

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

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of the requirements for the Master of Business Study (MBS)

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CERTIFICATION OF AUTHORSHIP

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

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This thesis entitled **“Impact of Merger and Acquisition on Financial Performance of Nepalese Commercial Banks”** submitted by Mr. Yubraj Rijal to the faculty of Management, Tribhuvan University, in partial fulfillment of the requirements for the degree of Masters of Business Studies has been found satisfactory in scope and quality. Therefore, we hereby certify that the dissertation is acceptable for the award of degree.

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Yubraj Rijal

September, 2024

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ABBREVIATIONS

BAFIA	Banks and Financial Institution Act
BFI	Banks and Financial Institutions
PCBL	Prime Commercial Bank
SANIMA	Sanima Bank Ltd
KBL	Kumari Bank Ltd
ANOVA	Analysis of Variance
CAR	Capital Adequacy Ratio
CRR	Cash Reserve Ratio
EPS	Earning Per Share
LLP	Loan Loss Provision
M&A	Merger and Acquisition
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity
STD	Standard Deviation
CDR	CD Ratio

ABSTRACT

Mergers, acquisitions and takeovers, consolidation have been a part of the business world for so many years ago. Hence, the purpose of this study was to know the impact that merger and acquisition has had on the financial performance of the commercial banks in Nepal. This study aims to examine the association between merger and acquisition and the financial performance of the commercial banks.

A descriptive and analytical research design are used for this research. Three commercial banks are selected randomly as a sample. Also the study tried to assess the companies' ten years data i.e. from 2012-2022. Various tools used for data analysis are mean, standard deviation, correlation etc. The data are collected from the various years' annual report of selected commercial banks.

The findings shows that following the merger and acquisition of two or more bank and FIs, capital & LLP have made at a low cost and low NPL and also reduced profitability CRR and EPS. Whereas, only return on operating expense has huge impact on return on assets but debt equity ratio and return on loan loss provision have had insignificant impact

Keywords: Merger and Acquisition, financial performance, commercial bank, profitability,

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the ever-evolving business landscape, mergers, acquisitions, and takeovers have long been strategic maneuvers employed by companies. In the contemporary dynamic economic environment, the primary goal of a company often revolves around maximizing shareholder wealth. Achieving this objective is often pursued through mergers and acquisitions, which can provide companies with a competitive edge and ultimately enhance shareholder value. A merger is more than a legal amalgamation; it entails a blending of two companies, where the outcome is not merely the acquiring of one firm by another, but rather a process in which one company loses its independent identity and forms a new company, unified entity. This integration can take various forms, including the exchange of securities, and in some cases, only one company emerges as the surviving entity.

Mergers and acquisitions are driven by a range of strategic and financial goals. When bringing together two organizations with distinct corporate personalities, cultures, and values, the process can take two primary forms. Firstly, there is a merger through absorption, where two or more companies are integrated into an existing entity. In this scenario, only one company retains its identity, while the others become integrated into the surviving entity. Secondly, there is a merger through consolidation, involving the combination of multiple companies to form an entirely new entity. Through consolidation, all participating companies undergo legal dissolution, paving the way for the creation of a fresh corporate entity with a distinct identity. These strategic moves are often motivated by objectives such as market expansion, diversification, synergy creation, and the pursuit of competitive advantage.

Bank mergers are often seen as a means to achieve efficiency gains through economies of scale and scope, eliminating redundant services, and embracing innovative banking tools. However, it's crucial to approach these claims with caution, considering that most of previous or the existing researches have predominantly focused on market-driven or voluntary mergers. In the context of voluntary bank mergers, this refers to the process where more than two banks merge willingly, forming a new entity without opposition

from shareholders or the boards of the involved banks. The banks play a pivotal role in financing and providing funds to a country's economic and developmental activities, and its performance significantly influences a nation's economic growth and stability.

The assessment of the banking sector's performance revolves around key indicators such as capital adequacy, asset quality, management efficiency, earning efficiency, and liquidity. This evaluation occurs at two levels: one involves internal assessments conducted by bank management and regulatory bodies, while the other entails external evaluations by credit rating agencies. Regulatory and supervisory rating systems aim to gauge a bank's performance internally and ensure compliance with regulatory standards to maintain its financial health. These ratings, which are confidential and accessible only to bank management, serve as a tool to keep the institution on the right track. Simultaneously, external credit rating agencies assess and analyze banks, assigning ratings that are made public for investors and the general populace. It is crucial for both internal and external ratings to align, providing consistent and transparent information to both investors and management regarding the banks' overall condition.

The central bank aimed to enhance the financial sector's stability by implementing the Merger by Law 2011, based on the Company Act 2006, specifically section 177, and the Bank and Financial Institution Act (BAFIA) 2006, sections 68 and 69. This legislation mandated that all Banks and Financial Institutions (BFIs) undergo immediate mergers as a means of consolidation. For the Nepal Rastra Bank (NRB), the merger was not a voluntary decision but a compulsory strategy designed to boost capital levels and improve the ability to compete in the market. The merger is expected to result in the formation of larger, more efficient organizations that can better allocate resources, including human and financial capital, and optimize output. It is anticipated that these larger banks, with their increased resources, will be able to offer a broader range of products and services at lower operating costs, benefiting from economies of scale (www.nrb.gov.np). However, the anticipated benefits of mergers in the banking sector often fall short, at least not to the extent initially perceived. One tangible consequence observed globally is a reduction in the availability of loans to customers post-merger. This decline is attributed to a decrease in competitiveness within the banking industry and an unwarranted increase in interest rates. Additionally, post-merger, banks have been noted to partake in a spectrum of activities, ranging from anti-competitive practices to instances of corruption. The realization of economies of scale

introduces a notable element of uncertainty, particularly regarding the extent of the scale's impact.

1.2 Problem Statement

While mergers are often seen as a strategy to enhance a bank's capabilities and performance, not all merged banks achieve the anticipated results. Research indicates that post-merger, banks may experience a decline in key performance indicators such as Return on Equity (ROE) and Return on Assets (ROA). Profits may also decrease, and there could be a negative sentiment among stakeholders towards the newly merged organization. Furthermore, there is substantial evidence suggesting uncertainty regarding the actual economic benefits of scale resulting from the merger. In essence, the expected positive outcomes of mergers in the banking sector may not always materialize as anticipated.

The financial institutions in Nepal are currently facing challenges such as low turnover, high lending interest rates, wide interest rate spreads, less efficient management, a lack of ability to project financing practices, insufficient working funds, and unhealthy competition. Specific institutions like Gorkha Development Bank, Nepal Share Market, Capital Merchant, and Finance have been identified with weak supervision and deficient corporate governance. State-owned financial institutions like and Agriculture Development Bank are characterized by high operating expenses and low operating profits. To address these issues, Nepal Rastra Bank has mandated mergers, suggesting that the consolidation of financial institutions could be a solution. The impact of mergers and acquisitions (M&A) on each institution would vary, but the overarching goal is likely to improve efficiency, governance, and financial performance. The merger process aims to create stronger and more robust financial entities that can better navigate the challenges facing the sector in Nepal.

The deposit to owners' equity ratio has notably increased, but the capital adequacy of acquirer banks has declined, indicating an unfavorable impact on their performance after mergers. A study by Shrestha, Thapa, and Phuyal (2017) in Nepal found a significant change in the financial performance of banking and financial institutions before and after mergers and acquisitions. Despite being a widely adopted strategy in the banking industry worldwide, mergers and acquisitions seem to yield mixed results for various stakeholders. While shareholders of the acquired firms typically see positive

short-term returns, investors in the acquiring firms often witness a decline in share prices in the months following the acquisition. This leads to minimal overall wealth gains for portfolio holders. In essence, the popularity of mergers and [acquisitions in the banking sector doesn't necessarily translate into consistent positive outcomes for all parties involved.

This study aims to address the existing knowledge gap by investigating the research question: What effect do Mergers and Acquisitions have on the overall financial performance of commercial banks in Nepal? It seeks to answer the following questions:

- What is the current status of merger and acquisition and financial performance of Nepalese Commercial Banks?
- Is there any relationship between merger and acquisition and financial performance of Nepalese Commercial Banks?
- What is the impact of merger and acquisition on financial performance of Nepalese commercial banks?

1.3 Objectives of the Study

Certainly, the main goal of the study is to examine how mergers impact the financial performance of banks. Breaking it down further, the specific aims of the study include:

- To examine the current status of merger and acquisition of Nepalese commercial banks.
- To analyze the relationship between merger and acquisition and financial performance of Nepalese commercial banks.
- To analyze the impact of merger and acquisition on financial performance of Nepalese commercial banks.

1.4 Rationale of the Study

Given the substantial investments, both in terms of finances and non-financial resources that are typically devoted to the successful execution of mergers and acquisitions, it becomes crucial to assess the actual influence of M&A on the financial performance of commercial banks in Nepal. This insight holds considerable value for policymakers as it can guide the formulation of new benchmarks for determining an optimal level of merger and acquisition activity. The revelations from this study can also inform the development of more effective strategies for managing liquidity levels and enhancing

the overall profitability of a firm. Furthermore, the research contributes valuable insights that deepen the understanding of the significance of mergers in performance analysis, benefiting present investors, customers of commercial banks, and other players in the competitive industry.

Likewise, this research establishes a foundation for future investigations, particularly in the realm of mergers and acquisitions, offering an opportunity for scholars interested in expanding the existing knowledge base on both theoretical and empirical aspects related to the impacts of these corporate activities on the financial performance of Nepalese commercial banks. Executives and managers in the commercial banking sector stand to gain valuable insights from this study, especially in examining the performance of recently merged banks. The study's findings contribute to the current understanding of investor behavior concerning mergers, acquisitions, and the restructuring of banks. Moreover, the outcomes can be utilized to identify research gaps and serve as a point of reference for subsequent studies within the broader field of mergers and acquisitions.

1.5 Limitations of the Study

This research aims to investigate the impact of mergers on the financial performance of commercial banks in Nepal; however, it is essential to acknowledge its inherent limitations, outlined as follows:

- There are so many variables of measuring financial performance of bank but this study covers only major ratios like ROA, Loan Loss Provision, Non- Performing Loan, EPS, CAR, and liquidity ratios.
- This study is based on the secondary data collected only from the annual report of required banks only the data of other bank merged with these banks are not taken in this study reliability of the result is based on the reliability of data available from the published annual report of respective banks.
- This research is context specific; its results and analysis may be peculiar to BFIs only and do not serve the rest of sector of Nepalese corporate world.
- Assumption of paired sample t-test is not checked in this study.
- Beside profitability, this study overlooks other performance metrics

such as risk and cash flow, neglecting a comprehensive assessment of the financial performance of banks.

1.6 Chapter Plan

Considering the objectives in mind, the study is organized into five chapters.

Chapter 1: Introduction

This chapter includes background of the study, statement of the problems, objectives of the study, conceptual framework, and significance of the study, limitation of the study and organization of the study.

Chapter 2: Literature Review

This chapter includes the relevant previous writing and studies to find the existing gap; review of textbook, dissertation is included in this chapter.

Chapter 3: Research Methodology

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

Chapter 4: Results and Discussion

This chapter consists of systematic presentation and analysis of financial statement employing financial and statistical tools. It also includes major findings and discussion.

Chapter 5: Summary and Conclusion

This chapter includes the summary, conclusion and implication of the study.

CHAPTER II

LITERATURE REVIEW

As a foundation for the research, we aimed to comprehend the existing body of knowledge focused on the fundamental sources of value in mergers and acquisitions, steering away from studies primarily concentrating on performance outcomes. Consequently, we carried out a systematic literature review, specifically targeting research that explicitly addressed synergy or value in the context of mergers and acquisitions. The initial phase involved establishing objectives and identifying articles relevant to the subject. The subsequent phase aimed to select articles for in-depth examination based on their relevance. The final phase involved a thorough evaluation of the content to ensure it delved into the considerations of synergy or value sources within the realm of mergers and acquisitions. This approach serves as a foundation for clarifying the study's purpose and provides a framework for identifying the variables under investigation. The literature review not only aids in setting the study's objectives but also guides the identification of unexplored areas in the topic, highlighting the need for further research. This section delves into the documented literature concerning the impact of mergers and acquisitions on the financial performance of companies, providing an overview of relevant empirical studies to offer a comprehensive understanding of the subject matter.

