961	66,252	97,986	151,593
	NPL Ratio	0.83	0.56	0.42	0.19	0.09	0.02
CZBI L	Non-Performing loan	9,844	10,298	14,737	9,302	5,606	9,807
	Total Loan and Advances	172,578	202,638	246,852	292,352	396,354	470,792
	NPL Ratio	5.7	5.08	5.97	3.18	1.41	2.08
Non-Performing Loan Ratio		2.39	2.2	2.84	1.92	1.3	1.41
Before and After Average		2.48			1.54		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.7 presents that average non-performing loan ratio of sample BFIs. According to the above table average NPL ratio before three year of merger and acquisition is 2.39 percentages, two year before 2.20 percentage and one year before 2.84 percentages and after the M&A of one year 1.92 percentages and after two year it is 1.30 percentages and three year after it is 1.41 percentages. The Figure of average NPL ratios of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.7
Average Non Performing Loan Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.7 reflects that after the merger and acquisition the non-performing loan to total loan and advance ratio is decline. After the one year of M&A it is decline NPL ratio as compare to before one year and after two year NPL ratio is declining as compare to after one year but after three year of M&A it is increase small percentage. The chart indicates that after the merger and acquisition non-performing loan of bank and financial institution is decline. It is the positive impact of merger and acquisition.

4.3.2 Loan Loss Coverage Ratio Loan

Loss Coverage Ratio is the relationship between Total Loan Loss Provision and Total Non-Performing Loan. It measures the proportion of Total Loan Loss Provision in relation to Total Non-Performing Loan. Out of the Total non-Performing if some loans becomes bad or default then that loss to the bank is covered from the Loan Loss Provision Fund. So, from that point of view, higher the loan loss coverage ratio is better for the banks.

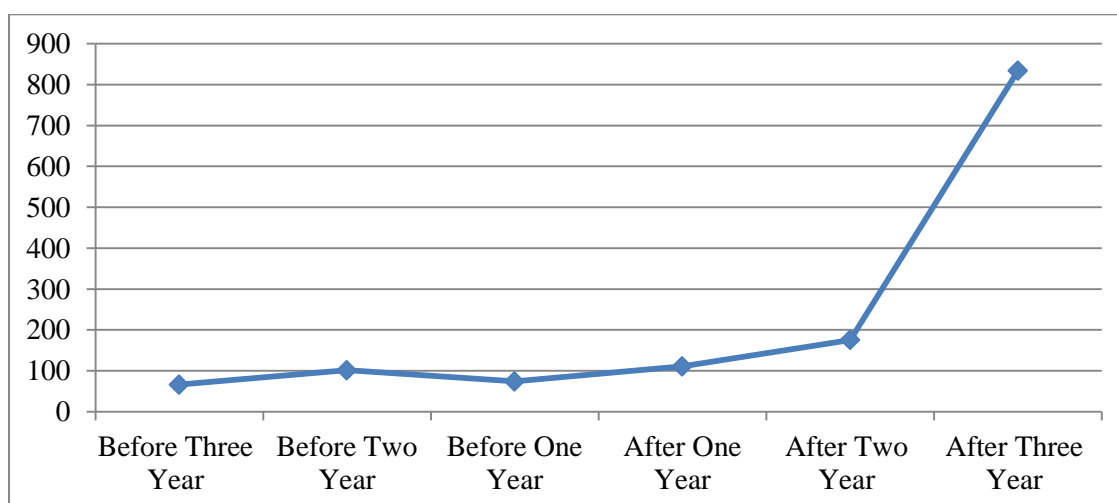
Table 4.8
Loan Loss Coverage Ratio (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Loan Loss Provision	846	1,465	1,951	885	2,590	3,603
	Non-Performing loan	1,597	2,569	6,213	7,523	8,699	8,984
	Loan loss coverage Ratio	52.97	57.03	31.40	11.76	29.77	40.10
MNBBL	Loan Loss Provision	113	223	226	295	394	699
	Non-Performing loan	187	179	199	124	91	28
	Loan loss coverage Ratio	60.43	124.58	113.57	237.90	432.97	2,496.43
CZBIL	Loan Loss Provision	8,310	12,635	11,285	7,742	3,551	4,039
	Non-Performing loan	9,844	10,298	14,737	9,302	5,606	9,807
	Loan loss coverage Ratio	84.42	122.69	76.58	83.23	63.34	41.18
Average Loan Loss Coverage Ratio		65.94	101.43	73.85	110.97	175.36	859.24
Before and After average		80.41			381.86		

Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table no. 4.8 presents that average loan loss coverage ratio of sample bank and financial institutions before and after merger and acquisitions. Before three year of M&A the ratio is 65.94 percentages, before two year 101.43 percentage and 73.90 percentage but M&A the ratio is increase. One year after the ratio is 110.70 percentages, two year after it is 175.40 percentage and three year after it is 833.93 percentages. Compare to before and after merger and acquisition after merger and acquisition loan loss coverage ratio is to be increase. The Figure of average Loan loss coverage ratios of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.8
Average Loan Loss Coverage Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.8 shows that the average loan loss coverage ratio of sample bank and financial institutions before and after merger and acquisitions. The chart shows after the M&A the average loan loss coverage ratio of sample BFIs is increase in trend, which indicate that the firm capacity of loss coverage is high and there is less chance to liquidation of BFIs.

4.3.3 Loan Loss Provision Ratio

Loan loss provision is the sum of amount that banks are required to set or kept for potential loan loss. Loan loss provision is deductible expenses. It is deducted from interest income. It is a provision set by a bank to cover unpredictable loss caused due

to default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower the loan loss provision significant that the bank has higher volume of good loan and higher non-performing loan. Loan loss provision is the whole amount of provision set aside to cover the loss then LLP to NPL as NPL is lower we can say that quality of loan is better. But if LLP to TL is higher than we can say that the quality of loan is good but at least we are in safe position as it has more provision for losses from loan.

Table 4.9
Loan Loss Provision Ratio (Rs. in Lakh)

Banks	Ratios	Before merger			After Merger		
		3 rd year	2 nd year	1 st year	1 st year	2 nd year	3 rd year
NIC ASIA	Loan Loss Provision	846	1,465	1,951	885	2,590	3,603
	Total Loan and Advance	247,868	265,729	294,082	315,595	363,250	421,443
	Loan Loss Provision Ratio	0.34	0.55	0.66	0.28	0.71	0.85
MNBB L	Loan Loss Provision	113	223	226	295	394	699
	Total Loan and Advance	22,461	32,122	46,961	66,252	97,986	151,593
	Loan Loss Provision Ratio	0.50	0.69	0.48	0.45	0.40	0.46
CZBIL	Loan Loss Provision	8,310	12,635	11,285	7,742	3,551	4,039
	Total Loan and Advance	172,578	202,638	246,852	292,352	396,354	470,792
	Loan Loss Provision Ratio	4.82	6.24	4.57	2.65	0.90	0.86
Average Loan Loss Provision Ratio		1.89	2.49	1.91	1.12	0.67	0.72
Before and After Average		2.09			0.84		

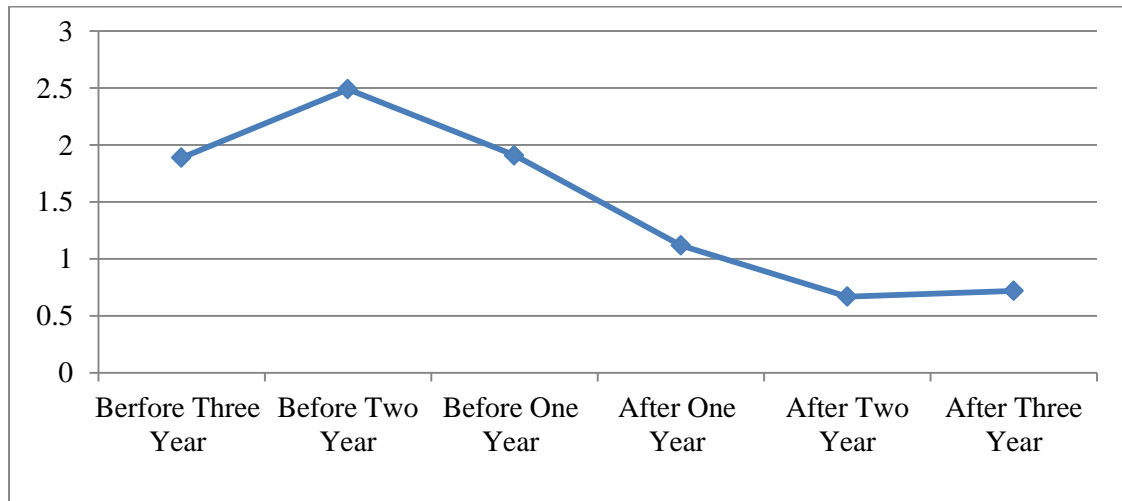
Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The table shows that average loan loss provision of sample bank and financial institutions before and after merger and acquisition. Before three year of M&A the ratio is 1.89 percentages, before two year 2.49 percentages and before one year the

