

**MERGER AND ACQUISITION AND ITS IMPACT ON FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS:**

A Comparative study on Siddhartha Bank, Bank of Kathmandu and NMB Bank

A Thesis

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CERTIFICATION OF AUTHORSHIP

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

Hari Gautam

17-03-2023

REPORT OF RESEARCH COMMITTEE

Ms. Hari Gautam has defended a research proposal entitled “Merger and Acquisition and its Impact on Financial Performance of Commercial Banks: A Comparative study on Siddhartha Bank, Bank of Kathmandu and NMB Bank” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per and submit the thesis for evaluation. –

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This thesis entitled “Merger and Acquisition and its Impact on Financial Performance of Commercial Banks: A Comparative study on Siddhartha Bank, Bank of Kathmandu and NMB Bank” submitted by Mr. Hari Gautam 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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Hari Gautam

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ABBREVIATION

BAFIA	Banks and Financial Institution Act
BFI	Banks and Financial Institutions
BOK	Bank of Kathmandu
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
RBS	Royal Bank of Scotland
ROA	Return on Assets
ROE	Return on Equity
SBL	Siddhartha Bank Limited
STD	Standard Deviation

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 2010-2019. 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 as a consequence of merger between the two or more BFIs, the capital and LLP have improved at a cost of lower NPL and 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

Mergers, acquisitions and takeovers, consolidation have been a part of the business world for so many years ago. In today's dynamic economic environment, the main objective of a company is to maximize the shareholder's wealth. Through mergers and acquisitions, a company can develop a competitive advantage and ultimately increase shareholder value. A merger involves a blend of two companies, rather than mere legal enjoinderment or absorption of one firm into another merger as a process in which one of the two companies loses its identity to make a one firm. In merger transaction involving two or more companies in the exchange of securities and only one company survives. (Kishore, 2009)

There are various strategic and financial objectives that influence mergers and acquisitions. Accordingly two organizations with often different corporate personalities, cultures and value systems are bought together. Merger or Amalgamation may take two forms: i) Merger through absorption: It is a combination of two or more companies combines together into an existing company. In absorption, all companies except one lose their identity. ii) Merger through consolidation: It is a combination of two or more companies into a new company. In case of consolidation through merger, all companies are legally dissolved and a new entity is created.

Bank mergers is claimed to be the sources of efficiency gains from the realization of economies of scale and economies of scope, the removal of overlapping services and the increasing awareness of innovative banking tools; however, one needs to read over the assertions with caution. It is due to the fact that much of the prior research has focused on the market driven merger or the voluntary merger. At the one hand, the voluntary bank merger refers to the process by which two or more banks merged and become one new entity. The merger takes place without any objection from the shareholders and the board of both banks. Banking sector plays a leading role in financing a country economic activities. Its performance is crucial in determining a country's economy growth and stability.

Performance of banking sector is measured by capital adequacy, assets quality, management efficiency, earning efficiency, liquidity. Performance of the banks is measured at two level; one is at the management and regulatory level of the banks and another is at external rating agencies. Purpose of regulatory and supervisory rating systems is to measure the bank performance at internal level and its compliance with regulatory requirements to keep the bank on right track. These ratings are highly confidential and are only available to the bank management. External credit rating agencies examine and evaluate the banks and issue ratings for the general public and investor in particulars. It is great importance that both these rating present the same results about the condition of the banks to provider clear information to investor and management.

The central bank planned to improve the health of the financial sector by introducing the Merger by law 2011 grounded on the Company Act 2006 article 177, Bank and financial institution act (BAFIA) 2006 article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank (NRB) but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. It is perceived that, merger result in newer and larger organizations which are supposed to be efficient in allocating resources, human and capital and maximize the output gains. It is believed that the larger banks, with more resources can offer more products and services at lesser operating cost i.e., at economies of scale. (www.nrb.gov.np). However, the perceived gains don't occur, at least not to the extent that is perceived. Some of the genuine impacts or effect of mergers on the banking industry can be observed around the world, which has been the reduced availability of loans to the customer base after merger. It is mainly because of decline in competitiveness in banking industry and increase in the interest rates above reasonable level. Banks have been observed to be engaged in activities ranging from anti-competitiveness to corruption after the merger. When economies of scale are observed, there is a significant uncertainty over how wide the range of scale is.

1.2 Problem statement

The study covers the analysis of the merger and its impact on financial performance of commercial banks in Nepal. Shareholders and managers of banks turn to mergers

and acquisitions in the hope of improving financial performance in their banks but studies on this subject have produced mixed results. It is new concept in Nepalese BFIs and there is a lot of confusion about the merger and their impacts on the long-term growth and profitability of the BFIs. Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a merger.

Many studies carried out in the area of M&A have established inconsistent results. Failure means lowered productivity, labor unrest, higher absenteeism and loss of shareholder value. A study conduct by Shah & Khan (2017) on Impacts of Mergers and Acquisitions on Acquirer Banks' Performance, researchers concluded that most of the profitability ratios, including ROE, ROA, net markup and non-markup income to total assets have declined in the post-merger period. Only an insignificant improvement is observed in net interest margin and administrative expenses to profit before tax ratios in the post-merger period. Deterioration is also observed in the liquidity ratios of the acquirer banks in the post-merger period. The cash and cash equivalent to total assets has declined significantly and advances, and investment to total assets ratios are increased, but insignificantly. Similarly, the performances of the acquirer banks do not reflect any worthwhile improvement in terms of capital stability in the post-merger period.

The deposit to owners' equity ratio is significantly increased, but the capital adequacy has declined, showing an unfavorable effect on the performances of the acquirer banks in the post-merger period. Shrestha, Thapa, and Phuyal (2017), carried out the study on a comparative study of merger effect on financial performance of banking and financial institutions in Nepal. Shrestha, Thapa, and Phuyal (2017), study also shows that there is a significant change in performance before and after the merger and acquisition of banks. Mergers and acquisitions continue to be a highly popular form of corporate development in today's banking industry world over. However, in a paradox to their popularity, acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target firm shareholders generally enjoy positive short-term returns, investors in bidding firms

frequently experience share price underperformance in the months following acquisition, with negligible overall wealth gains for portfolio holders.

This study is designed to fill the knowledge gap by answering the research question, what is the impact of Mergers and Acquisitions on the overall financial performance of commercial banks in Nepal? This study tries to answering the following questions:

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

1.3 Objectives of the study

It is important that the objective of any study is clear and precise. It must highlight the purpose of the study. The main objective of the study is to analysis the effect merger on the financial performance of banks. The specific purposes of the study are:

1. To analyze the impact of merger on EPS position of banks.
2. To examine the impact of merger on CAR position of banks.
3. To examine the impact of merger on CRR position of banks.
4. To examine the impact of merger on NPL position of banks.
5. To examine the impact of merger on LLP position of banks.
6. To examine the impact of merger on ROA position of banks.
7. To examine the impact of merger on liquidity, profitability and capital adequacy before and after in Nepalese commercial banks.

1.4 Hypothesis of the study

The study was carried out based on certain hypothesis. With the help of hypothesis, the study is able to analyze the impact of merger and acquisition in commercial bank. To test the objectives mentioned aboved, the following hypothesis were formulated:

H01: There is no significant mean difference on the EPS position of banks from merger and acquisition.

- H02: There is no significant mean difference on CRR position of banks from merger and acquisition.
- H03: There is no significant mean difference on CAR position of banks from merger and acquisition.
- H04: There is no significant mean difference on NPL position of banks from merger and acquisition.
- H05: There is no significant mean difference on LLP position of banks from merger and acquisition.
- H06: There is no significant increment in Return on Assets (ROA) of selected BFI's of post-merger entities.

1.5 Rationale of the study

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

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

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

1.6 Limitation of the study

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

1. There are many variables that can be used to measure the performance of bank but this study covers only ROA, Loan Loss Provision, Non-Performing Loan, EPS, CAR, and liquidity ratios.
2. This study is based on the secondary data collected only from the annual report of Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited, only the data of other bank and financial institution merged with these banks are ignored in this study reliability of the result is based on the reliability of data available from the annual report.
3. For pre-merger information and data only Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited are collected the data of other bank and financial institutions which are merged with these banks are ignored in this study.
4. 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.
5. Assumption of paired sample t-test is not checked in this study.
6. Apart from the profitability, other performance ratios like risk, cash flow has been ignored to know the financial performance of banks.

1.7 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: Review of literature

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: Methodology

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

Chapter 4: Results

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: Conclusion

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

CHAPTER II

LITERATURE REVIEW

As a foundation for our study, we sought to develop an understanding of prior art focused on the underlying sources of value in merger and acquisition, as opposed to studies focused on performance outcomes. We thus conducted a systematic literature review of research explicitly mentioning synergy or value in the context of merger and acquisition. The first phase in a systematic literature review is to determine objective and find articles on the topic of interest. The second phase in a systematic literature review is to determine which articles to read more carefully for relevant content. The third phase of the review was to evaluate the content to ensure that they considered synergy or value sources in the context of merger and acquisition. It is useful in setting the purpose of study and provide guideline for determining the variables under the study. Literature review enables the reader to find out the areas yet to be studied in the concern topic and need for additional research. In this section, the documented literature on the effect of mergers and acquisitions on financial performance of companies is discussed. The chapter details the empirical literature relevant to this study. To get the proper understanding of the subject matter, the context is described briefly.

A merger is the voluntary fusion of two companies on broadly equal terms into one new legal entity. The firms that agree to merge are roughly equal in terms of size, customers, and scale of operations. For this reason, the term "merger of equals" is sometimes used. Mergers are most commonly done to gain market share, reduce costs of operations, expand to new territories, unite common products, grow revenues, and increase profits—all of which should benefit the firms' shareholders. After a merger, shares of the new company are distributed to existing shareholders of both original businesses. Although the terms 'merger' and 'takeover' tend to be used synonymously, in practice there is a narrow distinction between them. A merger can be defined as a friendly reorganization of assets into a new organization, i.e., x and y merge to become z, a new company with the agreement of both sets of shareholders. Mergers involve similar sized companies, reducing the likelihood of one company dominating the other. Mergers, tender offers and joint ventures play an important role in the growth or expansion of firms. Growth is viewed as vital to the wellbeing of a

firm. It is needed for a firm to compete for the best managerial talent by offering rapid promotions and broadened responsibilities. Without able executives, the firm is likely to decline inefficiency and value.