A merger refers to the willing combination of two companies, typically of comparable size, into a new legal entity. When firms decide to merge, they are generally similar in terms of their size, customer base, and operational scale, often leading to the use of the term "merger of equals." The primary motivations behind mergers include gaining market share, cutting operational costs, expanding into new territories, consolidating similar products, increasing revenues, and enhancing profits—ultimately benefiting the shareholders of both companies. Following a merger, the new company's shares are distributed among the existing shareholders of the original businesses. While the terms 'merger' and 'takeover' are often used interchangeably, there exists a subtle distinction between them in practice. A merger involves a cooperative reorganization of assets into a new entity, where two entities, say x and y, merge to form a new company, z, with the agreement of both sets of shareholders. Mergers typically occur between companies

of similar size, minimizing the likelihood of one company dominating the other. Mergers, along with tender offers and joint ventures, play a crucial role in the growth and expansion of firms. Growth is considered essential for a firm's vitality, enabling it to attract top managerial talent by offering rapid career advancement and expanded responsibilities. The presence of capable executives is crucial to preventing inefficiency and preserving the value of the firm.

Acquisition involves one company purchasing a controlling or 100 percent interest in another firm, intending to utilize it more efficiently and smoothly by incorporating the acquired firm as a subsidiary within its portfolio. Unlike mergers, acquisitions are typically not voluntary and entail one company actively buying another. The primary objectives of acquisitions include gaining operational advantages, leveraging economies of scale, and securing market benefits. There are three main types of acquisitions: horizontal, vertical, and related. Horizontal acquisitions involve acquiring a firm that competes in the same industry, while vertical acquisitions pertain to acquiring suppliers or distributors of one or more goods or services. Related acquisitions involve acquiring a firm in a highly related industry. Acquisition is the act of obtaining effective control over the assets (either through lump-sum or item-wise consideration) or management (through the purchase of stocks/shares or gaining control over the board) of another company without physically combining their businesses. Typically, a company achieves effective control by acquiring a majority of shares in the target company. However, effective control can also be established with less than a majority shareholding, usually ranging between 10 percent and 40 percent. This is because the remaining shareholders, being scattered and disorganized, are unlikely to challenge the acquirer's control. Takeover is considered a form of acquisition, representing a business strategy to gain control over the management of the target company, either directly or indirectly.

Merger and Acquisition (M&A) serve as accelerators for companies seeking rapid growth beyond what organic business expansion can offer. They serve as avenues for companies to fortify their global market presence and enhance competitiveness. M&A activities on a global scale involve substantial volumes and values across various key industries. Positioned as a strategic option within corporate restructuring endeavors, M&A offers companies increased access to profits, market control, and market share,

thereby bolstering their competitive advantages in an ever-evolving market landscape. The primary distinction between mergers and acquisitions lies in their nature; mergers are typically more collaborative, voluntary, and mutually agreed upon, whereas acquisitions are often characterized by one organization taking dominance over another.

2.1 Conceptual Review

Theoretical review refers to examining and summarizing the fundamental concepts and principles related to a specific subject such as merger and acquisition and helps to clarify the fundamental meanings of merger and acquisition.

2.1.1 Types of Mergers and Acquisition

Mainly there are three types of mergers and acquisition which are differentiated by different corporate strategies. They are categorized into horizontal, vertical and conglomerate.

a) Horizontal Mergers

Horizontal mergers occur when two or more competitors operating within the same industry merge to form a single entity. According to Gaughan (2002), if such a merger results in the combined firm gaining significant market power that could have anticompetitive effects, it might be challenged on antitrust grounds. Besides market power, horizontal mergers can create ripple effects, as noted by Ross et al. (2003), where two small companies merge to gain a competitive edge over other rivals.

In Nepal, horizontal mergers have been the most common type of merger. The Nepalese financial sector, in particular, has seen twenty instances of horizontal mergers among Banking and Financial Institutions. A merger between banks is an example of a horizontal merger (Annual Bank Supervision Report, 2012).

b) Vertical Mergers

A vertical merger occurs when companies at different stages of the production process merge, or when a firm expands by integrating its own vertical operations (Lipczynski & Wilson, 2004). Businesses opt for vertical mergers to enhance supply chain efficiency and boost profitability through economies of scale.

c) Conglomerate Mergers

A conglomerate merger happens when two companies merge that neither compete with each other nor have any buyer-seller relationship. An example of this is Philip Morris, a tobacco company, acquiring General Foods in 1985 for \$5.6 billion (Gaughan, 2002).

2.1.2 Motive for Merger and Acquisition

Mergers and acquisitions (M&A) have evolved into a corporate strategy used by firms to enhance their core competencies. However, the factors influencing M&A activities vary as they are influenced by the dynamic legal, political, economic, and social environment. Companies engage in M&A for various economic motives.

a) Synergy

Synergy is a key concept in mergers and acquisitions, described as the idea that the combined value of merging firms is greater than the sum of their individual values (DePamphilis, 2011). While the theoretical principle of synergy suggests that $2+2$ might equal 5 or $5+5$ might equal 11—an incorrect mathematical assertion—the belief is that a merger will result in a net positive gain. Synergy can manifest in several forms: operational, managerial, and financial (Ross et al., 2003). Operational synergy involves the combination of economies of scale, which lowers average costs through more efficient resource utilization, and economies of scope, which enable firms to achieve more with the same inputs (DePamphilis, 2011). Financial synergy pertains to the effects of mergers and acquisitions on the cost of capital for the acquiring firm or the newly formed entity, as a result of the merger or acquisition (DePamphilis, 2011).

b) Revenue Enhancement

It is clear that mergers and acquisitions can lead to increased operating revenues through enhanced marketing efforts. For instance, when Microsoft acquired Tiny Vermeer in 1996, Vermeer's front-page software, which had previously sold slowly, saw a dramatic boost in sales once it was integrated with Microsoft's marketing power. This exemplifies how Microsoft's extensive marketing reach significantly improved the software's performance in the market (Ross et al., 2003).

c) Cost Reduction

Motis (2007) states that when a company's average cost per unit decreases as it produces

more, it gains a cost advantage. This can happen through vertical integration, where companies in the same industry combine their operations. For instance, airlines buying hotels and car rental companies is a form of vertical integration. When companies integrate vertically, it can help them cut costs, improve how they manage their supply chains, and make more profit. Sometimes, companies merge with or acquire other companies to get resources that complement their own. For example, a store selling winter clothes might join forces with one selling summer clothes. This way, they can even out their sales across different seasons, making their business more stable and profitable.

d) Regulatory and Compliance

In some cases, mergers and acquisitions can help companies comply with regulatory requirements more effectively. Each M&A deal is unique, and the motives can vary depending on the specific circumstances, industry conditions, and strategic goals of the companies involved. For instance, Nepal Rastra Bank forced Nepalese banks to go into merger and acquisition in last three years more than 30 bank and financial institutions have gone into merger and acquisition. Big mergers line Nabil and Bangladesh Bank, Nepal Investment Bank and Mega Bank and Global IME and Bank of Kathmandu etc to comply with NRB's merger policies.

2.2 Theoretical Review

This research is focused on examining how mergers and acquisitions influence the financial performance of commercial banks. The objective is to explore diverse facets of mergers and acquisitions within the banking sector. These strategic moves are recognized as crucial factors that can significantly impact the overall performance of an organization. The paper aims to investigate various dimensions related to mergers and acquisitions, emphasizing their implications on financial outcomes. Numerous articles have already delved into this subject, offering insights into the effects of these strategic actions on organizational performance.

2.2.1 Agency Theory:

Agency theory addresses the conflicts of interest between the management (agents) and the shareholders (principals) of a company. It suggests that mergers and acquisitions can align the interests of management with those of the shareholders, or conversely,

that they can be driven by management's self-interest rather than the shareholders' best interests (Jensen and Meckling, 1976).

2.2.2 Resource Dependency Theory:

This theory suggests that firms engage in M&A to acquire critical resources that are essential for their survival and growth (Pfeffer and Salancik, 1978). By merging with or acquiring another company, a firm can gain access to resources such as technology, talent, or market access.

2.2.3 Market Power Theory:

According to this theory, firms pursue mergers and acquisitions to increase their market share and market power, enabling them to influence prices and reduce competition. This can lead to monopolistic or oligopolistic market structures (Porter, 1980).

2.2.4 Diversification Theory:

Firms may seek mergers and acquisitions to diversify their product lines, services, or markets. This diversification can reduce business risk by spreading it across different areas and can create new growth opportunities (Ansoff, 1965).

2.2.5 Efficiency Theory:

Efficiency theory posits that M&A activities are undertaken to achieve economies of scale, economies of scope, or other efficiency gains. This can result in cost savings, improved production processes, and better allocation of resources.

2.2.6 Behavioral Theory:

This theory explores the psychological and behavioral aspects of mergers and acquisitions, such as overconfidence, hubris, and managerial motives. It suggests that some M&A decisions are influenced by irrational behavior or cognitive biases of the managers involved.

2.3 Empirical Review

Gautam (2023) investigated that case for overall commercial bank sector is similar to that of sample banks i.e., the performance of overall commercial bank sector goes downhill in post-merger. Significant difference can be observed in majority of the

operating performance ratios before and after the merger, although it may be improvement or deterioration. Mergers are pursued for various reasons, such as achieving cost efficiency, boosting revenue, consolidating capital, and realizing economies of scale and scope. The study indicates that mergers are advantageous primarily when large and stable entities, like commercial banks, are involved. While the financial performance of acquiring Banks and Financial Institutions (BFIs) generally shows improvement post-merger, these changes are often not substantial. Following the merger of two or more BFIs, there has been a 60% improvement in capital and loan loss provisions (LLP), accompanied by a decrease in non-performing loans (NPL) and reduced profitability, as reflected in the capital adequacy ratio (CRR) and earnings per share (EPS).

Adhikari et al. (2023) conducted the research on impact of merger on Nepalese banks. The research findings suggest that commercial banks should seek mergers with other commercial banks rather than with weaker development banks and finance companies to achieve synergy benefits, cost efficiency, risk diversification, and enhanced competitiveness. Conversely, the study concludes that mergers involving commercial banks and weaker BFIs do not yield significant benefits. Therefore, the Nepal Rastra Bank (NRB) should promote partnerships between commercial banks and encourage mergers with stronger commercial banks, rather than with two weaker and smaller institutions.

Kashyap (2022) investigated that mergers and acquisitions have become a reality in the banking sector, serving as a key strategy for strengthening the Indian economy. The Government of India is actively pursuing a policy of amalgamating public-sector banks. This research paper examines the mergers and acquisitions (M&As) in the Indian banking sector to understand the resulting synergies and long-term implications. It also analyzes recent trends in banking M&As. The findings suggest that M&As have been somewhat successful in the Indian banking sector. The study concludes that the merger of Bank of Baroda (BOB) has facilitated better capital management. However, alongside mergers, there should be a focus on adequate reforms in governance and management of these banks. The bank has experienced positive impacts due to the merger. The post-liberalization period has seen rapid development in various sectors, including banking. M&As in the banking sector have proven to be a useful tool for

consolidating into larger entities, aiding the survival of weaker banks. The study highlights that the global economy's challenges are particularly difficult for small and local banks, necessitating support, which is one of the driving factors behind their mergers.

Karki (2022) investigated those mergers and acquisitions (M&A) are widely used business strategies for restructuring through the consolidation of two or more organizations with a common objective or the complete takeover of one organization by another. The primary goals are to achieve competitiveness, promote efficiency, reduce costs, and increase profits. M&A has proven to be an effective tool for facilitating consolidation in the financial system, significantly reshaping the banking industry globally. For many years, mergers and acquisitions have been advantageous to banks and financial institutions by increasing deposits, enhancing credit, boosting earning potential, and strengthening risk management capabilities. The merger of underperforming banks with high-performing ones has resulted in financial institutions that are competitive and adhere to industry standards.

Depamphilis (2018) evaluated Mergers and acquisitions can also offer access to products and markets at lower development costs compared to starting from scratch, while also saving management time. For companies with significant financial strength, engaging in mergers and acquisitions can enable them to create a more dynamic and expansive economic, social, and cultural environment compared to their competitors. Ultimately, this is expected to deliver substantial returns for investors involved in the merger and acquisition process.

Ojha (2018) analyzed the relationship between mergers and acquisitions and various financial indicators like liquidity, non-performing loans, return on assets, capital adequacy ratio, return on equity as well as macroeconomic factors like GDP, inflation, and the interbank rate in Nepalese commercial banks. Utilizing panel data from 2010/11 to 2016/17, the analysis employed mean, standard deviation, correlation, and multiple regression techniques. The findings indicated that return on assets, return on equity, non-performing loans, GDP, and the interbank rate significantly impact liquidity.