ratio is 1.91 percentages and after the first year of M&A the ratio is 1.12 percentages, two year 0.67 percentage and three year 0.72 percentages. Compare to before and after loan loss provision ratio after M&A is decline. The Figure of average Loan loss provision ratios of sample BFIs plotting them on a graph, they give the following picture.

Figure 4.9

Average Loan Loss Provision Ratio (In Percentage)



Source: - Annual Report of Respective BFIs from FY 2011/12 to 2016/17

The figure no. 4.9 indicates that shows that the average loan loss provision ratio after merger and acquisition is decline in trend. After one year of M&A it is decline 1.91 to 1.12 percentage and two year after it decline 1.12 to 0.67 percentages but in three year after it increase by small percentage. As a whole it indicate that after the merger and acquisition the BFIs non-performing loan is decline so the loan loss provision also decline and it help to increase net profit.

4.4 Paired T-test

Average Pre-Merger and Acquisition and Post-Merger Acquisitions financial performance variable are compared to see if there is any statistical significant change in financial performance due to merger and acquisition, using different financial ratios analysis and paired sample t-test at confidence level of 0.05. The following result is made.

Table 4.10
Paired Sample t-test of bank and financial institutions

Performance Variables	Pre-merger (adjusted average value)	Post-Merger (adjusted average value)	Significance (2 tailed)	Improved/ Deteriorated
Profitability				
Net Interest Margin	4.5633	4.2300	0.147	Deteriorated
Return on Equity	19.887	18.3600	0.697	Deteriorated
Return on Assets	1.7533	1.8767	0.650	Improved
Liquidity				
CCD Ratio	74.0833	74.7367	0.690	Deteriorated
Cash and bank balance ratio	22.6033	17.5567	0.027	Deteriorated
liabilities to total asset ratio	91.1200	89.7267	0.129	Improved
Asset Quality				
Non-performing loan ratio	2.4767	1.5433	0.078	Improved
loan loss coverage ratio	80.4233	373.3433	0.337	Improved
loan loss provision ratio	2.0967	0.8367	0.054	Improved

Source: - SPSS Data editor

Table 4.10 shows the average values of the performance indicators before and after the merger and acquisitions. Nine performance variable shows that the score for the improved ratios after merger and acquisitions is six such as Return on Assets ratio, total liability to total assets ratio, Nonperforming loan ratio, loan loss coverage ratio, loan loss provision ratios (5/9, 55.56 %), remaining four performance variables such as Net interest margin ratio, return on equity ratio, Credit to core capital and deposit ratio and cash and bank balance ratio score shows deterioration in the post-merger and acquisition period. Out of five improved ratio no one ratio are statistically significant improved.

Performance indicators after the merger and acquisitions is not satisfactory than that before the merger and acquisitions and the mean difference between the two periods significant at the 5% level. At the same time out of four deteriorated performance

variable one variable Cash and bank balance ratio is statistically significantly deteriorated at 5% level of significance. Finally it argued that overall banking sector of Nepal post-merger and acquisition performance improved and has an insignificant positive impact. Post merger profitability insignificantly deteriorated, liquidity insignificant deteriorated and assets quality insignificantly improved. So hypothesis H1 and H2 are rejected because both have out of three variable deteriorated variable are more than improved variable and there is only one variable is statistically significant improved and H3 is accepted because out of three variable all variable are improved .