Acquisition refers to the situation where "one firm buys a controlling, or 100 percent interest in other firm with the intent of using a core competence more efficiently by making the acquired firm a subsidiary business within its portfolio. Acquisitions, unlike mergers, are generally not voluntary and involve one company actively purchasing another. Normally acquisitions are done in order to have time and speed of operational advantages, economies of scale and market advantages. There are mainly three types of acquisition there are horizontal, vertical and related. Whereas horizontal acquisition is related to the acquisition of a firm competing in the same industry, vertical acquisition refers to the acquiring a suppliers or distributor of one or more of its goods or services. On the other hand, related acquisition refers to the acquisition of a firm in highly related industry. Acquisition is an act of acquiring effective control by a company over the assets (purchase of assets either by lump sum consideration or by item-wise consideration) or management (purchase of stocks/shares or gaining control over Board) of another company without combining their businesses physically. Generally a company acquires effective control over the target company by acquiring majority shares of that company. However, effective control may be exercised with a less than majority shareholding, usually ranging between 10 percent and 40 percent because the remaining shareholders, scattered and ill organized, are not likely to challenge the control of the acquirer. Takeover is considered as a form of acquisition. Takeover is a business strategy of acquiring control over the management of target company- either directly or indirectly

Merger and Acquisition (M&A) is a way for companies to grow faster than organic business growth and can be a channel for companies to strengthen their global market position and increase Competitiveness. M&A activities in the world have a large volume and value of several major commodities. Merger and Acquisition is one of the strategic options in corporate restructuring activities that can provide more access to companies increasing in profits, market control or market share and increasing competitiveness (Competitive advantages) to face the current market which is unstoppable. The main difference between mergers and acquisitions is that a merger is

normally more collaborative, voluntary and mutually entered into than as acquisition, which is normally dominated by and organization taking over another. Merger and acquisition are global phenomena which many organizations employed to grow internally, by expanding its operations both globally and domestically.

2.1 Theoretical review

The theoretical literature review help establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated, and to develop new hypotheses to be tested. In other words, the theoretical framework can be explained as the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory that explains why the research problem under study exists. There are several theories that have been advanced towards the justification and impact of mergers and acquisition. Theoretical review explores theories that expound on the topic under study and which, thereby help in better understanding of the study in question while at the same time putting forth a justification for the current study. The theories that are reviewed on this study are: Economic Motive Theories (EMT), Theory of Synergy, Profitability and Operating Synergy, Financial Synergy Theory, Tax Incentive Hypothesis Theory and finally Managerial and Agency Motives, Acquirer motives and others. Some of the motives explained are as follows.

2.1.1 Profitability and operating synergy

Profitability is normally determined by the long run performance. Shams and Gunasekarage (2016) investigated long-run operating performance of a sample of Australian private target and public target acquirers and found there was no significant difference in their operating performance during the post-acquisition period. Similarly, Martynova, Oosting and Renneborg (2006), did a study of 155 mergers and acquisitions deals in Europe that occurred between 1997 and 2001. They measured the earnings before interest and tax less the working capital as opposed to measuring earnings before interest and tax which is normally the method used when calculation operating performance. They used that method to put in a measure of cash flow performance as it takes into account changes in receivables, payables and

inventories. They found that there was insignificant improvement in profitability post-acquisition.

Other studies used data enveloped analysis technique. Kaur and Kaur (2010) study on commercial banks in India for the period 2007-2008 used non-parametric data enveloped analysis technique. Conclusions of the study showed that over the entire study period, the average cost efficiency resulted to 73.04% and the private banks resulted to 76.3%. The findings suggested that mergers have been a success in the Indian banking Industry. Supporting the operating synergy argument, they find that merged firms have a higher level of operating efficiency. Ghosh and Jain (2000) support the financial synergy arguments by showing that financial leverage increases significantly after a merger. Consistent with the response to industry shock theory, It is observed that takeovers in the 1980s were numerous in industries undergoing deregulations and fundamental changes. They also suggests that many mergers in the 1980s were a response to the energy price shocks during that period. They examined the post- merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period from 1999 to 2002 in India. The study attempted to identify synergies, if any, resulting from mergers. The study used accounting data to examine merger related gains to the acquiring firms. It was found that the post- merger profitability, assets turnover and solvency of the acquiring companies, on average show no improvement when compared with pre – merger values.

2.1.2 Agency motives

According to Kemal (2011) takeovers can also arise because of the agency problem that exists between shareholders and managers, whereby managers are more concerned with satisfying their own objectives than with increasing the wealth of shareholders. From this perspective, the motives behind some acquisitions may be to increase managers' pay and power. Managers may also believe that the larger their organization, the less likely it is to be taken over by another company and hence the more secure their jobs become. Takeovers made on these grounds have no shareholder wealth justification since managers are likely to increase their own wealth at the expense of the shareholders. According to agency motive, the acquisition is undertaken by managers, not in the interest of the shareholders. Managers engage in

acquisitions to diversify the business activities which would smooth out the earnings across the activities thereby depicting a better picture of the organization. Moreover, manager's salary is also tied to the size of the organization and it also feeds their ego to head a big organization.

As we have mentioned, the agency motive suggests that the management of an acquirer firm has found a target firm that is most suited to increase their own welfare at the expense of their shareholders, resulting in negative gains to acquirer shareholders. In turn, target shareholders who realize that they are of value to the acquirer management, will try to exploit this opportunity to gain some of this value for themselves. If target shareholders have some level of bargaining power, the value they obtain through the deal will increase alongside the value that the acquirer management is able to secure. The more severe the agency problem, the higher the target gain. The more money allocated to a takeover by acquirer management (target firm realization of their value), the lower the total gain, there is an inverse relation between total and target gains. Since the acquirer gains are inversely related to the severity of the agency problem, the target and acquirer gains are also negatively correlated. The agency motive suggests management has found a target firm which if acquired will increase their own welfare, therefore positive gains will be realized by acquirer management if successful.

2.2 Empirical Review

The study is carried out to demonstrate the merger and acquisition and its impact on financial performance in commercial banks. The aim of this paper is to look at various dimensions where merger and acquisition is studied. The merger and acquisition are an important factor that affects the performance of the organization as a whole. Number of articles can be found that demonstrate the effect of merger and acquisition. The study was designed by deriving variables from the unified theory of acceptance. Below are some of the major articles on this subject matter.

Table 1 Empirical review

Study	Major Findings
Healy, Palepu, and Rubak (1992)	<ul style="list-style-type: none"> • Examined the post- merger operating performance of merging firms using a sample of the 50 largest mergers of U.S. public industrial firms • The study found that merging firms had witnessed significant improvements in operating cash flow returns after the merger, resulting from increase in asset productivity relative to their industries
Kang, J, and Shivdasani (2000)	<ul style="list-style-type: none"> • Assessed the effect of corporate restructuring on financial results of Indian manufacturing firms which have undergone Mergers and Acquisitions from 2004-2010 • The efficiency of acquiring firms had also improved
Seth, Song, and Pettit, (2000)	<ul style="list-style-type: none"> • Hypothesized and found through empirical results that (in case of hubris) the wealth of shareholders of acquiring firms declines while the wealth of target firms rise and that there are zero total gains realized by the combined firms
Murthy (2007)	<ul style="list-style-type: none"> • Improved competitiveness and efficiency of the borrowing and lending operations of banking industry.
Wangui (2007)	<ul style="list-style-type: none"> • Most of the banks went through mergers to increase the market share and in the process also attained a better financial position in the market.
Mantra, Vadi, and Reddy (2008)	<ul style="list-style-type: none"> • Benefits shareholders when the consolidated post-merger firm is more valuable than the simple sum of the two separate pre-merger firms
Altunbas and Marques (2008)	<ul style="list-style-type: none"> • Bank mergers in European Union have resulted in improved return on capital • There are improvements in performance after the merger has taken place particularly in the case of

- cross-border mergers
- Ndora (2010)
- An improved post-merger financial performance of the firms compared to the pre-merger period financial performance of the merging firms
 - The study concluded that M&A resulted in increased financial performance of an insurance company.
- Sinha (2010)
- M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value
- Kemal (2011)
- The result show that the financial performance of RBS in the areas of profitability, liquidity, assets management, leverage and cash flows has been quite satisfactory before the merger deal
- Bakari (2011)
- The firm's profitability increased for the five-year period prior the merger than before
 - The findings indicated an increased financial performance by the firms for the five years after the merger than it was five years before the merger
- Joshua (2011)
- An increased financial performance which leads to improved financial efficiency
- Marengo (2012)
- This study concluded that merger/acquisition brings about higher capital and customer base
 - With increased commercial banks' stability and ability to lend, the commercial banks in turn make higher profits
- Weber and Tarba (2012)
- It was concluded that the high rate of M&A failures was due to the lack of synchronized activities at different merger/acquisition stages
- Kivindu (2013)
- the objective of the study was to establish the effect of mergers and acquisitions on profitability of commercial banks in Kenya

- Maditinos (2013)

 - The result showed that post-merger has not significantly impacted on banks profitability
 - the resultant bank after the merger was not only profitable in the banking industry but was also more competitive than the other bank
- Misigah (2013)

 - The study established that the variable which was significant on growth of commercial banks through mergers and acquisition was shareholders value and the growth in profitability
- Adhikari (2014)

 - The study concludes that major reason for financial institutions to go into merger is to increase their paid-up capital, expand the operational area as well as decrease the competition
- Chellasamy & Ponsabariraj (2014)

 - The study further concludes that there are no greater changes in the financial performance after merger
- Gupta (2015)

 - There is a significant improvement in the performance of banks in terms of net profit margin, return on assets, net interest margin, capital adequacy ratio, CASA and cost to income but there is no significant change seen in total income/capital employed, return on equity and credit deposit ratio
- Singh and Gupta (2015)