Mahato (2018) conducted research The study evaluated the impact of mergers and acquisitions on the financial performance of banks, specifically finding that mergers

significantly affect return on equity (ROE), with ROE showing notable changes following a merger. Mergers also positively impact equity holders. Additionally, the cost of deposits (CD) was significantly reduced post-merger, though return on assets (ROA), non-performing loans (NPL), and capital adequacy ratio (CAR) did not show significant changes. The regression analysis revealed that before the merger, 80% of the variation in ROE could be explained by ROA, NPL, CAR, and CD. After the merger, this explanatory power decreased to 72%.

Gugler et al. (2018) identified the impact of mergers and acquisitions on the financial performance of commercial banks in Kenya. The study was based on three theories: differential efficiency theory, financial synergy theory, and hubris theory. They examined a sample of nine banks that underwent mergers and acquisitions between 2007 and 2010. The study found that a unit improvement in differential efficiency led to a 0.886 increase in the financial performance of the banks, indicating the realization of managerial synergy. Additionally, they analyzed a sample of 163 firms acquired between 1971 and 1979 and compared it with a random sample of 256 non-acquired firms in the mining and manufacturing sectors, listed on either the New York or the American Stock Exchange. The results showed that target firms had significantly lower growth and leverage compared to non-target firms, though there was no significant difference in their holdings of liquid assets.

Shah and Khan (2017) evaluated the impacts of mergers and acquisitions (M&A) on the performance of acquirer banks in Pakistan. The study focused on a sample of 18 M&A transactions involving acquirer banks listed on the Karachi Stock Exchange. Financial Ratio Analysis (FRA) was employed to assess the effects of M&A, and the significance of changes in operating performance was tested using a paired sample t-test. The results revealed a deterioration in the performance of acquirer banks in the post-merger period. Most profitability ratios, including Return on Equity (ROE), Return on Assets (ROA), net markup, and non-markup income to total assets, declined after the mergers. The study found only insignificant improvements in net interest margin and the ratio of administrative expenses to profit before tax. Additionally, the research highlighted significant improvements in cost efficiency post-merger. However, a deterioration was observed in the liquidity ratios of the acquirer banks post-merger. The ratio of cash and cash equivalents to total assets declined significantly, while advances and investments to total assets ratios increased insignificantly. The

study also indicated no substantial improvement in the capital stability of acquirer banks following the mergers. The deposit to owners' equity ratio significantly increased, whereas the capital adequacy ratio declined, reflecting an unfavorable impact on the performance of the acquirer banks in the post-merger period.

Shrestha et al. (2017) evaluated on a comparative study on the effects of mergers on the financial performance of banking and financial institutions (BFIs) in Nepal. The research aimed to analyze the financial performance of merged BFIs relative to their pre-merger performance and to assess stakeholder perceptions of mergers. The study sampled six banks and financial institutions and included responses from 120 stakeholders, using both secondary and primary data. The researchers employed financial ratios comparison and a t-test to measure changes in performance. The findings indicated that mergers positively impact performance when larger and more stable entities, such as commercial banks, act as bidders, compared to mergers involving smaller BFIs where commercial banks are not the bidders. However, the study also found that loan quality significantly deteriorated post-merger in most cases, and profitability, measured by Return on Assets (ROA) and Return on Equity (ROE), was adversely affected in most instances after the merger. The study concluded that mergers should not be seen as a definitive solution to market challenges. It emphasized the importance of thorough evaluation and careful selection of merger partners to ensure successful outcomes.

Shah and Dwa (2017) explained the impact of mergers on the operating performance of commercial banks in Nepal. The study aimed to determine how mergers affect various performance metrics of merged banks. To achieve this objective, the researchers examined eight independent variables: operating profit margin, net profit margin, return on assets, return on equity, debt-equity ratio, return on loan loss provision, return on staff expenses, and return on operating expenses. The study analyzed three cases to assess whether mergers led to improved profitability. Using quarterly secondary data, the analysis was performed through paired sample t-tests, correlation analysis, VIF tests, and regression analysis. The findings indicated that mergers had no significant impact on the operational ratios of Nepal Bangladesh Bank and NIC Asia Bank, with many ratios weakening in the post-merger period compared to the pre-merger period. Conversely, the merger significantly improved nearly all

operational ratios for Machhapuchchhre Bank. When examining the overall commercial banking sector with the sampled data, the study observed that mergers generally did not produce positive results for the merged entities. The negative outcomes were attributed to the poor financial condition of the target banks before the mergers. The study concluded that while mergers can help address some challenges faced by Nepalese BFIs and help them meet the current paid-up capital requirements set by the latest NRB directive, mergers alone are not a comprehensive solution for strengthening the financial position of BFIs.

Patel (2017) highlighted on study of the financial performance of Indian banks before and after mergers, focusing on the period from 2003-04 to 2013-14. The study compared long-term profitability metrics and found that mergers negatively impacted return on equity, return on assets, net profit ratio, yield on advances, and yield on investments. However, earnings per share, profit per employee, and business per employee showed positive growth after the mergers. The study observed that although the assets, equity, investments, and advances of all banks increased post-merger, the respective yields decreased due to underutilization. Conversely, business per employee and profit per employee improved due to the optimal use of human resources. Through comparative analysis, the paper also evaluated the financial performance of acquiring banks relative to the banking industry. It was found that Bank of Baroda and Oriental Bank of Commerce experienced decreases in yield on advances and yield on investments compared to the industry average in the post-merger period. In contrast, State Bank of India and IDBI Bank showed higher business per employee and profit per employee than the industry average. The study also noted that operating expenses decreased post-merger, which coincided with improved financial performance. Furthermore, a strong positive relationship was observed between the liquidity and solvency of the firms and their financial performance, while a moderate inverse relationship was found between operating expenses and financial performance.

Chalise (2017) explained the impact of mergers and acquisitions on the performance of commercial banks in Nepal, focusing specifically on Global IME Bank. The main objective of the study was to determine if the financial performance of Global IME Bank improved post-merger using the CAMEL criteria. The researcher concluded that the bank's capital position improved significantly after the merger, despite an initial negative mean. The increase in Return on Assets (ROA) indicated that the

management's ability to convert the bank's assets into net earnings was improving. Overall, the study found that the financial performance of Global IME Bank, as measured by the CAMEL criteria, showed significant positive changes following the merger and acquisition.

Baniya and Shah (2016) identified that mergers are becoming increasingly common in the Nepalese banking sector. They noted that the merging of banking institutions has been a significant trend globally over recent decades, leading to a reduction in the number of banks and the emergence of large universal banking firms with international operations. Many developing countries, including Nepal, have implemented government policies promoting bank mergers as a means to restructure their banking industries. Such initiatives often follow financial crises and aim to stabilize both the banking system and the broader economy. However, the researchers highlighted a gap in the existing literature concerning the analysis of merger activities from the perspective of Human Resource Management (HRM) practices. This suggests that there is a need for further research to explore how HRM practices are impacted by and contribute to the success of bank mergers in Nepal and similar markets.

Tamragundi and Devaraj (2016) explained the impact of mergers on Indian banking sector: "A comparative study of Public and Private sector Banks" to assess the effects of mergers on the physical performance, financial performance, and share price performance of six Indian commercial banks. The study included three mergers involving public sector banks with private sector banks and three mergers between private sector banks. Using secondary data and the Camel model, the analysis employed statistical tools such as mean, standard deviation, and T-tests. The findings indicated that mergers serve as an effective strategy for expanding business operations and fostering overall business growth.

Modebe et al. (2016) identified impact of mergers and acquisitions on the performance of the Nigerian banking sector. Their research yielded several key findings: (i) Profit performance: the study found no significant difference in the profit performance, measured by return on assets, between the pre-merger and acquisition period and the post-merger and acquisition period. (ii) Bank asset ratio: there was a significant increase in the mean bank asset ratio when comparing pre- and post-merger and acquisition periods. (iii) Capital adequacy ratio: a significant reduction in the capital adequacy ratio

was observed between the pre- and post-merger and acquisition periods. Based on these findings, the study concludes that mergers and acquisitions have a substantial impact on the Nigerian banking sector's performance. To maximize the benefits of such corporate strategies, the following recommendations are made:

Due Diligence: It is essential to conduct thorough due diligence in the identification and selection of compatible partners to ensure that the merger or acquisition achieves the desired synergies.

Policy-Induced Mergers and Acquisitions: In cases where mergers and acquisitions are driven by policy mandates, a reasonable timeframe should be provided to allow for smooth compliance. Additionally, the implementation process should be closely monitored to ensure successful integration and performance outcomes. These recommendations aim to enhance the strategic and operational outcomes of mergers and acquisitions within the banking sector, promoting stability and growth.

Akram and Shadid (2016) analyzed that way for companies with good financial and leverage capabilities to grow. By doing so, companies gain direct or indirect access to the latest knowledge, systems and technology, a good and competent management team, and access to natural resources so that they can contribute to the business restructuring process which in turn can provide a competitive advantage to the company who carry out the merger and acquisition process.

Gupta (2015) analyzed the impact of mergers and acquisitions was evaluated by examining various financial ratios, including Profitability Indicators, Efficiency Indicators, and Performance Indicators of selected banks. The study focused on two specific cases: the merger of Bank of Rajasthan (BOR) with ICICI Bank, and the merger of Centurion Bank of Punjab (CBOP) with HDFC Bank. The findings revealed that the merger between BOR and ICICI Bank led to a significant improvement in performance in terms of net profit margin, return on assets, net interest margin, capital adequacy ratio, CASA (Current Account Savings Account), and cost to income ratio. However, there were no significant changes observed in total income/capital employed, return on equity, and credit deposit ratio. In the second case, the merger between CBOP and HDFC Bank resulted in significant improvements in net profit margin, return on assets, return on equity, credit deposit ratio, CASA, and cost to income ratio. Nonetheless, no significant changes were noted in total income/capital employed and capital adequacy

ratio, and there was a negative change in net interest margin in the post-merger period.

Singh and Gupta (2015) identified that there are significant differences in several financial metrics after mergers, specifically in Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Net Worth, Interest Coverage, Deposit per Employee, and Credit Deposit Ratio. However, they found no significant differences in Gross Profit Margin, Debt-Equity Ratio, Current Ratio, Quick Ratio, and Earnings per Share. The study concluded that mergers positively affect banks' financial performance, with the post-merger period demonstrating greater financial efficiency than the pre-merger period. The researchers highlighted that mergers and acquisitions are intended to improve financial intermediation efficiency, thereby driving banks towards profit maximization. This positive relationship between mergers and acquisitions and bank performance supports the view that such strategic moves are beneficial. The enhanced efficiency and performance metrics observed in the post-merger period underscore the potential for mergers to create more robust and financially sound banking institutions.

Mungai (2015) evaluated the impact of mergers and acquisitions on the financial performance of financial institutions in Kenya. The study aimed to determine how these mergers and acquisitions affected the financial performance of Kenyan financial institutions. A causal research design was employed to explore this cause-and-effect relationship. The population consisted of 104 financial institutions, from which 25 institutions that had recently undergone mergers and acquisitions were selected using purposive sampling. Secondary data was collected from 18 of these institutions. The data was analyzed using multivariate regression analysis and correlation techniques.

Joash and Njangiru (2015) investigated the impact of mergers and acquisitions on bank performance in Kenya. The study aimed to determine how these activities affected shareholders' value and profitability. Fourteen banks that had merged or acquired others from 2000 onwards were examined. Data was collected using questionnaires containing both open-ended and closed-ended questions, and the analysis was conducted using SPSS to obtain correlation coefficients. The study found that mergers and acquisitions increased the shareholders' value of the merged or acquiring banks. The researchers recommended conducting thorough feasibility studies before proceeding with mergers or acquisitions. Additionally, they suggested that the effects of mergers and acquisitions

in other economic sectors should be examined to draw comparisons with their impact on the banking sector.

Dhakal (2015) investigated the effects of the merger bylaws policy introduced by the Nepal Rastra Bank in 2011, which led to a notable increase in mergers and acquisitions among Nepal's banking and financial institutions (BFIs). This study focused on the post-merger impacts on employees, customers, and shareholders of the merged banks. Employing a descriptive research method, the study derived its results from surveys and analytical techniques. The findings revealed that customers experienced changes in value, product offerings, and services in the post-merger phase, though they expressed a desire for more innovative services. Additionally, the overall financial data showed substantial improvement in the banks' performance following the mergers, thereby enhancing shareholder wealth. The study highlighted that mergers not only improved financial metrics but also brought about perceptible changes for employees and customers, underlining the multifaceted benefits of such corporate strategies.