4.5 Major Finding

Following are the major finding of study:

- i. Average Net Interest Margin of the sample bank and financial institutions before merger and acquisition is 4.54% whereas after merger and acquisition is 4.23%.
- ii. Average Return on Equity of sample bank and financial institutions before merger and acquisition is 19.88% whereas after merger and acquisition is 18.36%.
- iii. Average Return on Asset of sample bank and financial institutions is before merger and acquisition is 1.75% whereas after merger and acquisition is 1.88%.
- iv. Average Credit to core capital ratio of sample bank and financial institutions before merger and acquisition is 74.08% whereas after merger and acquisition is 74.74%.
- v. Cash and bank balance ratio of sample BFIs before merger and acquisition is 22.60% whereas after merger and acquisition is 17.56%.

- vi. Average liabilities to total assets ratio of sample bank and financial institutions before merger and acquisition is 91.12% whereas after merger and acquisition is 89.73%.
- vii. Average Non-performing loan ratio of sample bank and financial before merger and acquisition is 2.48% whereas after merger and acquisition is 1.54%.
- viii. Average loan loss coverage ratio of sample bank and financial institutions before merger and acquisition is 80.42% whereas after merger and acquisition is 373.34%.
- ix. Average Loan loss provision ratio of sample bank and financial institutions before merger and acquisition is 2.09% whereas after merger and acquisition is 0.84%.

CHAPTER FIVE

CONCLUSION

5.1 Summary

The objective of this study is to examine the post-merger and acquisition financial performance of acquirer banks that have undergone through the process of merger and acquisition during year 2011 to 2018. In this period 179 BFIs are gone the wave of merger and acquisition. Out of 179 BFIs 112 were merged with each other and remaining 67 BFIs were acquired. In this study the impact of merger and acquisition on profitability, liquidity and assets quality performance variable is measured by using different financial ratios and test hypothesis by using paired sample t-statistics. For this study only three sample bank and financial institutions are observed they are NIC ASIA bank ltd, Citizen bank international ltd and Mukainath Bikas bank ltd. The NIC ASIA bank was formed with merger of NIC bank ltd and Bank of Asia Nepal ltd where Citizen bank international acquire different finance companies such as Nepal housing and merchant finance ltd, Peoples finance ltd and premier finance ltd. And Muktinath bikas bank acquire Civic development bank.

In this study the impact of merger and acquisition on profitability, liquidity and assets quality are analyze and different financial and statistical tool are to be used to test the hypothesis. To test post-merger and acquisition impact different financial ratio such are Net Profit Margin, Return on Equity and Return on Assets are to be used to test profitability impact and Credit to Core Capital and Deposit Ratio, Cash and Bank Balance Ratio and liability to Total Assets Ratio are analyze to liquidity impact and Nonperforming Loan Ratio, Loan Loss Coverage Ratio and Loan Loss Provision Ratios are analyze to Asset quality impact. After the analysis of different ratios the result is after the merger and acquisition the impact on profitability; net interest margin and return on equity is deteriorated and return on asset is improved similarly liquidity ratios; CCD ratio after merger is increase but it is under the NRB limit, cash and bank balance ratio after M & A is deteriorated and liability to total assets ratio is improve after post-merger and assets quality ratios: nonperforming loan, loan loss coverage and loan loss provision ratio all are improve.

5.2 Conclusion

After the financial sector liberalization number of bank and financial institutions should be increase. Increase in number of bank and financial institutions Nepal rastra bank expect competitive and quality service, increase in financial access and help to economic development but last few years in BFIs different problems are arise it may be create different types of risk and to minimize such types of risk Nepal Rastra bank implement merger and acquisition policy to financial submission. The objective of this study is to evaluate the effectiveness of such merger and acquisitions policy on bank and financial institutions financial performance. On the basis of different financial ratio or indicators merger and acquisition policy help to make financial sector strong and competitive. In the short term single institution success the increase in base capital but entire financial system there is not increase expected base capital, after the merger and acquisition BFIs are made financially strong is the conclusion of the study.