 - The study concludes that the banks have positive effects of merger on financial performance when distinguished between pre mergers and post-merger period
- Mungai (2015)

 - The purpose of this study was to establish the effect of mergers and acquisitions on the financial performance of financial institutions in Kenya.
- Joash and Njangiru (2015)

 - The study determines the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of mergers and acquisitions on profitability

- Effect of mergers/acquisitions in other sectors of the economy should be established with a view of drawing a parallel with the effects of the same processes in the banking sector.
- Dhakal (2015) • The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth.
- Awan and Mahmood (2015) • 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

 - Sometimes organizations indulge in the mergers and acquisitions activities get competitive edge which proves benefitted for the organizations.
- Ghosh and Dutta (2015) • Mergers and Acquisitions as a smart means of corporate restructuring

 - The findings of the study indicate an on-significant change in performance in the post- merger period.
- Baniya and Shah (2016) • Merging of banking industries in many countries has been a massive development in recent decades thus, 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.
- Tamragundi and Devaraj Appa (2016) • A comparative study of Public and Private sector banks examines the impact of mergers on physical performance of merged banks, financial performance of merged banks and share price performance
- Modebe, Isibor, and Okoye (2016) • This research study shows that

 - (i) there is no significant difference in the profit performance of the banking sector (as measured by return on assets) between the pre- and post-merger

and acquisition periods

(ii) there is evidence of significant increase in the pre-and post-merger and acquisition means of bank asset ratio

(iii) there is a significant reduction in capital adequacy ratio between the periods.

- Shah and Khan (2017)
- 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
- Shrestha, Thapa, and Phuyal (2017)
- The loan quality significantly deteriorates after merger in most of the cases and profitability measured in terms of ROA and ROE is adversely affected in most of the cases after the merger
 - The merger should not be considered as the definite solutions to overcome the challenges faced in the market
- Shah and Dwa (2017)
- From the analysis it is deduced that merger has no significant role in case of Nepal Bangladesh Bank and NIC Asia Bank in terms of various operational ratios, since many operational ratios have been found weaker in post- merger period than pre-merger period.
 - But merger plays a significant role in case of Machhapuchchhre Bank where almost all operational ratios have improved in post-merger.
- Patel (2017)
- 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
- Chalise (2017)
- Researcher concluded that Bank capital has bettered after the merger with negative mean and it

was also statistically significant

- Increase in ROA shows that the capability of the management to converting the bank's assets into net earnings is increasing.
- Gugler, Muelle, Yurtoglu, and Zulehner (2018)
- They found that a unit improvement in differential efficiency led to a 0.886 increase in financial performance of the bank.
- Kashyap(2022)
- Bank mergers are one of the strategies for strengthening the Indian Economy by enhancing the banking sector
 - The findings suggest that to some extent M&A's has been successful in Indian banking sector
- Karki(2022)
- Merger and acquisition have increased deposits and credit, increased earning potential, and strengthened risk management capabilities
-

Healy, Palepu, and Rubak (1992), examined the post- merger operating performance of merging firms using a sample of the 50 largest mergers of U.S. public industrial firms completed in the period 1979 to 1983. The study found that merging firms had witnessed significant improvements in operating cash flow returns after the merger, resulting from increase in asset productivity relative to their industries. These cash flow improvements did not come at the expense of long-term performance, as the sample firms have been found to have maintained their capital expenditure and investments in R&D rates relative to their industries after the merger. A strong positive relation between post-merger increase in operating cash flows and abnormal stock returns at merger announcements was also found. The results also indicated that there was no difference in the post-merger industry adjusted operating cash flow returns between related and unrelated mergers.

Kang, J, and Shivdasani (2000) assessed the effect of corporate restructuring on financial results of Indian manufacturing firms which have undergone Mergers and Acquisitions from 2004-2010. The sample set is of 12 banks, having 3 years of pre and post-Mergers of firms. Parameters used in the study are various accounting ratios like liquid ratio, working capital ratio, and operating ratio. t-test was used to

attain the desired objectives. The conclusion of the study shows a substantial improvement in accounting ratios and financial position. The efficiency of acquiring firms had also improved. Also, they conducted a study on 'Economic Impact of Corporate Mergers and Acquisitions on Acquiring Firm Shareholder'. The researcher concluded that companies are not able to perform better after Mergers and Acquisitions (M&A) in every aspect. The observed performance varies from industry to industry. The performance is solely dependent on the type of industry in which Mergers and Acquisitions (M&A) take place.

Seth, Song, and Pettit, (2000) too hypothesized and found through empirical results that (in case of hubris) the wealth of shareholders of acquiring firms declines while the wealth of target firms rise and that there are zero total gains realized by the combined firms. Since the hubris hypothesis proposes that acquisitions entail nothing more than a transfer of value from the acquirer to the target, there should be no correlation between total gains and the wealth gained by the target, and a negative correlation between wealth gained by the acquirer as opposed to the target. They further confirm our relational expectations as they too suggest that there is a strong behavioral bias during the decision-making process of management in take over related activities. They found that following periods of good firm performance, takeover announcements as well as the engaging in multiple takeover acquisitions in a short time frame were usually the result of overestimation of management's ability to select profitable investment opportunities.

Murthy (2007) evaluated the M&A of five selected banks. It evaluated the case of Punjab National Bank and New Bank of India, ICICI Bank and Bank of Madura, ICICI Ltd. and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce and Centurion Bank with Bank of Punjab. Mergers and acquisitions had improved competitiveness and efficiency of the borrowing and lending operations of banking industry. The researcher concluded that M&A is important for creating a stronger financial and operational structure, creates higher resources for firms, it widens branch network, create huge customer base, technological advantage, focus on priority sector, and penetration in rural market. It also examined various other determinants like human resources, how to manage clients for the above selected banks.

Wangui (2007) in the context of mergers of commercial banks in Kenya concluded that most of the banks went through mergers to increase the market share and in the process also attained a better financial position in the market. Further, Chesang (2002) also did a study on merger restructuring and financial performance of commercial banks in the context of Kenya and recorded improvement in terms of financial performance indicators with minimum statutory requirement, but recorded a decline in performance of other ratios. The study found that M & A announcement effect is significant over the event period and investors can earn abnormal return by trading an acquiring company. However, these researches have not studied the effect of merger on the human resources aspect of the organization. The findings reveal that before mergers and acquisitions took place, financial institutions in Kenya did not have strong liquidity and solvency. Their operating expenses also increased with increase in profitability. The portion of the financial performance that was explained by liquidity, solvency and operating expenses of the firms was very small before mergers and acquisitions. However, after mergers and acquisitions took place, the liquidity and solvency of the firms improved significantly thus enhancing their financial performance.

Mantra, Vadi, and Reddy (2008) have done the study to understand which type of mergers have been more successful in improving the performance of merging firms, among horizontal mergers, vertical mergers and conglomerate mergers. The research study has adopted the methodology of comparing pre- and post-merger performance of merging companies by using operating profit margin, gross profit margin, net profit margin, return on net worth, return on capital employed and debt equity ratio. The pre-merger (for three years prior to merger) and post-merger (for five years after the merger) averages of financial ratios are compared, and tested for differences, using paired “t” test for two samples. Merger and acquisition benefit shareholders when the consolidated post-merger firm is more valuable than the simple sum of the two separate pre-merger firms. Comparison of post vs. premerger operating ratio, for the different types of mergers suggested that horizontal mergers have caused the highest decline in the operating performance of the merging companies, followed by conglomerate and vertical mergers, in that order.

Altunbas and Marques (2008) have observed the impact of strategic similarities between bidders and targets on post-merger financial performance. This article shows that on average, bank mergers in European Union have resulted in improved return on capital. They ran the empirical analysis by using an extensive sample of individual bank mergers which in turn, was linked to individual bank accounting information. They have found that there are improvements in performance after the merger has taken place particularly in the case of cross-border mergers. In terms of the impact of strategic relatedness on performance, the overall results show that broad similarities among merging partners are conducive to an improved performance, although there are important differences between domestic and cross-border mergers and across strategic dimensions.

Ndora (2010) studied the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. A sample of six insurance companies that had merged between the year 1995 and 2005 were used from a population of 42 registered insurance companies in the country as at that time. To measure financial performance, profitability ratios, solvency ratios as well as capital adequacy ratios were computed for the firms. ROA, operating profit, and ROE were analysed. The information for the five years before and after the merger was compared and the results tabulated. The findings indicated an improved post-merger financial performance of the firms compared to the pre-merger period financial performance of the merging firms. The study concluded that M&A resulted in increased financial performance of an insurance company. To determine the relationship between merger restructuring and financial performance of commercial banks in Kenya and using ratio analysis, he concluded that, even though there was improved performance in some cases, the extent of the contribution was not significant. Ndora (2010) carried out a study on Effects of Mergers on Financial Performance of Companies listed at the Nairobi Stock Exchange. The population used in this study was 48 companies listed on the Nairobi Stock Exchange. It was concluded that mergers improve financial performance of companies listed at the Nairobi Securities Exchange. On his conclusion on research carried out to determine the effect of mergers on financial performance of firms listed at the NSE, and observed that mergers have significant positive effect on DPS, where merging of listed companies lead to increase in DPS. The rise in DPS would be due to the need to create investor's confidence and synergy

related to mergers. The study also concludes that mergers have positive but significant effect on EPS which leads to positive but insignificant effect on return on equity.

Sinha (2010) in their study described the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, they calculated the change in the position of the companies during the period 2000-2008. Secondly, they examine changes in the efficiency of the companies during the pre and post merger periods by using nonparametric Wilcoxon signed rank test. The result revealed a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value. in their study measured the operating performance and shareholder value of acquiring companies and comparing their performance before and after the merger. They used Operating Profit Margin, Gross Operating Margin, Net Profit Margin, Return on Capital Employed, Return on Net Worth, Debt-Equity Ratio, and EPS P/E for studying the impact. They concluded that as in previous studies, mergers do not improve performance at least in the immediate short term. in their research paper focused on the impact of mergers on the relative size and operating performance of acquiring corporate by examining some pre- and post-merger financial ratios with a sample of firms chosen from all mergers involving public limited and traded companies in India between 1991 and 2003. The study used the following financial ratios: operating profit margin, gross profit margin, net profit margin, return on net worth return on capital employed and debt-equity ratio .The results suggest that there are minor variations in terms of the impact on operating performance following mergers, when the acquiring and acquired firms are of different relative sizes, as measured by market value of equity.