Awan and Mahmood (2015) highlighted the impact of mergers and acquisitions on the performance of commercial banks in Pakistan. The study concluded that mergers and acquisitions can significantly influence firm performance. According to their analysis, all four measured ratios solvency, liquidity, profitability, and investment showed a positive impact on firm performance due to mergers and acquisitions. The study compared financial ratios from two years before and two years after the mergers and acquisitions, finding an overall positive impact in the short term. The researchers noted that while these positive effects were observed in the short term, it is possible that the impacts could extend into the long term. They also highlighted that mergers and acquisitions can provide a competitive edge to organizations, which can be beneficial. Additionally, the study concluded that expansion through mergers and acquisitions often leads to a reduction in per unit costs due to increased business activities.

Ghosh and Dutta (2015) identified mergers and acquisitions as a strategic method for corporate restructuring. Their study investigated the overall strategic impact of mergers and acquisitions within the Indian banking sector, focusing on 20 M&A deals from 2000 to 2010. The study conducted a pre- and post-merger comparison of HR and financial parameters. For the analysis, performance ratios for each parameter were calculated for all 20 mergers, followed by a Shapiro-Wilk normality test. The research

highlighted the case of the State Bank of India, which merged with its five subsidiaries on April 1, 2017, and noted the Government of India's ongoing efforts to promote the consolidation of public sector banks. The study concluded that there was no significant change in the performance of banks in the post-merger period. Despite the strategic intentions behind these mergers, the anticipated improvements in performance metrics were not observed.

Table 1

Summary of Empirical Review

S.N	Author (Year)	Objectives	Methodology	Major Findings
1	Gautam (2023)	To examine the post-merger effect on financial performance of commercial banks.	Descriptive and comparative research design based on secondary data. Ten years data are taken.	The merger has enhanced the major financial indicator of the sampled banks. Post-merger has improved ROA and ROE of the bank which means profitability is increased.
2	Adhikari, et al. (2023)	To analyze pre- and post-merger effect on financial performance on banks.	Descriptive and comparative research design based on secondary data	Banks are more likely to be merged to gain synergy benefit, cost efficiency, risk diversification, and be more competitive.
3	Karki (2022)	To examine the increase on deposit and credit expansion after the merger.	It is based on secondary data and quantitative research has been done	Merger and acquisition have increased deposits and credit, increased earning potential, and strengthened risk management capabilities.

4	Adhikari (2022)	To reveal the relationship between financial performance shareholders value and the merger.	Two cases of merger of banks of Nepal have been taken into study. Data have been compared using a t-test and regression analysis.	This study reveals that there is a significant relationship between financial performance and shareholder value and the merger, whereas there is no relationship between the market share of the BFIs and the merger.
5	Bhusal (2021)	To reveal the effect of merger in performance of commercial bank of Nepal	Descriptive data analysis, both primary and secondary data used	It revealed the merger has a positive impact on the financial performance of bank and employees are more satisfied after merger.
6	Mahato (2018)	To analyze impact of merger on financial performance of Nepalese bank.	Financial data of six commercial bank and four development banks are taken three years before and after merger.	It is important to diversify failure risk and increase capital base as well as huge impact on return on assets and return on equity.
7	Ojha (2018)	To analyze the relationship between merger and financial ratios	The five years data had been studied using mean standard deviation, correlation and regression.	The result revealed the significant influence of merger and acquisition on ROA and ROE.
8	Sharma (2018)	To find the how banks are restructured	This research is descriptive in type. Both	With the level of competition getting more intense day by

		and strengthen after merger and acquisition.	primary and secondary data are used.	day, mergers and acquisitions have emerged as the most preferred long-term strategy of corporate restructuring and strengthening in the present globalized world.
9	Chalise (2017)	To watch the increase in Return on asset and other financial ratios.	It is based on secondary data and quantitative research and an empirical investigation has done.	Researcher concluded that Bank capital has bettered after the merger with negative mean and it was also was statistically significant.
10	Shah & Dwa (2017)	To watch the financial ratios of particular banks such as NIC Asia and Nepal Bagladesh Bank after merger.	Profitability testing hypothesis, liquidity testing hypothesis and capital adequacy testing hypothesis are developed and average performance is calculated.	The analysis suggests that the merger did not play a significant role for Nepal Bangladesh Bank and NIC Asia Bank in terms of various operational ratios, as many of these ratios were found to be weaker in the post-merger period compared to the pre-merger period.
11	Shrestha, et al. (2017)	To find whether the quality of loan	Quantitative method, both primary and secondary data are	The loan quality significantly deteriorates after merger in most of the cases and

		is improved or not.	used, financial ratios comparison with t-test.	profitability measured in terms of ROA and ROE is adversely affected in most of the cases after the merger.
12	Gautam (2016)	To examine the improvement in efficiency as well as the financial performance of bank after merger.	The study follows survey research design. And primary data is collected	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.
13	Pathak (2016)	To find the motive of merger and acquisition.	This research uses questionnaire survey methodology and two stage multivariate procedure	The primary motive of merger and acquisition is to obtain operating synergy, and controlling cost of operation. There are many other motives which equally drive mergers and acquisitions. With extensive review of related literature, this paper includes various motives of FI mergers

				that fit in the Nepalese context.
14	Baniya & Shah (2016)	To find the impact of merger in banking industry.	The research utilized quantitative data collected through non probability sampling from and KMO analysis is done.	There is a significant decline in the number of banking firms in many countries, and a number of large universal banking firms with international operations has emerged.
15	Dhakal (2015)	To investigate about the post-merger enhancement in performance.	This research is descriptive type. Survey method was used to interpret the primary data.	The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth.
16	Bhargave & Tandon (2022)	To find out the causes of merger of banks.	Quantitative analysis using regression models and financial data from Indian banks	The major causes of mergers in the banking sector are compensation of losses, a robust banking system, and improving the capital capacity.
17	Kashyap (2022)	To examine the contribution on bank on economy.	Correlation and regression analysis is used and secondary data were used	Bank mergers are one of the strategies for strengthening the Indian Economy by enhancing the banking sector.
18	Gugler, et al. (2018)	To find the unit improvement in efficiency of the bank.	Descriptive model and ten years data have been used to find seasonal effect.	They found that a unit improvement in differential efficiency led to a 0.886 increase in

					financial performance of the bank.
19	Depamphilis (2018)	To observe access to the market before and after merger.	The research utilized quantitative data collected through purposive sampling from secondary sources.	Merger and acquisition can also provide access to products and markets with lower development costs than having to start from scratch and reduce management time to do this.	
20	Patel (2017)	To find the impact of merger on return on equity and other ratios.	Quantitative analysis using paired t-test method.	This study found a negative impact of merger on return on equity, return on assets, Net profit ratio, yield on advance and yield on investment.	
21	Shah & Khan (2017)	To observe the interest margin and the change in administrative expenses before and after merger.	Descriptive survey research was used and data were collected via annual reports of the sampled bank.	The results indicate deterioration in the performances of the acquirer banks in the post-merger period. Only an insignificant improvement is observed in net interest margin and administrative expenses to profit before tax ratios in the post-merger period.	
22	Modebe, et al. (2016)	To investigate the significant differences in	The study adopted the quantitative research	This research study shows that there is no significant difference in	

		performance of banks.	technique and independent sample test technique of data analysis	the profit performance of the banking sector between the pre- and post-merger an acquisition period.
23	Akram & Shadid, (2016)	To find out whether the team after merger is competent and management is efficient.	Descriptive and exploratory research design, secondary data used.	Companies gain direct or indirect access to the latest knowledge, systems and technology, a good and competent management team, and access to natural resources so that they can contribute to the business restructuring process.
24	Tamragun di & Devaraj appa (2016)	To make the comparative study of public and private sector in banking industry after the merger.	Quantitative performance measure. Both secondary and primary data were used.	A comparative study of public and private sector banks analyzes how mergers affect the physical performance, financial performance, and share price of the merged banks.
25	Ghosh & Dutta (2015)	To analyze the whether the merger is smart means of restructuring of banks.	Comparatives analysis of financial indicator and qualitative performance measure.	Mergers & Acquisitions as a smart means restructuring of a corporation. The findings of the study indicate an on-significant change in performance in the post-merger period.

26	Awan & Mahmood (2015)	To assess the overall impact of merger on banks performance.	It is based on secondary data and quantitative research and an empirical investigation has done.	It is analyzed that mergers and acquisitions have impact on firm performance in the short time period and it is also possible this deal has impact on the firm performance in the long run.
27	Joash & Njangiru (2015)	To determine the effect of merger on shareholders wealth.	Used correlation coefficient and, use of pie chart frequency table and qualitative data.	The impact of mergers and acquisitions in other sectors of the economy should be assessed to draw comparisons with their effects in the banking sector.
28	Mungai (2015)	To examine the increase in profitability after the merger.	Data collected by questionnaires, qualitative data and regression analysis is done	The aim of this study was to determine how mergers and acquisitions influence the financial performance of financial institutions in Kenya.
29	Singh & Gupta (2015)	To examine whether there is positive effect of merger on banks.	Secondary data were use and descriptive statistics were used to interpret data.	The study concludes that banks experience positive effects on financial performance when comparing the periods before and after a merger.

30	Gupta (2015)	To find the effect of M&A on financial performance of merged banks.	Both descriptive and inferential statistics were used to analyze data such as frequency, percentage, weighted mean.	There is a valuable improvement in the performance of commercial banks in terms of net NPM, ROA, net interest margin, CAR, and cost to income but there is no significant change in total capital employed.
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2.4 Research Gap

The term "research gap" refers to a gap in earlier research and an unexplored or underexplored area in previous research. This study aims to generate insights on the impact of mergers and acquisitions, explore new contributions, and gather knowledge and suggestions on the subject. Previous research forms the foundation for this study, emphasizing the need for research continuity by linking current investigations with past studies. Financial decisions, particularly those involving the merger of two companies, are crucial for a company's financial health. Despite the significant role of development banks in Nepal's economic growth, the impact of mergers on financial performance in the banking industry is not well understood. There is a notable gap in research regarding the effects of mergers on the financial performance of commercial banks in Nepal, as most existing studies focus on other aspects like comparisons. This lack of targeted research on the development banking industry hinders policymakers from creating effective laws and guidelines for mergers and acquisitions and limits management's ability to make informed merger decisions. This study's objectives differ significantly from those of previous investigations, as it examines new data or a new time period. Additionally, this study employs a regression model to analyze the impact of mergers and acquisitions on the financial performance of commercial banks in Nepal. It considers explanatory factors such as return on assets, earnings per share, CD ratio, non-performing loans, loan loss provisions, net profit margin, cash reserve ratio, and capital adequacy ratio. Thus, this study is unique in its analysis, focuses on fundamental elements affecting financial performance before and after mergers and acquisitions.

CHAPTER III

RESEARCH METHODOLOGY

In this section, we will delve into the theoretical and quantitative analysis employed in our research methodology within the designated field of study. This analysis serves as a foundation for the further development of our research. The methodology not only showcases our comprehension of research design theory but also aims to facilitate the replication of the study by other researchers. Replicability ensures that fellow researchers can undertake the study using the same design, enabling them to compare their findings with ours. We meticulously identify and discuss any methodological issues or problems that may have arisen during the research process. Additionally, we elucidate on how we have taken measures to mitigate the potential impact of these issues on the study. This transparency is crucial for providing insights into the robustness and reliability of our research. Furthermore, we expound upon the rationale behind the application of specific procedures and techniques. These include the methods used to identify, select, process, and analyze information pertaining to the research problem. By doing so, we empower readers to critically evaluate the overall validity and reliability of our study. This comprehensive approach to methodology ensures a thorough understanding of the research process and enhances the credibility of our findings.

3.1 Research Design

A research design, shaped by the research objectives, can be described as a comprehensive set of pre-determined decisions that forms the blueprint, outlining the methods and procedures for gathering and analyzing the necessary information. The selection of an appropriate research design is crucial as it dictates the type of data required, the methodologies for data collection, the sampling techniques, and the budgetary considerations. Recognizing the pivotal role of an apt research design in attaining the research objectives, careful consideration has been given to crafting the research design for the specific problem under investigation. In this study, a combination of descriptive and analytical research design was employed to investigate the impact of mergers on the financial performance of commercial banks. The descriptive research design was utilized to identify various aspects, including the extent

of mergers and acquisitions, legal frameworks governing mergers, as well as relevant bank and financial indices. Descriptive research design aims to present a comprehensive and accurate portrayal of a given situation.