To analyze bank and financial institutions before and after merger and acquisition in this study analyze average net interest margin ratio, return on equity ratio, return on assets ratio, credit to core capital ratio, cash and bank balance ratio, liability to total capital ratio, Non-performing loan ratio, loan loss coverage ratio and loan loss provision ratio. After the merger process it provides mixed result but it indicate after the some year it provides positive result. Profitability ratio is to be decline after the merger process due to the higher employee and other expenditure. Liquidity ratios after merger and acquisition is decline due to the higher quantity of issuing IPO, FPO, right share and low government expenditure but asset quality of BFIs after merger process is improving it indicate after the M & A bank reduce its non-performing loan and it help profitability in long-term. As a whole there is positive impact of merger and acquisition on bank and financial institutions. Following are the additional conclusion of the study:

- i. Average Net Interest Margin of the sample bank and financial institutions is to be deteriorated after merger and acquisition but it is not statistical significantly deteriorated. It is not only causes of M&A there are many factors that affects net interest margin. Such as at that time BFIs face liquidity crises.

- ii. Average Return on Equity of sample bank and financial institutions is to be insignificantly deteriorated after merger and acquisition as compare to before due to the increase in equity capital. At that time NRB increase paid of capital 2 billion to 8 billion and BFIs issue large amount of right share, FPO, and Bonus share.
- iii. Average Return on Asset of sample bank and financial institutions is to be insignificantly improved after merger and acquisition than before. It indicated that after M&A bank and financial institutions effectively utilized their assets.
- iv. Average Credit to core capital ratio of sample bank and financial institutions is to be increase. In term of analysis liquidity performance it is insignificantly deteriorated after merger and acquisition but under the under the Nepal Rastra Bank provision. It indicated that liquidity of BFIs is insignificantly deteriorated but it helps to improve profitability performance.
- v. Cash and bank balance ratio of sample BFIs is to be statistically significant deteriorated after merger and acquisition. It indicated that liquidity position of BFIs is to be decrease. This is not good for bank and financial institutions.
- vi. Average liabilities to total assets ratio of sample bank and financial institutions is to be decreased. Therefore, in term of liquidity performance analysis it indicated that after merger and acquisition liquidity position of BFIs is to be improved. It reflects BFIs make strong after M&A.
- vii. Average Non-performing loan ratio of sample bank and financial is to be decrease after merger and acquisition. It indicate that after merger and acquisition Assets quality of BFIs after M&A is improved but not significantly improved at the 5% level of signification.
- viii. Average loan loss coverage ratio of sample bank and financial institutions is to be improved after merger and acquisition. It indicates that bank and financial institutions make strong after M&A and they have sufficient provision for cover the bad loan.

- ix. Average Loan loss provision ratio of sample bank and financial institutions after merger and acquisition is decrease. It indicates that after merger and acquisition assets quality of bank and financial institutions is to be improved. If loan loss provision of BFIs is decrease it reflects increase profit.
- x. From the analysis it is concluded that, merger plays an important role in solving many problems such as, increasing capital base, making them financially strong, reducing the number of BFIs, reducing operating expenses etc.
- xi. It was clearly seen from the analysis that, merger may not have positive impact on financial performance in every indicators. Some indicators like as return on asset, liabilities to total asset ratio, non-performing loan ratio, loan loss coverage ratio, loan loss provision ratio etc are improve but other indicators are deteriorated.
- xii. From the analysis it can also be concluded that, there is huge possibility of successful merger in Nepalese banking industry. But because of insufficient guidelines from NRB and lacking proper research, Nepalese BFIs were facing high failure rates in past years. After the implication of Merger Act and Bylaws, NRB has been found more concerned about merger activities and also the financial institutions are more aware of the impact of merger on their financial health. This consciousness has led to increase the success rate of merger in Nepalese BFIs. It is to be noted that merger in itself is not a boon for the BFIs. A lot of factors are required to be considered before executing merger between any two institutions. These factors may be the financial health of both the companies, ability to utilize the resources to be obtained after merger, utilize the synergy of both the institutions and ability to handle the burden of debts (if any) of merging institutions.