Kemal (2011) has studied the post-merger profitability of Royal Bank of Scotland where he has used accounting ratios to analyze the financial performance of Royal Bank of Scotland (RBS) in Pakistan after merger with an aim to find out the answer of “Does merger of the banks improves the profitability?” There port has analyzed their financial statements for four years (2006-2009) by using 20 vital ratios which includes the ratios from profitability, liquidity, market value etc. The results show that the

financial performance of RBS in the areas of profitability, liquidity, assets management, leverage and cash flows has been quite satisfactory before the merger deal. It means that merger deal fails to improve the financial performance of the bank. This conclusion may not be the result for all the banks, as others may gain profit or increase profitability from the mergers. But in case of this report of RBS in Pakistan, merger does not work for it.

Bakari (2011) did a study on the effects of mergers and acquisition on the profitability of commercial banks in Kenya. Researcher analyzed the profitability of the banks for five years before and after the merger. A population of 33 banks that had merged between the period 1994 and 2010 were used. Profitability was measured in terms of return on asset (ROA) and return on equity (ROE). The findings were compared and the results tabulated for the years of study. It was observed that on average, the firm's profitability increased for the five-year period prior the merger than before. Researcher concluded that mergers and acquisition for commercial banks leads to increased profitability for the resultant firm. A sample of six insurance companies that had merged between the year 1995 and 2005 were used from a population of 42 registered insurance companies in the country as at that time. To measure financial performance, profitability ratios, solvency ratios as well as capital adequacy s were computed for the firms. The information for five years before and after the merger was compared and the results tabulated. The findings indicated an increased financial performance by the firms for the five years after the merger than it was five years before the merger. It was concluded that mergers and acquisition would result to an increase in the financial performance of an insurance company. Bakari conducted a study which examined the trend and growth implications of bank's recapitalization in Nigeria using secondary data which were analyzed with the aid of t-statistic and test of equality of means for the period before and after recapitalization. The results showed that that there was a significant difference between the two means and hence the two periods. The results indicated that the post-recapitalization's mean was higher than that of the pre recapitalization, implying that banks were more adequately capitalized and less risky after the programmed. The result also indicated that recapitalization had low but significant influence on the growth of the Nigerian economy.

Joshua (2011) analyzed the impact of mergers and acquisitions on financial efficiency of banks of Nigeria. The study is based on secondary data by using various financial parameters like gross earnings, profit after tax and net assets of selected banks. Analysis has been done by using T-test through SPSS. The results further concluded an increased financial performance which leads to improved financial efficiency. The t-test result depicted an increase in their combined mean for gross earnings and net earnings but profit after tax recorded a decline. Joshua discovered that the post-merger and acquisitions period was more financially efficient than the pre-merger and acquisitions period. Olagunju and Obademi also found that there is significant relationship between pre and post mergers and acquisitions on one hand and capital base of commercial banks and level of profitability on the other hand. Joshua positioned that mergers and acquisitions made Nigerian banks are more efficient.

Marengo (2012) conducted the thesis on the impact of mergers and acquisition on the financial performance of commercial banks in Kenya. The study set to establish whether the many mergers that have happened in Kenya's banking Sector had influenced financial performance based on the causal research design. This study covers 27 commercial banks mergers during the period of 1994 to 2010 as a population. Collect the data from financial statement of selected banks. This study concluded that merger/acquisition brings about higher capital and customer base which important ingredients in firm performance. With increased commercial banks' stability and ability to lend, the commercial banks in turn make higher profits.

Weber and Tarba (2012), on the basis of literature review and case studies of both successful and unsuccessful companies provided insights as to how the corporate culture had an impact during pre-merger stage, negotiation, and the postmerger integration process. It was concluded that the high rate of M&A failures was due to the lack of synchronized activities at different merger/acquisition stages. Further, the study provided different managerial tools that would help in better corporate culture assessment during all stages of M&A's, including screening, planning, and negotiation, and enhance the effectiveness of interventions carried out during post-merger integration process. For example, the assessment of culture differences during the stage of planning and evaluation of the profitability of a merger or acquisition, would help in determining the integration approach to be followed after the

agreement, the time frame and the costs needed for integration, which in turn would serve to assess the ability to realize the synergy potential. Information about the extent of cultural differences and integration difficulties could facilitate the evaluations of expected cash flow, the anticipated effects on EPS, the effects on the change of stock prices after the agreement and the risk inherent in each alternative. During the negotiation process, managers identify expected obstacles in communication caused by differences in corporate culture and to acquire tools for the bargaining stages. During the integration stage, correct analysis of cultural differences would help to determine the choice of units that are to be integrated during the early or late stages of the process, according to the types and strength of the differences. In this way, during the different stages of M&A's, it is possible to compare the advantages and disadvantages of each candidate for merger/acquisition and when these cultural differences between the organizations become clear, it would be possible to define a desired shared culture for achieving better success.

Kivindu (2013) the objective of the study was to establish the effect of mergers and acquisitions on profitability of commercial banks in Kenya. The study adopted a descriptive research design and the population of interest comprised of all the 24 banks that merged or were acquired in Kenya during the study period of 2000 to 2010. The study revealed that institutions having weak capital base consolidate to create synergies so as to enjoy economies of scale as this improve their profitability instead of going public by listing on the Nairobi Stock Exchange as this may be an expensive venture. They also examined the impact of post-merger on Nigerian banks profitability using the multiple regressions and the method of estimation is Ordinary Least Squares (OLS) with aid of STATA software. The result showed that post-merger has not significantly impacted on banks profitability

Maditinos (2013) also carried out a study on the effect of mergers and acquisitions on the performance of companies. The study focused on two banks in Greece that had merged to form one bank. The main purpose of the study was to investigate the effects of the merger that took place in 1999 on the performance of the resultant bank. The study was carried in two parts. The first part analyzed the short-term effects of the merger and the second part the long-term effects of the merger. The findings from the study indicate that the resultant bank after the merger was not only profitable in the

banking industry but was also more competitive than the other banks. However, the study revealed that the stock performance of the resulted bank is not the decisive factor to appreciate the performance of the bank, since the stock value is many times the result of speculative actions, wrong expectations or simply a game of the fortune.

Misigah (2013) carried out a study on the effect of mergers and acquisitions on growth of commercial banks in Kenya. The objective of this study was to examine the effects Mergers and Acquisitions (M&A) on growth of commercial banks in Kenya between the periods 2000 to 2010. The study was a survey involving commercial banks which have successfully completed merger and acquisition transactions since the year 2000-2010. The research instrument for collection of data was a questionnaire consisting of structured and unstructured questions. Secondary data was also used to obtain the required information. Documentary secondary data included reports to shareholders, administrative and public records. The study established that the variable which was significant on growth of commercial banks through mergers and acquisition was shareholders value and the growth in profitability.

Adhikari (2014) research paper published by NRB has performed exploratory research to study the impact of merger on banks and financial institutions. NRB has used primary data from 550 respondents and secondary data for 3 years of pre-and post-merger period of 25 merged entities. The study concludes that major reason for financial institutions to go into merger is to increase their paid-up capital, expand the operational area as well as decrease the competition. Although the merger has positive changes in the employee satisfaction and work culture, it has created a delay in the process of decision making. The 6 financial indicators that NRB has used indicate a mixed result for the first two years i.e., positive changes in some BFIs and negative in some but when the 3rd year starts after merger the financial indicators show improvement for all the merged BFIs.

Chellasamy & Ponsabariraj (2014) studied the performance evaluation of mergers and acquisition of scheduled commercial banks in India. The paper analyses the pre- and post- merger financial performance of the banks which are merged by using various financial parameter like return on assets, return on equity, profitability ratios, current ratios etc. The study covers the period from 1999-2000 to 2010-2011. A paired t-test has been applied to find out the significant relationship between the profitability and

liquidity performance of pre- and post-merger and Acquisitions of selected commercial banks in India. The study further concludes that there are no greater changes in the financial performance after merger.

Gupta (2015) evaluated the impact of mergers and acquisition by studying various ratios i.e., Profitability Indicator, Efficiency Indicator and Performance Indicator of the selected banks. The study has taken two cases one is merger of BOR and ICICI Bank and another case is the merger between CBOP and HDFC Bank. The results of the study indicates that in the first case of merger between BOR and ICICI Bank there is a significant improvement in the performance of banks in terms of net profit margin, return on assets, net interest margin, capital adequacy ratio, CASA and cost to income but there is no significant change seen in total income/capital employed, return on equity and credit deposit ratio. In the second case of merger between Centurion Bank of Punjab and HDFC Banks, there is a significant improvement in terms of Net profit margin, return on assets, return on equity, credit deposit ratio, CASA, cost to income but no change has been seen in total income/capital employed and capital adequacy ratio which net interest margin shows negative change in post-merger period.

Singh and Gupta (2015) argued that there is significant difference in post-merger Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Net Worth, Interest Coverage, Deposit per Employee and Credit Deposit Ratio but non-significant difference with respect to Gross Profit Margin, Debt-Equity Ratio, Current Ratio, Quick Ratio, Earnings per Share. The study concludes that the banks have positive effects of merger on financial performance when distinguished between pre mergers and post-merger period. It was found that the post mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period. The position of the scholars that posited positive relationship between merger and acquisition; and bank performance make logical sense because the essence of mergers and acquisition is to improve efficiency in financial intermediation thereby propelling the banks toward profit maximization.

Mungai (2015) conducted the study on the effect of mergers and acquisitions on the financial performance of financial institutions in Kenya. The purpose of this study was to establish the effect of mergers and acquisitions on the financial performance of

financial institutions in Kenya. For this the study took the form of a causal research design since this was a cause effect form of relationship, population included 104 financial institutions, out of which purposive sampling was applied to select 25 financial institutions in Kenya that had undergone mergers and acquisitions in the recent year. Secondary data was collected from a total of 18 financial institutions of Kenya. Multi variety regression analysis and correlation were used to analyze the data for the study.