In essence, the chosen research design allows for both the identification of key factors related to mergers and a deeper analysis of their impact on the financial performance of commercial banks. This dual approach provides a nuanced understanding of the subject matter, contributing to a more holistic view of the dynamics involved in the context of mergers and their repercussions on financial performance.

3.2 Population and Sample, and Sampling Design

The focus of this research encompasses all three commercial banks that underwent mergers following the implementation of the Merger and Acquisition by Law in 2011 AD. The central banking authority, in accordance with the Monetary Policy of 2019/20 AD and the stipulations of the Merger & Acquisition Policy, reported that more than 190 Banking and Financial Institutions (BFIs) had experienced the merger/acquisition process. The three merged commercial banks constitute the population under study.

From the pool of many merged commercial banks, a sample size of three was selected for this study. The systematic random sampling technique was employed, with the chosen sample comprising Prime Commercial Bank Ltd, Sanima Bank Ltd and Kumari Bank Ltd. Notably, all three banks underwent the merger process in 2017 AD. The sample size was determined based on a sampling interval of 5th, calculated by dividing the size of the population by the size of the sample. This approach involves selecting every 5th element in the population, starting from a randomly chosen point within the population frame. This systematic random sampling method ensures a representative and unbiased selection of commercial banks from the larger population of merged institutions, allowing for a focused and meaningful analysis of the impact of mergers on financial performance. Prime Commercial Bank Ltd, Sanima Bank Ltd and Kumari Bank Ltd.

Table 2
List of banks merged

S.N	Bank After Merger	Bank of Merger
1	Prime Commercial Bank	I. Prime Commercial Bank II. Biratlaxmi Bikas Bank III. Country Development Bank
2	Sanima Bank Limited	I. Sanima Bank Limited II. Bagmati Development Bank Limited
3	Kumari Bank Limited	I. Kumari Bank Limited II. Kasthamandap Development Bank Ltd. III. Mahakali Bikash Bank Ltd. IV. Kakrebihar Bikash Bank V. Paschimanchal Finance Ltd.

Prime Commercial Bank.

Prime Commercial Bank Ltd. was incorporated in September 2007 as the 21st commercial bank in Nepal. It is a Category 'A' Financial Institution registered under the "Banks and Financial Institutions Act" of Nepal. It has been established by prominent business personnel and professionals from diversified areas with a prime objective of providing 'Banking Services to Everyone' in the country where still large number of populations are deprived of Banking Services.

Sanima Bank Limited.

Sanima Bank is promoted by a group of prominent and dynamic Non-Resident Nepalese (NRNs) business persons. The bank initially commenced operations from 2004 as a National Level Development Bank. Since February 2012, Sanima Bank has been functioning as an "A" Class Commercial Bank with its registered office at 'Alakapuri', Naxal, Kathmandu. Sanima Bank is committed to provide a broad spectrum of financial solutions to our valued customers and to achieve a healthy growth in profitability in commensurate to the Bank's risk appetite. Sanima Bank is dedicated towards maintaining the highest level of ethical standards, professional integrity, good corporate governance and regulatory compliance. Consequently, Sanima Bank is perceived as a strong, reliable and consistent pillar in the Nepalese banking industry. At Sanima, we are committed for the better customer service in all areas of business through continuous improvement.

Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial banks of Nepal, starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive modern banking services in the Nepalese financial market.

3.3 Nature and Source of Data, and the Instruments of Data Collection

This research studies the effect of merger on financial performance of commercial bank of Nepal. The details about Merger and Acquisition concept in banking sector of Nepal were discussed with the officials of Kumari Bank Limited. The secondary data are used, where data are collected from the only the financial statement of the selected banks, Prime Commercial Bank, Sanima Bank and Kumari Bank Limited 5 year before and after the merger and acquisition. Data on the variables for the study covers the period of 2068/069-2078/79. The year 2073/074 was taken as the base year while the period 2068/069-2072/73 was taken as pre-merger period and the period 2073/074-2078/079 served as the post-merger period. For pre-merger financial performance analysis only the data and information are collected only from annual report of Prime Commercial Bank Limited, Sanima Bank Limited and Kumari Bank Limited. The data and information of other financial institutions which are merged with these banks are ignored for pre-merger financial analysis. For the post-merger period, the focus of the analysis was on the combined institution. After mergers and acquisitions, people anticipate that the bank's performance indicator ratios will be better than they were before the mergers and acquisitions happened.

3.4 Method of Analysis

For measuring the impact of merger and acquisition, the average performance of the five premerger years (T-5,T-4,T-3,T-2,T-1) is compared with the average performance of the five post-merger years (T+1,T+2,T+3,T+4,T+5) of the respective banks. The base year is ignored to eliminate the impact due to the cost of merger. Accounting ratios are used to analyze the financial performance of the banks under study. For the pre-merger period ratios, the data of only Prime Commercial Bank Limited, Sanima Bank Limited and Kumari Bank Limited is collected and studied to get an indication of the relative financial performance. For the post-merger period, the data are collected in combined institution. Pre-merger average data was compared with the post-merger

average data to determine the effects that are occurred in financial performance following the merger or the acquisition.

3.4.1 Mean

Mean is a measure of central tendency, often referred to as the average. It is calculated by summing up all the values in a dataset and then dividing by the total number of values. The mean provides a single numerical value that represents the typical value of the data set. It's commonly used to understand the central value of a set of numbers. The mean is a fundamental concept used to describe the central tendency of a dataset. It's essentially what most people refer to when they use the term "average".

It can be calculated as follows:

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

Where

$$\begin{aligned} \bar{x} &= \text{Mean of the values} \\ \sum x &= \text{Summation of values} \\ n &= \text{No. of Observations} \end{aligned}$$

3.4.2 Standard Deviation

Standard deviation is a measure of the amount of variation or dispersion in a set of values. It tells you how much individual values in a dataset differ from the mean (average) value of the dataset. Small standard deviation indicates that the values in the dataset are close to the mean, while a large standard deviation indicates that the values are spread out over a wider range. Mathematically, the standard deviation is calculated by taking the square root of the variance. The variance is the average of the squared differences between each value in the dataset and the mean.

It can be calculated as follows;

$$\text{S.D.} = \sqrt{\frac{\sum(x-\bar{x})^2}{N-1}}$$

Where,

$$\begin{aligned} \bar{x} &= \text{Mean of the values} \\ N &= \text{Number of observations} \\ x &= \text{Variable} \end{aligned}$$

3.4.3 Correlation Analysis

Correlation measures the strength and direction of the relationship between two variables. When working with Likert scale data, which is ordinal in nature, there are several ways to calculate correlation. The Pearson correlation coefficient is the most commonly used method for measuring the linear relationship between two continuous variables. It is calculated as:

$$\text{Correlation Coefficient (r)} = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where;

- n = Quantity of Information
- $\sum x$ = Total of the First Variable Value
- $\sum y$ = Total of the Second Variable Value
- $\sum xy$ = Sum of the Product of & Second Value
- $\sum x^2$ = Sum of the Squares of the First Value
- $\sum y^2$ = Sum of the Squares of the Second Value

3.4.4 Regression Analysis

Regression is a statistical method used to understand the relationship between variables. In the context of data analysis and machine learning, it involves identifying how the dependent variable (the outcome) changes as one or more independent variables (predictors) change. The goal of regression is often to model and predict the value of the dependent variable based on the values of the independent variables.

The equation of ROA is

$$\text{ROA} = \beta_0 + \beta_1 \times \text{EPS} + \beta_2 \times \text{NPM} + \beta_3 \times \text{CRR} + \beta_4 \times \text{CAR} + \beta_5 \times \text{NPL} + \beta_6 \times \text{CDR} + e$$

Where,

ROA=Return on Asset

EPS=Earnings per Share

NPM=Net Profit Margin

CRR=Cash Reserve Ratio

CAR= Capital Adequacy Ratio

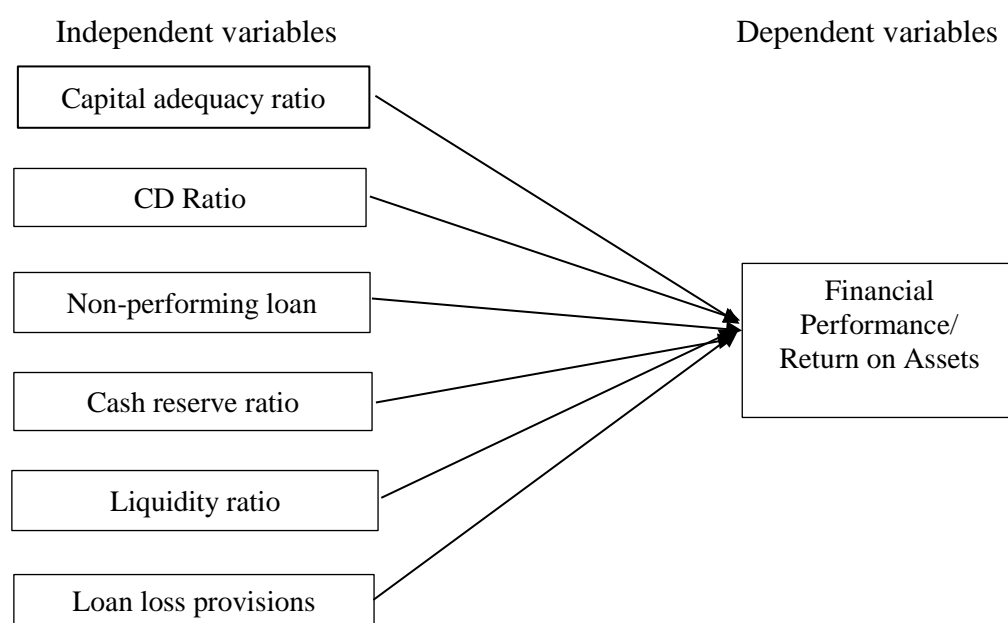
NPL= Non performing loan

CDR=Credit to Deposit Ratio

3.5 Research Framework and Definition of Variables

Through the development of this research framework, we strive to contribute to the existing body of knowledge in the field, shedding light on the nuanced relationship between mergers and acquisitions and financial performance in the context of the banking sector. This structured approach enhances the clarity and coherence of our study, allowing for a more nuanced understanding of the intricate dynamics at play within the realm of corporate mergers and acquisitions of Prime Commercial Bank Ltd, Sanima Bank Ltd and Kumari Bank Ltd. The study conducted a thorough comparison of the significance levels associated with the pre and post-merger financial health of the selected banks. This analysis was carried out employing both descriptive and analytical methods. The findings reveal a nuanced picture, indicating that the banking sector has experienced a mix of positive and negative impacts following mergers.

The following conceptual framework is the foundation on which this study is based up on. The framework shows that the different ratios of the pre-merger period of the sampled banks is taken and compared with the post-merger period. The choice of dependent variable (financial performance) is measured by using ROA. The independent variables further includes LLP, EPS, CRR, CAR and NPL. The research framework of the study can be interpreted in the figure 1.



Source: Poudel (2018)

Figure 1 Research Framework

The research framework and objectives of this study are centered around evaluating the

influence of specific variables, namely, merger and acquisition, on the financial performance of the entities under investigation. The primary focus within the realm of financial performance is on the metric known as Return on Assets (ROA). To elucidate, the definitions for each of these key variables are provided as follows:

3.5.1 Definition of Variables

Earnings Per Share (EPS)

Earnings per Share (EPS) is a financial metric that represents the portion of a company's profit allocated to each outstanding share of its common stock. It is a widely used indicator of a company's profitability and is often considered when assessing a company's financial performance and comparing it to other companies.

The formula for calculating Earnings per Share is:

$$\text{Earnings per share} = \frac{\text{Net profit}}{\text{No.of outstanding share}}$$

Non-performing Loan (NPL)

Non-performing Loan refers to a loan that is in default or where the borrower is not making interest and principal payments as agreed upon in the loan contract. In other words, it is a loan that has stopped generating income for the lender because the borrower has failed to meet the scheduled payments for a specified period. In banking, commercial loans are considered nonperforming if the borrower is 90 days past due. It can be calculated as:

$$\text{Non-performing loan} = \frac{\text{Total non performing loan}}{\text{Total assets}}$$

Cash Reserve Ratio

Cash Reserve Ratio (CRR) is a monetary policy tool used by central banks to control the money supply in an economy. It refers to the percentage of a commercial bank's total deposit liabilities that must be held in reserve in the form of cash with the central bank. The purpose of the Cash Reserve Ratio is to ensure the liquidity and stability of the banking system.

Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is a critical financial metric used by regulators to ensure that banks maintain a healthy balance between their capital and the level of risk they undertake. This ratio is a safeguard against banks taking excessive risks that could potentially lead to insolvency. It is a measure that assesses the adequacy of a bank's capital in relation to the risks it faces. It's calculated by dividing a bank's capital by its risk-weighted assets and current liabilities, expressed as a percentage. The idea is to ensure that banks have a sufficient financial cushion to absorb potential losses from their various activities. Regulators, such as central banks, set a minimum level for the Capital Adequacy Ratio to protect depositors and maintain the stability of the financial system. The ratio considers different types of capital - tier one capital, which is the most secure and can absorb losses without causing the bank to stop operations, and tier two capital, which provides a lower level of protection to depositors in case the bank faces insolvency.

$$\text{Capital adequacy ratio} = \frac{\text{Total risk weight}}{\text{Total capital}}$$

CD Ratio

The Credit-Deposit (CD) ratio in a bank measures the proportion of a bank's deposits that are used for lending purposes. It is an important metric that reflects the bank's liquidity and lending practices. The CD ratio is a crucial indicator of a bank's financial health, balancing the need to lend and generate income with the necessity to maintain sufficient liquidity to meet depositor needs. It can be calculated as:

$$\text{CD ratio} = \frac{\text{Total Credit disbursed}}{\text{Total deposit}} \times 100$$

Return on Asset

Return on Assets (ROA) is a financial ratio that measures a company's profitability in relation to its total assets. It provides an indication of how efficiently a company is using its assets to generate earnings. The ROA ratio reflects the ability of a company to generate profits from its investments in assets. A higher ROA indicates that the company is using its assets more efficiently to generate earnings, while a lower ROA

suggests lower efficiency in asset utilization. It can be calculated as:

$$\text{Return on asset} = \frac{\text{Net profit}}{\text{Total Assets}}$$

Net Profit Margin

The net profit margin of a bank measures the percentage of total revenue that remains as profit after all expenses, including operating costs, interest, taxes, and loan loss provisions, have been deducted. It indicates the bank's efficiency in managing its expenses relative to its revenue and its ability to generate profit from its operations. A higher net profit margin signifies better financial health and profitability, reflecting effective cost management and strong revenue generation. Conversely, a lower net profit margin may point to higher expenses or lower revenue efficiency. It is calculated as:

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Total revenue}} \times 100$$

CHAPTER IV

RESULTS AND DISCUSSION

This chapter examines a comprehensive analysis of financial data from three banks based on various variables such as ROA, EPS, NPL, LLP, CAR, and CRR. Each variable serves as a framework for the analysis, with the collected data being thoroughly examined for each one. Following the analysis, the results are interpreted to derive meaningful insights into the financial performance and stability of the banks. This approach allows for a detailed understanding of how each bank performs in terms of profitability, asset quality, risk management, and regulatory compliance, among other factors.

4.1 Results

The impact of a merger is assessed by gathering secondary data from the annual reports of each bank involved. Both pre-merger and post-merger data are collected and analyzed to gauge the performance of the bank before and after the merger. This involves comparing the average performance over a five-year period before the merger with the average performance over a five-year period after the merger for each respective bank. By examining changes in key indicators over these periods, the analysis aims to evaluate the overall impact of the merger on the banks' performance.

4.1.1 Descriptive Statistics of Financial Ratios

This section presents the results through a descriptive analysis of the data. The research objectives related to the current status of the variables are addressed by calculating the mean, standard deviation, minimum, maximum, and coefficient of variation for each variable across all sample banks. The results are detailed through a descriptive analysis of the data. This descriptive analysis offers an overview of the current state of the variables being examined in the industry.

4.1.1.1 Sample Bank I (Prime Commercial Bank Ltd)

For the research Prime Commercial Bank has been taken as a sample. PCBL emerged after successful merger of Prime Commercial Bank (A class commercial bank), Biratlaxmi Bikas Bank (B class development bank) and Country Development Bank (B class development bank). The merger was completed on 2017.

Table 3
Financial performance indicator of PCBL

Year	Pre-merger						Post-merger					
	T-5	T-4	T-3	T-2	T-1	Mean	T+1	T+2	T+3	T+4	T+5	Mean
ROA	1.0	1.5	1.5	1.6	2.1	1.5	1.8	2.2	1.5	1.7	1.3	1.7
EPS	12.0	18.5	20.9	23.7	30.1	21.0	21.5	23.6	16.1	20.3	14.9	19.3
NPM	9.1	15.9	16.5	19.0	25.0	17.1	18.0	20.2	16.8	20.4	14.0	17.9
CRR	17.8	12.9	11.2	12.2	11.6	13.1	11.4	9.8	7.2	7.2	5.5	8.2
CAR	13.6	12.7	12.0	10.8	10.0	11.8	12.2	12.8	13.8	14.8	13.1	13.3
NPL	0.8	2.2	2.4	1.8	1.2	1.7	0.8	1.0	1.5	1.0	1.8	1.2
CD Ratio	80.4	75.6	81.8	81.6	85.0	80.9	87.5	89.2	88.9	89.2	93.7	89.7

Source: Appendix

Table 3 represents the financial ratios of Prime Commercial Bank Limited before and after merger. T-5, T-4, T-3, T-2, T-1 represents data of before merger years 2068/069 to 2072/073 respectively and T+1, T+2, T+3, T+4 and T+5 represents data of after merger years 2074/075 to 2078/079 respectively. The average ROA of PCBL before and after merger is 1.52 and 1.70, which shows that average ROA has increased after merger. Similarly, average EPS has been decreased from 21 to 19.3. Net profit margin has also decreased from 25 to 17.9. We can see decreasing average CRR from 13.1 to 8.2. Also the CAL has been decreased from 11.8 to 13.3. Average NPL has been decreased after which represents the soundness of quality loan. CD ratio has been increased from 80.9 to 89.7 it means the bank has utilized its deposit.

4.1.1.2 Sample Bank II (Sanima Bank Ltd)

Sanima bank commenced operation form 2004 as national level development bank. Since 2012 it has been functioning as A class commercial bank with its head office at Naxal Kathmandu. For the research Sanima Bank has been taken as a sample. Sanima Bank emerged after successful merger of Sanima Bank, Bagmati Development Bank.

The merger had been taken place in the year 2017. The financial data of five year before merger and five year after merger have been taken.

Table 4

Financial performance indicator of SANIMA

Year	Pre-merger						Post-merger					
	T-5	T-4	T-3	T-2	T-1	Mean	T+1	T+2	T+3	T+4	T+5	Mean
ROA	0.9	1.4	1.5	1.6	1.8	1.4	1.9	2.1	1.4	1.4	1.1	1.6
EPS	6.0	15.2	19.3	24.5	32.5	19.5	21.2	28.2	20.2	23.9	18.5	22.4
NPM	9.9	17.0	18.7	21.5	26.6	18.7	18.6	18.9	14.0	19.1	12.8	16.7
CRR	30.2	31.0	26.7	22.3	24.2	26.9	24.7	22.9	24.0	22.1	27.0	24.1
CAR	20.7	14.8	12.5	11.1	12.4	14.3	12.4	13.2	13.0	13.6	13.6	13.2
NPL	0.5	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.5	0.1	0.3	0.2
CD Ratio	86.3	85.7	82.9	84.0	88.0	85.4	87.5	90.4	85.1	94.1	89.2	89.3

Source: Appendix

Table 4 shows the financial ratio of SANIMA bank before and after merger. T-5, T-4, T-3, T-2, T-1 represents data of before merger years 2068/069 to 2072/073 respectively and T+1, T+2, T+3, T+4 and T+5 represents data of after merger years 2074/075 to 2078/079 respectively. The average ROA of Sanima Bank is 1.4 and 1.6 before and after merger. Similarly, earning per share is increased from 19.5 to 22.4. It shows the improving financial performance after the merger. For Sanima bank, the average NPM is 18.7 which has decreased to 16.70 after merger, and average CRR can be found to have also fallen from 26.9 to 24.1 whereas, CAR has been slightly decreased from 14.3 to 13.3. Both NPL and CD ratios are increased after merger. The highest CD ratio was noted on fourth year after merger as 94.1 it indicates that the 94.1 percent of total deposit was disbursed as loan. Increase in non-performing loan (NPL) was reported which means the quality of loan was degraded, the bank has provisioned more loan as loan loss provision. The increase in EPS indicated the increase in profit per share which also cause increase in dividend paying capacity of bank and ultimately increase shareholders wealth.

4.1.1.3 Sample Bank III (Kumari Bank Ltd)

For the research Kumari Bank has been taken as a sample. KBL emerged after successful merger of Prime Kumari Bank, Kastamandap Development Bank, Mahakali Bikas Bank, Kakrebihar Bikash Bank, Paschimanchal Finance Ltd.

Table 5

Financial performance indicator of KBL

Year	Pre-merger						Post-merger					
	T-5	T-4	T-3	T-2	T-1	Mean	T+1	T+2	T+3	T+4	T+5	Mean
ROA	1.1	1.0	1.1	1.1	1.7	1.2	1.3	1.2	0.8	1.0	1.2	1.1
EPS	17.2	18.2	18.7	16.2	26.5	19.4	14.5	14.8	12.1	14.2	17.5	14.6
NPM	27.0	24.0	29.3	32.3	47.3	32.0	38.9	12.4	10.1	13.6	12.7	17.5
CRR	13.5	12.4	13.6	7.5	8.7	11.1	6.8	4.6	3.8	3.7	3.8	4.5
CAR	12.2	12.2	11.8	10.8	11.7	11.7	13.4	11.8	15.3	13.7	12.6	13.4
NPL	2.2	2.9	4.0	2.5	1.2	2.6	1.1	1.0	1.4	1.0	1.1	1.1
CD Ratio	82.3	79.5	82.7	81.0	79.3	81.0	89.5	90.1	92.2	91.0	86.6	89.9

Source: Appendix

Table 4 shows the financial ratios of Kumari bank before and after merger. T-5, T-4, T-3, T-2, T-1 represents data of before merger years 2068/069 to 2072/073 respectively and T+1, T+2, T+3, T+4 and T+5 represents data of after merger years 2074/075 to 2078/079 respectively. From table 5 we can see the average ROA of Kumari banks was decreased from 1.2 to 1.1. We can see that the average EPS has also decreased from 19.4 to 14.6 however, the CAR has increased from 11.7 to 13.4. The average net profit margin Kumari bank has decreased from 32 to 17.5. It can be seen to have decrease in reserve ratio than before merger. The average cash reserve ratio has decreased from 11.74 to 4.50. NPL decreased to 1.1 from 2.6 and CD ratio has been increased from 81 to 89.9.

Return on Asset

Return on Assets (ROA) gauges the net income generated per rupee of assets. It is calculated as the ratio of Net Income to Average Total Assets and reflects how

efficiently banks utilize their assets to generate profits. A higher ROA indicates a stronger profitability position for banks.

The average ROA of PCBL before and after merger is 1.52 and 1.70, which shows that average ROA has increased after merger. Similarly, SANIMA has average ROA of 1.41 and 1.59 which shows an increase in ROA after merger. Whereas, for KBL, the average ROA has decreased from 1.20 to 1.09. The highest average ROA before and after merger is PCBL at 1.52. Average ROA of all banks before and after merger can be seen in increasing state from 1.38 to 1.45 that shows that return on asset has increased in overall.

Earnings Per Share

Earnings per share (EPS) is a key metric used to evaluate the profitability of commercial banks in Nepal, particularly in the context of mergers. It is determined by dividing the earnings available to shareholders by the total number of outstanding shares. A higher EPS signifies a stronger profitability position for the bank, reflecting its ability to generate more income per share.

The average EPS of PCBL is 21.04 and 19.28 before and after merger. Similarly, the deviation has fallen from 5.96 to 3.28. For SANIMA bank, the average EPS is 19.51 which has increased to 22.40 after merger. the average EPS can be found to have also fallen from 19.36 to 14.62. Highest average EPS was of PCBL before merger at 27.44 and before merger of SANIMA at 22.40. The overall average EPS has declined from 19.97 to 18.77 that shows that the earning capacity of each share has declined in average after merger.