5.3 Implications

After the study of merger and acquisition impact on financial performance of Nepalese BFIs it help to bank and financial institutions to implement of merger policy

effectively, Nepal government and Nepal Rastra Bank to formulate additional policies to effectiveness of policy.

A) Bank and financial institutions

The Bank and financial institutions that are being merged in future that have provide an overview of the condition and the impact of mergers and acquisition and make possible strategies to make it successful. The bank and financial institutions which are already gone merger and acquisition Following are the suggestion to Bank and financial institution to make more strong and profitable.

- i. After M&A net profit margin of different BFIs is decline due to the imperfect competition of increase in interest on deposit. So BFIs should control such types of imperfect competition.
- ii. Average Return on Equity (ROE) of BFIs after M&A is decline that is not good for organization. So BFIs should improve this ratio through effective utilization of fund.
- iii. To enhance ability to financial obligation on time BFIs should apply safe investment policy and investment in government securities should be increase.
- iv. The average NPL is decline after M&A but some particular BFIs NPL is increase after M&A. so BFIs should conscious on the loan department while disbursement of loan to customer.

B) Nepal Rastra Bank

The study helps to effective implementation of merger and acquisition policy. Following are the suggestion to Nepal Rastra Bank to make effective merging policy on bank and financial institutions.

- i. For the make realistic report of asset and liabilities or business (DDA), Nepal Rastra Bank should coordinate with Nepal charter accountant association and take necessary action to manage it.

- ii. Many bank and financial institutions are merged on the basis on bargaining they ignore the swap ratio provided by the DDA report; such type of activities does not provide actual benefit to its investors. So Nepal Rastra Bank should manage such types of problem.
- iii. Nepal Rastra Bank should minimize the time period of merging and acquiring process of BFIs for that NRB should provide different discount facility which BFI finished M&A process in short period.
- iv. Different question are arise on reliability of merging bank and financial institutions software, board of directors, operation and management risk, so NRB should include such types of risk in directive.

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List of Acquired BFIs

S.N.	Before Acquisition	After Acquisition
1	Vibor Bikash Bank Ltd. Vajuratna Finance Ltd.	Vibor Bikash Bank Ltd.
2	Diyalo Bikas Bank Ltd. Professional Bikas Bank Ltd.	Professional Diyalo Bikas Bank Ltd.
3	Araniko Development Bank Ltd. Surya Development Bank Ltd.	Araniko Development Bank Ltd.
4	Global IME Bank Ltd. Commertz and Trust Bank Nepal Ltd.	Global IME Bank Ltd.
5	Imperial Finance Ltd. Siddhartha Finance Ltd.	Siddhartha Finance Ltd.
6	Kist Bank Ltd. Prabhu Bikas Bank Ltd. Gaurishankar Development Bank Ltd. Zenith Finance Ltd.	Prabhu Bank Ltd.
7	Citizens Bank International Limited Nepal Housing and Merchant Finance Ltd. People's Finance Ltd.	Citizens Bank International Limited
8	Muktinath Bikas Bank Ltd. Civic Development Bank Ltd.	Muktinath Bikas Bank Ltd.
9	Kathmandu Finance Ltd. Gorka Development Bank Ltd.	Gurkhas Finance Ltd.
10	Siddhartha Development Bank Ltd. Ekata Bikas Bank Ltd. Nepal Aawas Finance Co. Ltd.	Siddhartha Development Bank Ltd.
11	Kamana Bikas Bank Ltd. Kaski Finance Ltd.	Kamana Bikas Bank Ltd.
12	Sunrise Bank Ltd. Narayani National Finance Ltd.	Sunrise Bank Ltd.
13	Citizens Bank International Limited Premier Finance Co. Ltd.	Citizens Bank International Limited
14	Civil Bank Ltd. International Leasing and Finance Co. Ltd.	Civil Bank Ltd.
15	Laxmi Bank Ltd. Professional Diyalo Bikas Bank Ltd.	Laxmi Bank Ltd.
16	Sunrise Bank Ltd. NIDC Capital Markets Ltd.	Sunrise Bank Ltd.
17	Prime Commercial Bank Ltd. Birat Laxmi Bikas Bank Ltd. Country Development Bank Ltd.	Prime Commercial Bank Ltd.