Joash and Njangiru (2015) examined whether the merger had any effect on the banks' performance in Kenya. The study determines the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of mergers and acquisitions on profitability. 14 banks that have merged or acquired others in the period from 2000 to date were investigated. Data was collected using questionnaires with both open and closed ended questions. The collected data was analyzed using SPSS where the co-efficient of correlation obtained. Study found that the mergers and acquisitions raised the shareholders' value of the merged/acquiring banks. Researcher recommended that thorough feasibility studies should be carried out before the merger/acquisition process can be done. It was also recommended that effect of mergers/acquisitions in other sectors of the economy should be established with a view of drawing a parallel with the effects of the same processes in the banking sector.

Dhakal (2015) after the Nepal Rastra Bank implemented the merger by laws policy in 2011, Nepalese market was able to observe increasing trend in merger and acquisition in banking and financial institutions (BFIs) of Nepal. This study focused on the post-merger impact to the employees, customers and shareholders of the merged bank. The research method used in this study was descriptive research which implies the results based on the survey and the analysis. The customers felt the changes in value, product and service in post-merger phase but required more innovative service. The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth.

Awan and Mahmood (2015), conduct the study on impact of merger and acquisition on performance of commercial bank in Pakistan. This study concluded that the firm Performance can take the influence of mergers and acquisitions deals as well. As for

as this study analysis is concerned out of four measurement ratios all ratios remained positive solvency, liquidity, profitability and investment showed positive impact of mergers and acquisitions on firm performance. This study used ratios of two years earlier and two years after mergers and acquisitions deals and found overall positive impact but these results are of short time period. 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. Sometimes organizations indulge in the mergers and acquisitions activities get competitive edge which proves benefitted for the organizations. It is also concluded that due to expansion in the business activities the organizations per unit cost go to decline.

Ghosh and Dutta (2015) stated that Mergers and Acquisitions as a smart means of corporate restructuring. The study explores the overall strategic impact of mergers and acquisitions in the banking sector. The study focused on 20 M&A deals in the Indian banking sector during 2000-2010. The study is based on pre- and post- merger comparison of HR and Financial parameters. For the purpose of analysis, the ratios for each of the performance parameters were estimated for all the ten mergers individually followed by Shapiro-walk normality test. Similar the case of Indian banking industry, wherein, initially, State Bank of India merged with its five subsidiaries on 1st April 2017 and later Government of India is framing policies to facilitate the consolidation of public sector banks. The findings of the study indicate an on-significant change in performance in the post- merger period.

Baniya and Shah (2016) stated merger as a frequent activity in Nepalese banking sector. Merging of banking industries in many countries has been a massive development in recent decades thus, 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. In many developing markets around the world government policy initiatives were undertaken for mergers between banks in order to restructure the banking industry. Frequently such initiatives have followed a financial crisis, and have been directed towards stabilizing the banking system and the wider economy. However, these merger activities have not been analyzed from the perspective of HRM practices, highlighting the research gap in this area.

Tamragundi and Devaraj Appa (2016) in the study “Impact of mergers on Indian Banking sector: A comparative study of Public and Private sector Banks” examines the impact of mergers on Physical performance of merged banks, financial performance of merged banks and share price performance. For the purpose of analysis 6 Indian commercial banks have been taken. Out of 6 banks three banks are merger of public sector with private sector banks and three are merger of private sector banks with private sector banks. Analysis has been done on secondary data based on Camel model by using various statistical tools like mean, standard deviation, T-test. The study reveals that merger is a useful strategy for expanding business operations and the overall growth of the business.

Modebe, Isibor, and Okoye (2016) conduct the research on effect of merger and acquisition banking sector performance in Nigeria. This research study shows that i) there is no significant difference in the profit performance of the banking sector (as measured by return on assets) between the pre- and post-merger and acquisition periods (ii) there is evidence of significant increase in the pre-and post-merger and acquisition means of bank asset ratio (iii) there is a significant reduction in capital adequacy ratio between the periods. Following from the above findings, the study concludes that mergers and acquisitions have significant impact on the performance of the Nigerian banking sector. We therefore recommend that due diligence should adopted in the identification and selection of compatible partners in order to achieve synergy. In the case of policy-induced merger and acquisition, a reasonable time should be allowed for compliance and implementation should be closely monitored.

Shah and Khan (2017) conduct the research on Impacts of Mergers and Acquisitions on Acquirer Banks’ Performance. Researcher investigates the effects of mergers and acquisitions (M & A) on the operating performance of the acquirer banks in Pakistan. For this purpose, a sample of 18 transactions, involving acquirer banks, listed on the Karachi Stock Exchange, is used. The Financial Ratio Analysis (FRA) is used to determine the effects of M & A. The significance of change in the operating performances is tested through a paired sample t-test. The results indicate deterioration in the performances of the acquirer banks in the post-merger period. Researchers concluded that most of the profitability ratios, including ROE, ROA, net mark up and non-mark up income to total assets have declined in the post-merger

period. Only an insignificant improvement is observed in net interest margin and administrative expenses to profit before tax ratios in the post-merger period. Further, empirical study done show how cost efficiency changed from mergers and acquisitions in banks that had undergone mergers in and they found that the cost efficiency improved post-merger significantly. Deterioration is also observed in the liquidity ratios of the acquirer banks in the post-merger period. The cash and cash equivalent to total assets has declined significantly and advances, and investment to total assets ratios are increased, but insignificantly. Similarly, the performances of the acquirer banks do not reflect any worthwhile improvement in terms of capital stability in the post-merger period. The deposit to owners' equity ratio is significantly increased, but the capital adequacy ratio has declined, showing an unfavorable effect on the performances of the acquirer banks in the post-merger period.

Shrestha, Thapa, and Phuyal (2017) carried out the study on a comparative study of merger effect on financial performance of banking and financial institutions in Nepal. This study makes an attempt to analyze the financial performance of merged banking and financial institutions relative to their pre-merger performance, and assess the perception of the stakeholders towards merger. Six banks and financial institutions are considered as sample to undertake this study along with 120 respondents for secondary and primary data respectively. The financial ratios comparison method along with t-test of changes in performance measures has been used. This study found that merger impacts performance positively when larger and stable parties such as commercial banks act as bidders as opposed to the merger between smaller BFIs mainly other than commercial banks as bidder. The loan quality significantly deteriorates after merger in most of the cases and profitability measured in terms of ROA and ROE is adversely affected in most of the cases after the merger. Therefore, the merger should not be considered as the definite solutions to overcome the challenges faced in the market; enough evaluation is needed to select the right partners before executing the merger.

Shah and Dwa (2017) conduct the on a study on merger and operating performance of commercial banks of Nepal. This study aims to find the impact of mergers on operating performance of sample merged banks. To attain the research objective, this study has taken 8 independent variables; operating profit margin, net profit margin,

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

Patel (2017) conducted the research on pre & post-merger financial performance: an Indian perspective compares the before and after merger position of long-term profitability with respect to selected Indian banks for a period of 2003-04 to 2013-2014. 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. However, variables, namely, the Earnings per Share, Profit per employee and Business per employee have shown positive trend and grown after the merger. It has been observed that after the merger, the Assets, Equity, Investment and advances of all bank's increases, but due to underutilization, their respective yield decreases. On a contrary, the business per employee and profit per employee have increased due to optimum utilization of human resources. By applying the Comparative Analysis, the paper also assesses the financial performance of acquiring bank with the banking industry. The Bank of Baroda and Oriental bank of commerce has found decreases in Yield on Advances and yield on investment as compared to average of all banks in the post-merger

period. State bank of India & IDBI Bank has higher business per employee and profit per employee as compared to industry average. The operating expenses of the firms after mergers and acquisitions also seem to decrease as the financial performance increases. A strong positive relationship was witnessed between the liquidity of the firms and their financial performance as well as between the solvency and financial performance. However, a moderate inverse relationship was evident between operating expenses and the financial performance.

Chalise (2017) conducted the on analysis of mergers and acquisitions on the Performance of commercial banks in Nepal. With the major objective of this study is to investigate whether the financial performance of the selected merged commercial bank (i.e., Global IME Bank) improved after the merger with CAMEL Criteria. Researcher concluded that Bank capital has bettered after the merger with negative mean and it was also was statistically significant. Increase in ROA shows that the capability of the management to converting the bank's assets into net earnings is increasing. The overall financial performance which is measured by the CAMEL variable significantly change after the merger and acquisition of Global IME bank.

Gugler, Muelle, Yurtoglu, and Zulehner (2018) performed a study on the influence of mergers and acquisitions on financial performance of commercial banks in Kenya. The study was anchored on three theories which include differential efficiency theory, financial synergy theory and hubris theory. They studied a sample of 9 banks that had undergone mergers and acquisitions between 2007 and 2010. They found that a unit improvement in differential efficiency led to a 0.886 increase in financial performance of the bank. This implies that managerial synergy was realized in the study. He studied a sample of 163 firms acquired in the period 1971-79 and a random sample of 256 firms that were not acquired. Both samples were in mining and manufacturing and were listed on either the New York or the American Stock Exchange. He found that target firms were characterized by significantly lower growth and lower leverage than the non-target firms, although there was no significant difference in their holdings of liquid assets

Kashyap(2022) state that merger and acquisition emerge as a reality. Bank mergers are one of the strategies for strengthening the Indian Economy by enhancing the banking sector. The Government of India is pursuing the policy of amalgamating

public-sector bank. This research paper looks at Mergers and Acquisitions (M&A's) that have happened in Indian banking sector to understand the resulting synergies and the long term implications of the merger. The paper also analyses recent trends in banks regarding the Mergers and Acquisitions. The findings suggest that to some extent M&A's has been successful in Indian banking sector. The conclusion of this study that the mergers of BOB would help in better management of capital. Along with merger the focus should be on adequate reforms in governance and management of these banks. The bank has experienced positive impact due to merger. The post-liberalization period has seen rapid development, one of which is banking. M&A in the banking sector has demonstrated that this is the useful tool of merging into a larger Bank for the survival of weak banks. The study shows that the effects of the global economy are therefore difficult for small and local banks, and that they need support and this is one of the reasons for their Merger.