Cash Reserve Ratio

The Cash Reserve Ratio (CRR) is the percentage of a bank's total deposits that must be held in reserve, typically in the form of cash or deposits with the central bank. This requirement serves as a crucial tool in monetary policy, used by central monetary authorities to regulate the money supply and maintain financial stability.

We can see that the average reserve of PCBL has increased from 11.82 to 13.34 however, the deviation has decreased from 1.29 to 0.89. The average of SANIMA bank has decreased from 14.30 to 13.16. It can be seen to have better hold in the reserve ratio

than before merger. But In KBL, the average cash reserve ratio has increased from 11.74 to 13.36. The highest average cash reserve was of SAMINA bank before merger at 14.39 and lowest average reserve is also held was by SAIMA after merger at 13.16.

Capital Adequacy Ratio

Capital adequacy is a key indicator of a bank's financial strength, reflecting its ability to withstand losses and protect depositors. It ensures that a bank has enough capital to cover its risks and absorb potential losses, thereby promoting stability and efficiency in the financial system globally.

The average ratio of PCBL before merger is 11.82 which has increased to 13.34. Also. For Sanima, the average ratio has increased from 14.30 to 13.16. For KBL, the average has increased from 11.74 to 13.36. For all three banks, the average capital adequacy has increased that shows that all the banks financial position has improved after merger. All the banks are better at withstanding financial downturn or other unforeseen losses after merger. The mean of all the banks too can be seen to have increased from 12.62 to 13.29.

Non-performing Loan

A non-performing loan (NPL) is a loan that is in default or close to default. The exact criteria for an NPL can vary depending on the specific terms of the loan, but they generally occur when a borrower fails to make payments for an extended period, typically between 90 to 180 days. NPLs are more common during economic downturns when delinquency rates are higher.

The highest average non-performing loan of PCBL after merger is 1.22 and before is 1.68. For SANIMA, the average has too increased to 0.20 from 0.13. For KBL on the other hand, the average non-performing loan has decreased from 2.55 to 1.10. The highest decrease in deviation is of KBL. Lowest average was of SANIMA bank at 0.10 before merger and highest was of PCBL at 1.22 after merger.

Net Profit Margin

The net profit margin of a bank is a financial metric that measures the percentage of revenue that remains as profit after all expenses have been deducted. It indicates how effectively a bank is managing its expenses relative to its revenue. A higher net profit

margin indicates that the bank is more efficient at converting revenue into actual profit, which is a sign of strong financial health.

Average net profit margin of all three banks has decreased from 22.60 to 17.37 after merger. It indicates that the bank could not perform as good as before merger in case of profit margin. It also be indicated as the bank's operating expense increased. The highest average profit margin is of KBL before merger was 31.98 which has decreased after merger to 17.54. For SANIMA, the average profit margin has also decreased to 16.68 from 18.74 after merger. For PCBL on the other hand, the average has slightly increased to 17.88 from 17.094.

CD Ratio

The Credit-Deposit (CD) ratio is a financial metric used to assess a bank's liquidity by comparing its total loans (credit) to its total deposits. The optimal CD ratio can vary depending on the regulatory environment and the bank's specific business model, but a ratio of around 60-80% is often considered healthy. Ratios significantly above or below this range might require closer scrutiny and adjustments in the bank's lending or deposit-taking strategies.

Average the CD ratio of all three banks has increased from 82.41 to 89.61 after merger. It indicates that the bank has disbursed more loan than the loan disbursed before merger, though it also depends upon the liquidity situation of the country. The average CD ratio of PCBL before merger was 80.88 which has increased after merger to 89.69. For SANIMA, the average has increased to 89.26 from 85.38 after merger. For KBL on the other hand, the average has increased to 89.88 from 80.96. The highest average was seen at T+4 at 91.43 and lowest was of 80.27 at T-4.

4.1.2 Descriptive Statistics of Variables

Descriptive statistics are methods used to summarize and describe the features of a dataset. Among these, the mean is one of the most commonly used measures, offering insight into the central tendency of a dataset. Mean helps summarize the dataset with a single value. In this study, the descriptive statistics variables of dependent and independent variables are presented in Table 6 which is based average data set of different year of three commercial banks in the Nepalese banking sector during the period from 2012 to 2022.

Table 6

Descriptive Statistics of Variables of Sample Banks

Variables	N	Pre-merger				Post-Merger			
		Mini mum	Maxi mum	Mean	SD	Mini mum	Maxi mum	Mean	SD
ROA	90	1.2	1.5	1.4	0.2	1.1	1.7	1.4	0.4
EPS	90	19.4	21.0	20.2	1.1	14.6	22.4	18.5	5.5
NPM	90	17.1	32.0	24.6	10.5	16.7	17.9	17.3	0.8
CRR	90	11.1	26.9	19.0	11.2	4.5	24.1	14.3	13.9
CAR	90	11.7	14.3	13.0	1.8	13.2	13.3	13.3	0.1
NPL	90	0.1	2.6	1.4	1.8	0.2	1.2	0.7	0.7
CD Ratio	90	80.9	85.9	83.4	3.5	89.3	89.9	89.9	0.4

Source: Appendix

Table 6 shows descriptive statistics of variables of three commercial banks from the year 2068/069 to 2078/79. The mean value of ROA before merger is 1.35 with deviation 0.2 and after merger is 1.4 with deviation 0.4, it shows that overall ROA of three banks is increased after merger. Mean of EPS is 20.2 with deviation 1.1 and 18.5 with deviation 5.5 before merger and after merger which shows that overall earnings per share is decreased. Net profit margin has been decreased from 24.55 to 17.3 with deviation 10.5 and 0.8. Similarly, CRR has also been decreased from 26.9 to 14.3. The CRR is deviated with value 11.2 before merger and 13.9 after merger. The overall CAR before merger and after merger is 13 with deviation 1.8 and 13.25 with deviation 0.1 respectively. The mean value of NPL before merger and after merger are 1.35 and 0.7 and deviation is 1.8 and 0.7 respectively. It shows that non-performing loan is decreased after merger. CD ratio before merger is 83.4 and after merger is increased to 89.9. Standard deviation of CD ratio before merger and after merger is 3.5 and 0.4 respectively.

4.1.3 Correlation

A correlation matrix is a table that displays the correlation coefficients between pairs of variables. Each cell in the table shows the degree of correlation between two specific variables. This matrix is a valuable tool for summarizing data, as it provides an overview of how different variables relate to each other. The correlation value can range

from -1 to +1: a value of 0 indicates no linear relationship, +1 indicates a perfect positive relationship, and -1 indicates a perfect negative relationship. The value of correlation greater than 0 up to 0.6 is said to be moderately correlated and greater than 0.6 up to 1 is strongly correlated. Here, return on asset ROA is dependent variable and all other are independent variables. For the calculation of correlation coefficient average value of variables of all three banks for ten years are taken.

Table 7

Correlation coefficient of variables

Variables	ROA	EPS	NPM	CRR	CAR	NPL	CD Ratio
ROA	1						
EPS	.864**	1					
NPM	-0.373	-0.323	1				
CRR	-0.63*	-.794**	0.218	1			
CAR	-0.487	-0.233	0.548	-0.168	1		
NPL	.660*	.805**	0.115	-.711*	-0.076	1	
CD Ratio	0.219	-0.002	-.827**	0.245	-.727*	-0.370	1

Source: Appendix

From table 7 we can see the correlation analysis of variables. The correlation analysis for dependent and independent variables of average of all three sampled banks can be read from the table. From Pearson correlation value, before and after merger EPS has positive correlation with the dependent variable i.e. ROA at the 0.864. EPS has very strong positive correlation with ROA. In the contrast, NPM, CRR and CAR have negative correlation with ROA at -0.373,-0.63, and -0.487 respectively. NPL and CD ratio have positive correlation with ROA at 0.66 and 0.219 level respectively. NPM has weak negative relation with ROA and CRR and CAR with moderate negative correlation with ROA.

4.1.4 Regression Analysis

This technique is for modeling and analyzing several variables, when our focus is on the relationship between a dependent variable (ROA) and independent variables (EPS, CRR, CAR, NPM, NPL and CD ratio). For the calculation of regression the average of variables of three bank are taken.

Table 8

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.950 ^a	0.902	0.706	0.1424

a. Predictors: (Constant), CD Ratio, EPS, CAR, CRR, NPL, NPM

Source: Appendix

In this study, the R statistics is .950 which indicates that there is high correlation between these variables. It penalizes the inclusion of additional predictors that do not significantly improve the model's explanatory power. The coefficient of determination, commonly referred to as R-squared (R^2), is a statistical measure that represents the proportion of the variance in the dependent variable (the outcome or response variable) that is explained by the independent variables (predictor variables). R adjusted value is 0.706 in the models denote that 70.6 percent of the observed variability in stock price can be explained by the differences in the independent variables. Remaining 29.4 percent of the variance in 50 preference is related to other variables which did not explain, as they are not depicted in the model. The R-Square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 90.2 percent of the variability in the share prices of development banks. The variability or dispersion of the observed data points around the regression line in a linear regression model is measured by the standard error of the estimate. The value of 0.1424 for the standard error of the estimate denotes the average error or residual in the predictions generated by the regression model.

Table 9
ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.559	6	0.093	4.595	.119 ^b
	Residual	0.061	3	0.02		
	Total	0.62	9			

a. Dependent Variable: ROA

b. Predictors: (Constant), CD Ratio, EPS, CAR, CRR, NPL, NPM

Source: Appendix

Table 9 shows the ANOVA of three commercial bank of variables. Here dependent variable ROA called predictor and independent EPS, NPM, CRR, CAR, NPL and CD ratio. Here regression is significant because significant value is .119^b which is less than 5%. Its mean the regression is strong.

Table 10

Coefficient of variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.269	4.07		-0.312	0.775
	EPS	0.042	0.03	0.745	1.598	0.208
	NPM	0.06	0.05	0.727	1.316	0.28
	CRR	-0.12	0.09	-0.615	-1.284	0.289
	CAR	-0.228	0.2	-0.446	-1.151	0.333
	NPL	-0.013	0.02	-0.295	-0.593	0.595
	CD Ratio	0.036	0.04	0.54	0.878	0.445

a. Dependent Variable: ROA

Source: Appendix

Table 10 shows the regression coefficient of independent variables and the intercept value of dependent variables. Coefficient table shows the individual variable variation to the dependent variable, their accuracy, significant level. The impact of the EPS to the Profitability (ROA) is positive which shows by the beta value of 0.042 the beta value shows 1 percent change in to EPS than 0.042 percentage change in to profitability of the bank. The standard error is very minor i.e. 0.03 which mean high level of

accuracy of calculated value. The significant value is 0.2.8, the impact is not significant.

The impact of Net Profit Margin (NPM) on Return on Assets (ROA), a measure of profitability, is positive, as indicated by a beta value of 0.06. This means that a 1 percent change in NPM results in a 0.06 percent increase in the bank's ROA. The standard error is quite low at 0.05, indicating a high level of accuracy in the calculation. However, the significance level is 0.28, which is greater than 0.05, indicating that the impact is not statistically significant.

The impact of CRR to ROA is -0.12 which means the beta value shows 1 percent change in CRR than 0.12 percent negatively change in profitability. The standard error calculated is 0.09 which means high level of accuracy. The significant value is more than 0.05 so the impact is not significant i.e. 0.289.

The impact of the Capital Adequacy Ratio on profitability is negative, as indicated by a beta value of -0.228. This suggests that a 1 percent change in the Capital Adequacy Ratio leads to a 0.228 percent decrease in the bank's profitability. The calculated standard error is low, at 0.2, indicating a high degree of accuracy in the results. However, the significance level is 0.333, which is higher than 0.05, meaning the impact is not statistically significant.

The impact of Non-Performing Loans (NPL) on profitability is negative, as indicated by a beta value of -0.013. This beta value suggests that a 1 percent change in the Interest Spread rate results in a 0.013 percent decrease in the bank's profitability. The calculated standard error is quite low at 0.02, indicating a high level of accuracy in the results. However, the significance level is 0.595, which is not below the threshold of 0.05, meaning the impact is not statistically significant.

The impact of the CD Ratio to the Profitability is positive which shows by the beta value of positive 0.036. The beta value shows 1 percent change in to CD Ratio than positive 0.036 percentage change in to profitability of the bank. The standard error calculated is very low i.e. 0.04 which mean high level of accuracy of calculated value. The significant value is less than 0.05 so the impact is significant i.e. 0.445.