18	Century Commercial Bank Ltd. Innovative Development Bank Ltd. Araniko Development Bank Ltd.	Century Commercial Bank Ltd.
19	Kumari Bank Ltd. Kasthamandap Development Bank Ltd. Kankrebihar Bikas Bank Ltd. Mahakali Bikas Bank Ltd. Paschimanchal Finance Ltd.	Kumari Bank Ltd.
20	Civil Bank Ltd. Unique Finance Ltd. Hama Merchant Finance	Civil Bank Ltd.
21	Nepal Investment Bank Ltd. Ace Development Bank Ltd.	Nepal Investment Bank Ltd.
22	Janata Bank Nepal Ltd. Siddhartha Development Bank Ltd.	Janata Bank Nepal Ltd.
23	Global IME Bank Ltd. Reliable Development Bank Ltd.	Global IME Bank Ltd.
24	Century Commercial Bank Ltd. Sagarmatha Finance Ltd.	Century Commercial Bank Ltd.
25	Jyoti Bikas Bank Ltd. Raptibheri Bikas Bank Ltd.	Jyoti Bikas Bank Ltd.
26	Deva Bikas Bank Ltd. Union Finance Ltd. Sajha Bikas Bank Ltd.	Deva Bikas Bank Ltd.
27	Century Commercial Bank Ltd. Alpine Development Bank Ltd. Seti Finance Ltd.	Century Commercial Bank Ltd.
28	Tourism Development Bank Ltd. Mega Bank Nepal Ltd.	Mega Bank Ltd.

List of Merged BFIs

S.N.	Before Acquisition	After Acquisition
1	Machhapuchre Bank Ltd. Standard Finance Ltd.	Machhapucchre Bank Ltd.
2	Global Bank Ltd. IME Finance Ltd. Lord Buddha Finance Ltd.	Global IME Bank Ltd.
3	Pashupati Development Bank Ltd. Uddhyam Bikash Bank	Axis Development Bank Ltd.
4	Butwal Finance Ltd. Alpic Everest Finance Ltd. CMB Finance Ltd.	Synergy Finance Ltd.
5	Annapurna Development Bank Ltd. Surya Darshan Finance Ltd.	Supreme Development Bank Ltd.
6	Himchuli Development Bank Ltd. Birgunj Finance Ltd.	H & B Development Bank Ltd.
7	Kasthmandap Development Bank Ltd. Sikhar Finance Ltd.	Kasthmandap Development Bank Ltd.
8	Business Development Bank Ltd. Universal Finance Ltd.	Business Universal Development Bank Ltd.
9	Nepal Industrial and Commerical Bank Ltd. Bank of Asia Ltd.	NIC Asia Bank Ltd.
10	Global IME Bank Ltd. Social Development Bank Ltd. Gulmi Bikas Bank Ltd.	Global IME Bank Ltd.
11	Prabhu Finance Ltd. Baibhav Finance Ltd. Sambridhi Bikash Bank Ltd.	Prabhu Bikas Bank Ltd.
12	Royal Merchant and Banking Finance Ltd. Api Finance Ltd. Rara Bikas Bank Ltd.	Apex Development Bank Ltd.
13	Manakamana Development Bank Ltd. Yeti Finance Ltd. Valley Finance Ltd.	Yeti Development Bank Ltd.
14	Civil Bank Ltd. Axis Development Bank Ltd. Civil Merchant Bittiya Sanstha Ltd.	Civil Bank Ltd.
15	Reliable Finance Ltd. Nepal Consumer Development Bank Ltd. Subhalaxmi Finance Ltd.	Reliable Development Bank Ltd.