According to Karki (2022) Merger and Acquisitions (M&A) is a widely used business strategy for restructuring through consolidation among two or more organizations into a common objective or a complete takeover of one organization by another. The reason for this is usually to help achieve competitiveness, promote efficiency, reduce cost and/or increase profit. M&A, as a tool proves to be an efficient one to facilitate consolidation in the financial system. This has helped reshape the banking industry across the globe. Bank and financial institution mergers have been advantageous for many years. Merger and acquisition have increased deposits and credit, increased earning potential, and strengthened risk management capabilities. Financial institutions that are competitive and adhere to industry standards have been produced through the merger of weak performing banks with high performing banks. It is necessary for the regulatory agencies and BFIs to consult in order to develop plans and policies that will support the sector's continued expansion. To encourage growth and stability, regulators and banks must be somewhat flexible. The government should also play a supporting role and offer strong incentives to encourage banks to explore merger and acquisition activity.

2.3 Research gap

A literature gap, or research gap, is an unexplored topic revealed during a literature search that has scope for research or further exploration. Gaps in the Literature are missing pieces or insufficient information in the research literature. These are areas that have scope for further research because they are unexplored, under-explored, or outdated. To identify research gap, is a question or a problem on which enough existing research is not done or it is outdated and needs to be updated. To identify literature gaps, the thorough review of existing literature in both the broad and specific areas of the topic is needed to be done. To spot the research gap, past article and thesis, impact on merger on financial performance in the commercial banks the gap of the study were reviewed and the gap of the thesis are narrowed down. This research study is mainly differed than the previous research study due to the following reason.

- 1) This research focus on both measuring comparative financial performance and effect of merger on Performance of bank.
- 2) The ratios used ROA, ROE, EPS, Profit Margin, Assets Quality, loan and advance to total deposit, debt to equity ratio, Capital adequacy position to measure the financial performance of merged commercial banks which are different than the past researcher.
- 3) Past researcher covers the data up to 2016 AD only and his study cover the data form fiscal year 2012/13 to 2017/18.
- 4) The sample used in research study are Bank of Kathmandu Limited, NMB Bank and Siddhartha Bank Limited, which are different than the past research article and thesis.
- 5) Further research is required to understand the merger and acquisition effect in the financial performance of banks.
- 6) The relationship between the merger, acquisition and performance of commercial banks has not yet been clarified, so it is not obvious which one is the dominant factor.

CHAPTER III

RESEARCH METHODOLOGY

In this section will outline the theoretical or quantitative analysis of the method applied to this field of study which is used to be able to further develop the research. The research methodology demonstrates the understanding of research design theory. This helps to make the study replicable- in other words, it allows other researcher to undertake the study using the same design, and compare their finding to the study. This section identifies and discusses any methodological issue or problems and explains how to mitigate the impact of these on the study. It also describes the rationale for the application of specific procedures or techniques used to identify, select, process, and analyze information applied to understanding then problem, thereby, allowing then readers to critically evaluate a study's overall validity and reliability.

3.1 Research framework and definition of the variables

Research framework is developed for the purpose of this study. It shows the relationship between the merger and acquisition as independent variable and the financial performance as dependent variable. The conceptual framework is based on the paper. The paper has compared the pre and post-merger operating performance of sample banks, Siddhartha Bank, NMB Bank and Bank of Kathmandu. They have compared the level of significance between pre and post-merger financial health of the selected banks using descriptive and analytical method and found that banking sectors have shown some positive impact on some aspects and other have negative impact as well.

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 return on assets (ROA). The independent variables further includes Loan Loss Provision (LLP), Earning per Share (EPS), Cash Reserve Ratio (CRR), Capital Adequacy Ratio (CAR) and Non-Performing Loan (NPL). The research framework of the study can be interpreted in the figure 1.

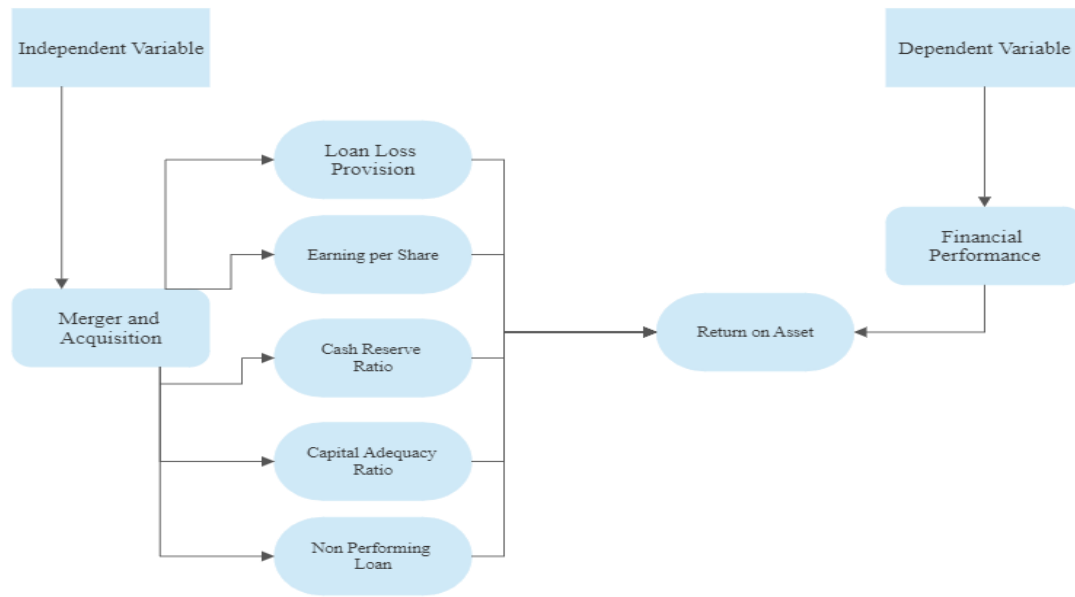


Figure 1 Research Framework

From the research framework and objectives of the study, it can be found that the study is determining the impact of selected variables namely merger and acquisition on financial performance which is further classified into Return on Asset. The definition of each of these variables are as follows:

3.1.1 Merger and Acquisition

Merger is the combination of two or more entities through a purchase acquisition or pooling of interests, it is different from consolidation as there is no new entity is created from merger. Those organizations who adopt strategy of merger or acquisition have motives like to gain advantage of economy of scale, economy of scope, increase market share and revenues, taxation, synergy, geographical and other diversification. Due to these reasons, banks merged with one another or targeted by acquiring bank. Recently, the financial sector of most of the countries and their entire economy has been the focus both in the business circles and in the media, in terms of exceptional challenges being faced. Regulatory measures are being followed at both micro level as well as the macroeconomic level in order to improve the future condition of the different sectors that are under financial pressure or under financial crises. The acquisition process is seen as two major underlying sub-processes, which are the pre-acquisition process and post-acquisition process. The pre acquisition process contains the decision-making issues related to the acquisition, which includes the rationales for

a justified acquisition such as screening, analyzing and strategically evaluating acquisition prospects. The post-acquisition process includes the implementation phase of the acquired company such as integrating processes, cultures, values and products, which are capabilities that contribute to the value of the acquisition.

3.1.2 Non-performing loan (NPL)

A nonperforming loan (NPL) is a loan that is in default due to the fact that the borrower has not made the scheduled payments for a specified period. In banking, commercial loans are considered nonperforming if the borrower is 90 days past due. The NPL (Non-performing loans) to Total Loans is helpful in determining the stress in a portfolio of loans. The higher the ratio the more trouble the lender is having in that portfolio. This ratio measures the efficiency of the companies to collect loans and advances. It can be calculated as:

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

3.1.3 Earning per Share

Earnings per share (EPS) is a company's net profit divided by the number of common shares it has outstanding. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. It can be calculated as:

$$\text{EPS} = \frac{\text{Net Income}}{\text{Total Number of Share holders}}$$

3.1.4 Cash reserve ratio

Under cash reserve ratio (CRR), the commercial banks have to hold a certain minimum amount of deposit as reserves with the central bank. The percentage of cash required to be kept in reserves as against the bank's total deposits, is called the Cash Reserve Ratio. The cash reserve is either stored in the bank's vault or is sent to the central bank.

3.1.5 Capital adequacy ratio

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process. It is a measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. It can be calculated as:

$$\text{CAR} = \frac{\text{Total capital}}{\text{Risk weighted assets}}$$

3.1.6 Loan loss provision

A loan loss provision is a cash reserve a bank creates to cover problem loans that are unlikely to see repayment. The potential loan losses arise to banks and financial institutions due to default of repayments from borrowers or renegotiated terms of a loan or one time settlement that incur lower than previously estimated repayments. The provision for loan loss is the money banks and financial institutions set aside to cover these potential losses on their loan assets. Banks are required to make provisions both for their standard assets (loans and advances which are regular) and non-performing assets (bad loans) as prescribed under prudential norms by the banking regulator. It can be calculated as:

$$\text{LLPR} = \frac{\text{Loan loss provision}}{\text{Total loan}}$$

3.1.7 Return on asset

Return on assets is a profitability ratio that provides how much profit a company can generate from its assets. In other words, return on assets (ROA) measures how efficient a company's management is in earning a profit from their economic

resources or assets on their balance sheet. Return on assets (ROA) is a financial statistic that depicts a company's profit margin as a percentage of its total assets (total assets). The link between net profit and total assets is a good way to gauge profitability. The return on assets (ROA) of any financial institution shows how successfully management is using the company's assets to create profit. It can be calculated as:

$$\text{ROA} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

3.2 Research design

A research design, which is a function of the research objectives, is defined as a set of advance decisions that makes the master plan, specifying the methods and procedures for collecting and analyzing the needed information. An appropriate research design is essential as it determines the type of data needed, data collection techniques, the sampling methodology, and the budget. In view of the great significance of an appropriate research design to achieve the objectives of the research, due attention has been given to the research design for the research problem under study. This research used descriptive and analytical research design in order to examine impact of merger on the financial performance of commercial banks. Descriptive research design used to identify the level of merger and acquisitions, merger by laws, bank and financial indices. Descriptive research design attempts to obtain a complete and accurate description of a situation.