4.2 Discussion

This study focused on evaluating the effects of mergers and acquisitions (M&A) on the

financial performance of commercial banks in Nepal through secondary data analysis. To discern the patterns and relationships between M&A activities and financial outcomes, the research employed both descriptive analysis and an analytical model. The study utilized a theoretical framework to pinpoint factors that influence the performance of the sampled banks post-merger. Specifically, it identified variables such as earnings per share, capital adequacy ratio, cash reserve ratio, non-performing loans, and return on assets as key determinants of bank performance.

Merger and acquisition activities have been on the rise among Nepalese Banking and Financial Institutions (BFIs). This trend is largely attributed to the Merger Bylaws 2011 enforced by the Nepal Rastra Bank (NRB). Initially, NRB had to implement forced mergers for underperforming BFIs. However, over time, BFIs voluntarily pursued mergers.

From the data, we can observe that the return on asset (ROA) has decreased for KBL after merger but has increased for PCBL and SANIMA bank. The study of Patel (2017) also states that there is negative impact on ROA from merger which is opposite from the finding of Bakara(2011) stating the firm's profitability increased for the five-year period prior the merger than before. The findings revealed that the financial performance of the firms improved significantly in the five years following the merger compared to the five years preceding it. As to see the earning per share, after the merger, EPS has again declined for PCBL and KBL but it has improved for SANIMA bank. According to the study by Kemal (2011), the financial performance of merged banks in terms of profitability, liquidity, asset management, leverage, and cash flows was quite satisfactory before the merger. A similar trend is observed in the findings related to earnings per share (EPS).

Non-performing loan can be seen to have slightly increased for SANIMA but has significantly decreased for PCBL and KBL which is similar to the findings of Shrestha, Thapa and Phuyal (2017) stating the loan quality significantly deteriorates after merger in most of the cases. As per Modebe, Isibor, and Okoye (2016), there is a significant reduction in capital adequacy ratio between the period from before and after merger but, for all banks, CAR has increased significantly that has shown that the banks financial strength and stability has become more efficient after merger.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter provides a summary of the results regarding the impact of mergers on the financial performance of commercial banks in Nepal. Drawing from the findings in Chapter Four, the study offers recommendations for bank management on how to enhance financial performance following a merger or acquisition. The recommendations are aligned with the study's objectives, and suggestions for further research are also included.

5.1 Summary

The strategic consolidation of companies through mergers and acquisitions serves as a crucial mechanism for enhancing capital, operational efficiency, and competitive positioning within an industry. Specifically, in the banking sector, mergers and acquisitions activities are pursued to realize economies of scale, optimize resource utilization, and bolster financial stability. The central bank, Nepal Rastra Bank, mandated mergers as a consolidation strategy recognizing the importance of a strong financial sector through the Merger by Law introduced in 2011 AD. This legislation was rooted in the Section 177 of Company Act of 2006 AD and Section 67 and 68 of BAFIA, 2006 AD, aimed to fortify the banking sector by compelling all Banking and Financial Institutions (BFIs) to merge, thereby increasing their capital base, market resilience and competitiveness in the banking industry.

This study focused on assessing whether mergers and acquisition activities led to improved performance among Nepalese commercial banks. By focusing on key financial metrics, the research sought to determine whether post-merger performance improvements could be substantiated. The study employed a descriptive and analytical research design to provide a comprehensive analysis of pre- and post-merger financial conditions. The sample comprised three banks Prime Commercial Bank Limited, Sanima Bank Limited, and Kumari Bank Limited all of which underwent mergers in 2017.

Data were sourced from the financial statements contained within the annual reports

of these banks, covering a period of five years before and five years after the mergers. This ten-year dataset provided a robust foundation for analysis. The study utilized various financial and statistical tools, including ratio analysis, mean, and standard deviation, to examine changes in financial performance metrics. Analytical software, particularly SPSS, was employed to ensure accurate measurement and interpretation of the data.

The initial chapter set the stage by outlining the study's background, problem statement, objectives, hypothesis, limitations, and rationale. This comprehensive introduction provided the necessary context for understanding the subsequent analysis of mergers and acquisitions impacts.

The second chapter delved into both theoretical and empirical literature, offering insights into existing research and identifying gaps that this study aimed to fill. This review helped in selecting relevant variables and constructing a solid conceptual framework.

The third chapter focused on the research methodology, detailing the definitions, design, population and sample size, data sources, and methods of analysis. This chapter described the descriptive, analytical, and statistical tools used to analyze the financial data.

The fourth chapter presented the empirical findings. Data were meticulously interpreted and formatted into tables according to APA standards, with a specific focus on the financial ratios of the sampled banks. This chapter highlighted the changes observed in key financial metrics following the mergers.

The final chapter provides a summary and conclusion. It presented the result of empirical testing of impact of merger and acquisitions on financial statements of commercial banks in Nepal. Data are analyzed by using appropriate financial, descriptive and analytical tools. It comprehensively summarizes the research study, draws conclusions.

5.2 Conclusion

The analysis of the financial performance of Prime Commercial Bank Limited,

Sanima Bank Limited, and Kumari Bank Limited, before and after their mergers in 2017, offers a detailed view of the multifaceted impact that mergers have on commercial banks in Nepal. By examining financial metrics over a ten-year span, encompassing five years pre-merger and five years post-merger, several key trends and outcomes have emerged.

The post-merger period saw an increase in ROA, indicating that the merged banks were able to use their assets more efficiently to generate profits. This suggests enhanced operational efficiency and better asset management post-merger, likely due to improved economies of scale and more effective resource utilization. An improved CRR post-merger reflects stronger liquidity management. Banks were better equipped to meet their short-term obligations, which enhances depositor confidence and financial stability. This improvement is critical for maintaining solvency and avoiding liquidity crises. The rise in CAR after the merger points to a bolstered capital base, which is essential for absorbing potential losses and supporting further growth. Enhanced capital adequacy ensures that banks are better prepared to handle financial shocks and regulatory requirements, thereby promoting long-term stability. An increased CDR indicates a higher proportion of deposits being converted into loans. This suggests a more aggressive lending strategy post-merger, reflecting confidence in the quality of lending practices and the ability to manage credit risk effectively. The decrease in NPLs post-merger demonstrates improved asset quality and effective credit risk management. This reduction suggests that the merged banks were better able to manage and recover loans, reflecting a more robust and efficient lending process. The decline in EPS post-merger highlights a reduction in per-share profitability. This decrease can be attributed to several factors, including integration costs, increased shares outstanding due to the merger, and potential initial inefficiencies as the merged entities align their operation. A decrease in NPM indicates that overall profitability margins were squeezed post-merger. This could result from higher operating costs, competitive pressures, and the time required to achieve full operational synergy. It reflects the complex nature of integrating different organizational cultures, systems, and processes.

In the context of the Nepalese banking sector, the findings suggest that mergers can

play a crucial role in strengthening financial institutions, enhancing their ability to compete, and contributing to overall financial stability. However, the effectiveness of mergers as a strategy depends on several factors, including the size and stability of the entities involved, the quality of integration processes, and the ability to manage post-merger challenges. In conclusion, mergers and acquisitions have a multifaceted impact on the financial performance of Nepalese commercial banks. While they offer significant potential benefits in terms of operational efficiency, capital adequacy, and market competitiveness, they also present challenges that require careful management and strategic planning. The findings of this study provide valuable insights for bank management, policymakers, and future researchers seeking to understand and optimize the outcomes of mergers in the banking sector.

5.3 Implications

Based on the comprehensive analysis of mergers and acquisitions in Nepalese commercial banks, several strategic recommendations emerge to optimize the benefits and mitigate the challenges associated with these transactions which are as follows:

- Based on our finding banks should prioritize thorough pre-merger due diligence to identify potential synergies in operations, technology, and market reach. Post-merger integration plans should focus on aligning organizational cultures, streamlining processes, and leveraging combined strengths to enhance operational efficiency.
- The increase in Capital Adequacy Ratio (CAR) and Cash Reserve Ratio (CRR) post-merger underscores the importance of maintaining robust capital and liquidity positions. Banks should continue to prioritize capital adequacy to withstand economic shocks and comply with regulatory requirements.
- Despite the decrease in Non-Performing Loans (NPLs) post-merger, banks should implement rigorous credit risk management practices. This includes monitoring loan quality, diversifying the loan portfolio, and adopting proactive measures to mitigate credit risks, enhancing asset quality.

- While Return on Assets (ROA) showed improvement post-merger, challenges such as reduced Earnings Per Share (EPS) and Net Profit Margin (NPM) indicate the need for strategies to enhance profitability. Banks should explore avenues to optimize cost structures, enhance revenue streams through cross-selling and upselling, and innovate in product offerings to drive sustainable profitability.
- Addressing socio-cultural challenges such as management team structure, informal relationships, and employee concerns post-merger is crucial for successful integration. Banks should invest in effective change management practices, foster a unified corporate culture, and provide robust training and development opportunities to retain talent and align workforce capabilities with organizational goals.
- Mergers should be leveraged to enhance customer experience by offering innovative products, personalized services, and seamless Omni channel banking experiences. Banks should capitalize on their expanded market presence post-merger to strengthen customer relationships, attract new clients, and differentiate themselves in a competitive market landscape.
- Ensuring compliance with regulatory requirements and governance standards is essential for sustaining operational resilience and maintaining stakeholder trust post-merger. Banks should establish robust compliance frameworks, conduct regular audits, and engage proactively with regulatory authorities to navigate evolving regulatory landscapes effectively.

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APPENDIX

Financial Ratios of Prime Commercial Bank Limited (From Fiscal Year 2068/069 to 2078/79)

Prime Commercial Bank							
Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2068/069	0.99	12	9.09	17.8	13.6	0.8	80.4
2069/070	1.47	18.5	15.88	12.9	12.7	2.2	75.6
2070/071	1.46	20.9	16.5	11.2	12	2.4	81.8
2071/072	1.63	23.7	19	12.2	10.8	1.8	81.6
2072/073	2.05	30.1	25	11.6	10	1.2	85
2074/075	1.82	21.5	18	11.4	12.2	0.8	87.5
2075/076	2.15	23.6	20.2	9.8	12.8	1	89.2
2076/077	1.48	16.1	16.8	7.2	13.8	1.5	88.9
2077/078	1.72	20.3	20.4	7.2	14.8	1	89.2
2078/079	1.33	14.9	14	5.5	13.1	1.8	93.65

Financial Ratios of Sanima Bank Limited (From Fiscal Year 2068/069 to 2078/79)

Sanima Bank Ltd.							
Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2068/069	0.88	6.04	9.92	30.2	20.7	0.5	86.3
2069/070	1.39	15.2	16.97	31	14.8	0.03	85.7
2070/071	1.46	19.3	18.7	26.7	12.5	0.02	82.9
2071/072	1.55	24.5	21.5	22.3	11.1	0.07	84
2072/073	1.78	32.5	26.6	24.2	12.4	0.02	88
2074/075	1.85	21.2	18.6	24.7	12.4	0.03	87.5
2075/076	2.07	28.2	18.9	22.9	13.2	0.08	90.4
2076/077	1.41	20.2	14	24	13	0.45	85.1
2077/078	1.44	23.9	19.1	22.1	13.6	0.12	94.1
2078/079	1.09	18.5	12.8	27	13.6	0.33	89.2

Financial Ratios of Kmari Bank Limited (From Fiscal Year 2068/069 to 2078/79)

Kumari Bank Limited

Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2068/069	1.1	17.2	27	13.5	12.2	2.21	82.3
2069/070	1.03	18.2	24	12.4	12.2	2.89	79.5
2070/071	1.1	18.7	29.3	13.6	11.8	4.03	82.7
2071/072	1.06	16.2	32.3	7.5	10.8	2.49	81
2072/073	1.69	26.5	47.3	8.7	11.7	1.15	79.3
2074/075	1.26	14.5	38.9	6.8	13.4	1.05	89.5
2075/076	1.17	14.8	12.4	4.6	11.8	1.01	90.1
2076/077	0.76	12.1	10.1	3.8	15.3	1.39	92.2
2077/078	1.04	14.2	13.6	3.7	13.7	0.96	91
2078/079	1.22	17.5	12.7	3.8	12.6	1.11	86.6

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ABSTRACT Mergers, acquisitions and takeovers, consolidation have been a part of the business world for so many years ago. Hence, the purpose of this study was to know the impact that merger and acquisition has had on the financial