16	Reliance Finance Ltd. Lotus Investment Finance Ltd.	Reliance Lotus Finance Ltd.
17	Biratlaxmi Bikas Bank Ltd. Khandbari Development Bank Ltd.	Biratlaxmi Bikas Bank Ltd.
18	Lumbini Bank Ltd. Navadurga Finance Ltd.	Lumbini Bank Ltd.
19	Bageshwori Development Bank Ltd. Shangrila Development Bank Ltd.	Shangrila Development Bank Ltd.
20	Triveni Bikas Bank Ltd. Public Development Bank Ltd. Bright Development Bank Ltd.	Triveni Bikas Bank Ltd.
21	Bishwa Bikash Bank Ltd. Fewa Finance Ltd.	Fewa Bikash Bank Ltd.
22	NDEP Development Bank Ltd. Rising Development Bank Ltd.	Deva Bikas Bank Ltd.
23	Garima Bikas Bank Ltd. Nilgiri Bikas Bank Ltd.	Garima Bikas Bank Ltd.
24	Sagarmatha Merchant Banking and Finance Ltd. Patan Finance Ltd.	Sagarmatha Finance Ltd.
25	NMB Bank Ltd. Clean Energy Development Bank Ltd. Pathibhara Bikas Bank Ltd. Bhrikutee Development Bank Ltd. Prudential Finance Co. Ltd	NMB Bank Ltd.
26	Grand Bank Nepal Ltd. Prabhu Bank Ltd.	Prabhu Bank Ltd.
27	City Development Bank Ltd. Om Finance Ltd.	Om Development Bank Ltd.
28	Mega Bank Nepal Ltd. Paschimanchal Development Bank Ltd.	Mega Bank Nepal Ltd.
29	Kailash Bikas Bank Ltd. Metro Development Bank Ltd. Nepal Express Finance Ltd.	Kailash Bikas Bank Ltd.
30	Shine Resung Development Bank Ltd. Gaumukhi Bikas Bank Ltd.	Shine Resunga Development Bank Ltd.
31	Siddhartha Bank Ltd. Business Development Bank Ltd.	Siddhartha Bank Ltd.
32	Bank of Kathmandu Ltd. Lumbini Bank Ltd.	Bank of Kathmandu Lumbini Ltd.
33	Jyoti Bikash Bank Ltd. Jhimruk Bikash Bank Ltd.	Jyoti Bikash Bank Ltd.

34	Vibor Bikash Bank Ltd. Society Development Bank Ltd.	Vibor Society Development Bank Ltd.
35	Malika Vikas Bank Ltd. Mahalaxmi Finance Ltd. Siddhartha Finance Ltd.	Mahalaxmi Bikas Bank Ltd.
36	Garima Bikas Bank Ltd. Subhechha Bikash Bank Ltd.	Garima Bikas Bank Ltd.
37	Nepal Credit and Commerce Bank Ltd. Supreme Development Bank Ltd. Infrastructure Development Bank Ltd. International Development Bank Ltd. Apex Development Bank Ltd.	Nepal Credit and Commerce Bank Ltd.
38	Shree Investment & Finance Co. Ltd. Everest Finance Ltd.	Shree Investement & Finance Co. Ltd.
39	Central Finance Ltd. Bhaktapur Finance Ltd.	Central Finance Ltd.
40	Janata Bank Nepal Ltd. Triveni Bikas Bank Ltd.	Janata Bank Nepal Ltd.
41	OM Development Bank Ltd. Manaslu Bikas Bank Ltd.	OM Development Bank Ltd.
42	Yeti Development Bank Ltd. Mahalaxmi Bikas Bank Ltd.	Mahalaxmi Bikas Bank Ltd.
43	Fewa Bikas Bank Ltd. Gandaki Bikas Bank Ltd.	Gandaki Bikas Bank Ltd.
44	Shangri-La Development Bank Ltd. Cosmos Development Bank Ltd.	Shangri-La Development Bank Ltd.
45	Vibor Society Development Bank Ltd. Lumbini Finance and Leasing Co. Ltd.	Lumbini Bikas Bank Ltd.
46	Kamana Bikas Bank Ltd. Sewa Bikas Bank Ltd.	Kamana Sewa Bikas Bank Ltd.
47	NIDC Development Bank Ltd. Rastriya Banijya Bank Ltd.	Rastriya Banijya Bank Ltd.