The research design perceives the direction, magnitude and forms of observed relationship between merger and the bank performance as well as the factor affection them are studied. The methods of research utilize in descriptive research are survey method of all kinds, including comparative and co-relation methods. In analytical research, on the other hand, the facts or information are already available, and they are further analyzed to make critical evaluation of the material. Analytical research is a specific type of research that involves critical thinking skills and the evaluation of facts and information relative to the research being conducted. Within analytical research articles, data and other important facts that pertain to a project is compiled; after the information is collected and evaluated, the sources are used to prove a

hypothesis or support an idea. Using critical thinking skills, it is able to effectively pull out small details to form greater assumptions about the material.

3.3 Population and sampling

The populations for this research are all the three commercial banks which are merged after the merger and acquisition by law 2011 AD implemented. According to the monetary policy 2019/20 AD, in line with the Merger & Acquisition Policy of this Bank, a total of 171 BFIs has undergone through the merger/acquisition process as of mid-July 2019. Out of these, license of 128 institutions has been revoked thereby forming 43 institutions. Among them 3 are the commercial banks. These 3 merged commercial banks are taken as the population for the study. Out of 12 merged commercial banks, three commercial banks, NMB bank, Bank of Kathmandu Lumbini Limited (BOK), Siddhartha Bank Limited (SBL) which all are merged in 2015 AD are selected as sample by using systematic random sampling. The sample size of this study is three and sampling interval of this study is 5th, which is calculating dividing size of population by size of sample. Every 5th element in the population is chosen starting from a random point in the population frame.

Table 2 List of banks merged

S.N	Bank After Merger	Bank of Merger
1	Siddhartha Bank Limited	I. Siddhartha Bank Limited II. Universal Development Bank
2	Bank of Kathmandu	I. Bank of Kathmandu II. Lumbini Bank Limited
3	NMB Bank Limited	I. Pathibhara Bikash Bank II. Clean Energy Development Limited III. Prudential Finance Co-Operative Ltd

Siddhartha Bank Limited.

Siddhartha Bank Limited (SBL) established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing bank in Nepal. While the promoters come from a wide range of sector, they possess immense business acumen and share their valuable experiences towards the betterment of the

bank. Horizontal merge held between Siddhartha Bank Limited and Business Universal Development Limited in 2015 AD and transaction operated by Siddhartha Bank Limited.

Bank of Kathmandu Limited.

One of the prominent banks in Nepal, Bank of Kathmandu Limited (BOK) was established in the year 1995 with a vision to become a significant contributor to the economic development of Nepal distinguishing the bank as an efficient, competitive, safe and top-quality financial institution. The bank with its corporates logan ‘we make your life easier’ is committed to deliver quality services to its customers, generating goods return to the shareholders, providing attractive incentives to the employees and serving the community through strong corporate social responsibility. Horizontal merger is held between Bank of Kathmandu and Lumbini bank limited in 2015 AD and transaction operated by the name of Bank of Kathmandu Lumbini Limited.

NMB Bank Limited

NMB bank limited licensed as ‘A’ class financial institution by Nepal Rastra Bank in May 2008 has been operated in the Nepalese Financial market for the twenty years and is one of the leading commercial banks in the banking industry. The bank has a Joint Venture agreement with Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden (FMO) wherein FMO holds 17% of the bank’s shares and is the largest shareholder of the bank. In September 2016 the bank signed a Joint Venture Agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden (FMO), the Dutch development bank following which FMO became the single largest shareholder of the bank. NMB bank was horizontally merged with the Pathibhara Bikash Bank limited, Clean Energy Development limited and Prudential Financial Co-operative limited in 2015 and transaction is operated by the name of NMB bank limited.

3.4 Nature and source of data

This research examines the impact of merger on financial performance of commercial bank. The details about Merger and Acquisition concept in banking sector of Nepal were discussed with the officials of Siddhartha Bank Limited. The secondary data are used, where data are collected from the only the financial statement of the selected

banks, Bank of Kathmandu, NMB Bank and Siddhartha Bank Limited 5 year before and after the merger and acquisition. Data on the variables for the study covers the period of 2010-2019. The year 2015 was taken as the base year while the period 2010-2014 was taken as pre merger period and the period 2015-2019 served as the post merger period. For pre-merger financial performance analysis only the data and information are collected only form annual report of Bank of Kathmandu Limited, NMB Bank Limited and Siddhartha Bank Limited. The data and information of other financial institutions which are merged with these banks are ignore for pre-merger financial analysis. For the post-merger period, the focus of the analysis was on the combined institution. It is expected that the various performance indicator ratios of the bank for the period after mergers and acquisitions should be higher than those of the previous period.

3.5 Method of Analysis

In order to measure the impact of merger, 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 year of merger is indicated by T0 and is not included in the performance evaluation in order to eliminate the effect of the merger cost. Accounting ratios used to analyze the financial performance of the 3 banks under study. For the pre-merger period ratios, data and information of only Bank of Kathmandu Limited, NMB Bank Limited and Siddhartha Bank Limited is collected and examined to get an indication of the relative financial performance. For the post-merger period, the focus of the analysis was on the combined institution. Pre-merger average data was compared with the post-merger average data to determine what changes occurred in financial performance following the merger or the acquisition. It then conducted a multivariate regression analysis to establish the relationship between the dependent and independent variables. Statistical tools that were used to analyze the collected data are mentioned in the following section:

3.5.1 Mean

Mean is the arithmetic average of a range of values or quantities computed by dividing the total of all values by the number of values. It refers to the average that is

used to derive the central tendency of the data. The arithmetic mean is the most commonly used and readily understood measure of central tendency. It is determined by adding all the data points in a population and then dividing the total by the number of points. In this study, mean is calculated to find out the average of the responses given by the respondents regarding to the different variables in Likert scale question. It can be calculated as follows:

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

Where

\bar{X} = Mean of the values

$\sum X$ = Summation of the values

N = No. of Observations

3.5.2 Standard deviation

Standard deviation is the measure of dispersion, that is used to quantify the amount of variation or dispersion of a set of data values. It can be defined as the positive square root of variance. A useful property of the standard deviation is that, unlike the variance, it is expressed in the same units as the data. If the data points are further from the mean, there is higher deviation within the data set. Thus, the more spread out the data, the higher the standard deviation. It can be calculated as follows;

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

Where,

N = Number of items in the series

\bar{X} = mean

X = Variable

3.5.3 Correlation

Correlation is a statistical tool used to measure how strong a relation is between two variables. Correlations are useful because they can indicate a predictive relationship that can be exploited in practice. In this study, correlation is calculated for the response provided in Likert scale to find the degree of relation between independent and dependent variables for all sample. It can be calculated as follows;

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

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

CHAPTER IV

RESULTS AND DISCUSSION

In this chapter, we discuss the data obtained from the annual report of three banks. Many variables were considered for the study including ROA, EPS, NPL, LLP, CAR and CRR. They form the framework for the analysis. The result of the data collected are analyzed by each of the variable followed by interpretation of each result are presented.

4.1 Data presentation and analysis

In order to measure the impact of merger, secondary data of each bank are collected from the annual reports presented by the bank. The pre merger and post merger data are then taken and analyzed to compare the performance of the bank before and after the merger. the average performance of the 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.

4.1.1 Return on assets

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

Table 3 Return on assets

BANKS	Before Merger (ROA)							After Merger (ROA)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	2.44	2.10	1.90	0.65	0.74	1.57	0.82	0.82	1.57	1.45	1.88	1.33	1.41	0.39
NMB	1.39	0.28	1.43	1.36	1.21	1.13	0.48	1.49	1.69	1.65	1.67	0.95	1.49	0.31
SBL	1.28	1.12	1.43	1.74	1.51	1.42	0.24	1.69	1.53	1.59	1.49	1.26	1.51	0.16
Mean	1.70	1.17	1.59	1.25	1.16	1.37		1.33	1.60	1.56	1.68	1.18	1.47	
Std.	0.64	0.91	0.27	0.55	0.39			0.45	0.08	0.10	0.20	0.20		

Source: Annual report of respected banks from 2010 to 2019 AD

Table 3 represents the return on assets of three banks being Bank of Kathmandu Limited, Siddhartha Bank Limited, and NMB Bank Limited before and after merger.

The average ROA of BOK before and after merger is 1.57 and 1.41, which shows that average ROA has declined after merger. Similarly, NMB has average ROA of 1.13 and 1.49 which shows a high increase in ROA after merger. Where as , for SBL, the average ROA has also increased from 1.42 to 1.52. The highest average ROA before merger is of BOK at 1.57 and after merger the highest average ROA is of SBL bank at 1.51. Average ROA of all banks before and after merger can be seen in increasing state from 1.37 to 1.47 that shows that return on asset has increased in overall. The highest deviation in the ROA is before merger, of BOK at 0.82 and the lowest deviation is after merger of SBL at 0.16. Lower deviation can be seen after merger which states that the ROA is much more clustered and more reliable. The highest ROA was of BOK at year T-5 at 2.44 and lowest ROA was 0.28 of NMB at T-4.

4.1.2 Earning per Share

Earnings per share is another ratios used to measure the profitability position of commercial banks in Nepal before and after the merged. It is calculated as dividing earning available to shareholder by total share outstanding. Higher these ratios indicate the better profitability position of commercial banks and vice-versa.

Table 4 Earning per Share

BANKS	Before Merger (EPS)							After Merger (EPS)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	44.51	37.88	36.64	13.25	15.78	29.61	14.13	14.86	20.69	19.46	23.53	17.09	19.13	3.33
NMB	11.08	2.61	18.02	20.50	25.05	15.45	8.78	22.10	22.24	21.86	18.79	11.18	19.23	4.72
SBL	19.82	20.41	29.80	38.63	37.77	29.29	9.05	41.53	26.60	26.45	23.07	19.55	27.44	8.39
Mean	25.14	20.30	28.15	24.13	26.20	24.78		26.16	23.18	22.59	21.80	15.94	21.93	
Std.	17.34	17.64	9.42	13.07	11.04			13.79	3.06	3.55	2.61	4.30		

Source: Annual report of respected banks from 2010 to 2019 AD

Table 4 shows the earning per share of sampled commercial banks before and after merger. The average EPS of BOK is 29.61 and 19.13 before and after merger. Similarly, the deviation has drastically fallen from 14.13 to 3.33. For NMB bank, the average EPS is 15.46 which has increased to 19.23 after merger, and the deviation has fallen from 8.78 to 4.72. For SBL, the average EPS can be found to have also fallen from 29.29 to 21.93 and so has the deviation from 9.05 to 8.39. Highest average EPS was of SBL after merger and lowest was of NMB before merger at 27.44 and 15.45

respectively. The overall average EPS has declined from 24.78 to 21.93 that shows that the earning capacity of each share has declined in average after merger. However, the deviation in EPS has been declining for each bank after merger than before merger, with lowest deviation of BOK at 3.33 and highest deviation at 14.13 of BOK before merger.

4.1.3 Cash reserve ratio

The Cash Reserve Ratio (CRR) is the percentage of total deposits a bank must have in cash to operate risk-free. The reserve ratio is used in monetary policy planning in order to regulate the amount of cash banks can convert to loans. In addition central monetary authority use the reserve to protect bank from a sudden decline liquidity, which can result in financial crisis. Higher the CRR, the money supply decreases and demand of money increases resulting in decreased inflation. However if CRR decreases more funds are available to the bank for deploying in other business because they need to keep fewer amount with central bank. This leads to a reduction of interest rates on loans provided by the Banks and it increases lendable resources.

Table 5 Cash reserve ratio

BANKS	Before Merger (CRR)							After Merger (CRR)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	8.10	8.72	9.41	6.82	9.98	8.61	1.22	8.71	9.36	7.30	6.92	11.39	8.74	1.79
NMB	6.85	18.91	23.35	13.72	13.32	15.23	6.24	10.81	7.72	6.68	4.19	5.93	7.07	2.46
SBL	5.61	11.86	9.60	17.22	8.63	10.58	4.34	6.00	8.68	6.37	4.56	5.03	6.13	1.60
Mean	6.85	13.16	14.12	12.59	10.64	11.47		8.51	8.59	6.78	5.22	7.45	7.31	
Std.	1.25	5.22	7.99	5.29	2.41			2.41	0.82	0.47	1.48	3.44		

Source: Annual report of respected banks from 2010 to 2019 AD

From table number 5 we can see the cash reserve ratio of each of the respective banks in from time 2010 to 2019. We can see that the average reserve of BOK has increased from 8.61 to 8.74 however, the deviation has also increased from 1.22 to 1.79. The average of NMB bank has a drastically decreased from 15.23 to 7.07. The bank's ability to supply money was high after merger with lesser deviation in ratio at 2.46. It can be seen to have better hold in the reserve ration than before merger. In SBL, too the average cash reserve ratio has decreased from 11.47 to 6.13. The reserve can be seen to have less deviation for SBL too as the deviation has decreased from 4.34 to

1.60. The highest average cash reserve was of NMB bank before merger at 15.23 and lowest average reserve held was by SBL after merger at 1.60. In year T-3, the banks held the highest average reserve at 14.12 and lowest was in T+4 at 5.22. Overall the average cash reserve can be seen to be decreased from 11.47 to 7.31 which shows that after merger all the bank's reserve had decreased and the money supply was high and money demand was low.

4.1.4 Capital adequacy ratio

Capital adequacy is one of the elements that indicate the measurement of financial strength of a bank. It is used to protect depositors and promote the stability and efficiency of financial systems around the world. It is the capital position of the bank which somewhat assure depositors that they will be compensated if any failure occurs. Higher this ratio is better for the financial position of the bank.

Table 6 Capital adequacy ratio

BANKS	Before Merger (CAR)							After Merger (CAR)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	11.62	11.07	12.58	11.57	13.00	11.97	0.79	13.01	13.41	14.88	14.30	14.16	13.95	0.74
NMB	16.39	14.84	11.74	10.75	11.13	12.97	2.50	10.98	13.61	15.75	15.45	15.08	14.17	1.97
SBL	10.78	11.03	11.80	11.39	11.10	11.22	0.39	11.25	12.74	12.12	12.70	13.17	12.40	0.74
Mean	12.93	12.31	12.04	11.24	11.74	12.05		11.75	13.25	14.25	14.15	14.14	13.51	
Std.	3.03	2.19	0.47	0.43	1.09			1.10	0.46	1.90	1.38	0.96		

Source: Annual report of respected banks from 2010 to 2019 AD

From table 6 we can see the capital adequacy ratio of the banks. The average ratio of BOK before merger is 11.97 which has increased to 13.95 with slight decrease in deviation from 0.79 to 0.74. Also. For NMB, the average ratio has increased from 12.97 to 14.17 with decrease in deviation from 2.50 to 1.97. For SBL, the average has increased from 11.22 to 12.40 however, the deviation has too increased from 0.39 to 0.74. 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 12.05 to 13.51. The highest mean was seen to have of BOK bank after merger and lowest was of SBL before

merger at 11.22. The highest mean of all the bank was in year T+3 at 14.25 and lowest was at 11.24 in T-1.

4.1.5 Non-performing loan

A non-performing loan is considered default or close to default. Exact element of non performing loan varies depending on the specific loan terms. Nonperforming loans tend to occur during economic hardships when delinquencies are high. They happen when the borrower fails to make a payment for a long period of time (such as 90 to 180 days). The high level of non-performing loans contributes to an increased risk profile of the bank. It is better that banks monitor the loans they provide time and again and follow up with the debtors on regular basis.

Table 7 Non-performing loan

BANKS	Before Merger (NPL)							After Merger (NPL)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	1.82	2.30	1.50	1.06	3.47	2.03	0.92	2.51	1.29	3.04	1.54	2.28	2.13	0.72
NMB	0.27	2.45	1.80	0.55	0.42	1.10	0.97	1.81	1.68	0.88	0.82	2.68	1.57	0.76
SBL	0.79	1.52	2.39	2.75	1.80	1.85	0.76	1.47	1.30	1.09	0.75	1.38	1.20	0.29
Mean	0.96	2.09	1.90	1.45	1.90	1.66		1.93	1.42	1.67	1.04	2.11	1.63	
Std.	0.79	0.50	0.45	1.15	1.53			0.53	0.22	1.19	0.44	0.67		

Source: Annual report of respected banks from 2010 to 2019 AD

From table 7 we can find the non-performing loan of the banks. The highest average non-performing loan of BOK after merger is 2.13 and before is 2.03 but the deviation has decreased to 0.72 from 0.92. For NMB, the average has too increased to 1.57 from 1.10 and the deviation has decreased to 0.76 from 0.97. For SBL on the other hand, the average loan has decreased from 1.85 to 1.20 with decreased in deviation as well from 0.76 to 0.29. The highest decrease in deviation is of SBL. Lowest average was of NMB bank at 1.10 before merger and highest was of BOK at 2.13 after merger. Only SBL's average can be seen to have decreased after merger. The highest average loan was at 2.09 on T-4 and lowest was at 0.96 on T-5 both before merger. On average, the non-performing loan has decreased to 1.63 from 1.66 which shows that banks were able to recover the loan from the borrowers after merger.

4.1.6 Loan loss provision

A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss provisions are then added to the loan loss reserves, a balance sheet item that represents the total amount of loan losses subtracted a company's loans. Loan loss provisions are a standard accounting adjustment made to a bank's loan loss reserves included in the financial statements of banks. Loan loss provisions are consistently made to incorporate changing projections for losses from the bank's lending products

Table 8 Loan loss provision

BANKS	Before Merger (LLP)							After Merger (LLP)						
	T-5	T-4	T-3	T-2	T-1	Mean	Std.	T+1	T+2	T+3	T+4	T+5	Mean	Std.
BOK	2.25	2.40	2.14	1.95	4.47	2.64	1.03	3.47	3.33	3.67	3.45	3.90	3.56	0.22
NMB	1.20	3.29	2.51	1.55	1.36	1.98	0.89	2.71	2.37	1.63	1.52	3.37	2.32	0.77
SBL	1.41	1.89	2.68	2.85	2.18	2.20	0.59	2.05	1.90	1.75	1.57	1.87	1.83	0.18
Mean	1.62	2.53	2.44	2.12	2.67	2.28		2.74	2.53	2.35	2.18	3.05	2.57	
Std.	0.56	0.71	0.28	0.67	1.61			0.71	0.73	1.14	1.10	1.05		

Source: Annual report of respected banks from 2010 to 2019 AD

From table 8 we can see that on average the loan loss provision of all three banks has increased from 2.28 to 2.57 after merger. It indicates that the bank can withstand further losses better after merger than before, including unexpected losses beyond the loan loss provision. The average loan loss provision of BOK before merger was 2.64 which has increased after merger to 3.56. The deviation on the other hand has decreased to 0.22 from 1.03. For NMB, the average has increased to 2.32 from 1.98 after merger and the deviation has decreased to 0.77 from 0.89. For SBL on the other hand, the average has decreased to 1.83 from 2.20 but the deviation has decreased to 0.18 from 0.59. The highest average was seen at T+5 at 3.05 and lowest was of 1.62 at T-1.

4.1.7 Correlation

By this statistical tool, the degree of relationship between two variables is identified. It helps to determine whether a positive or a negative relationship exists and establish causes and effects relation if any. Degree and type of relationship 32 between any two or more variables vary together over a period. Correlation value falls between -1 to +1. Value close to +1 indicates a high-degree of positive correlation, and values close to -1 indicate a high-degree of negative correlation. As the statistical tools, correlation analysis is preferred in this study to identify the relationship between dependent variable : ROA and independent variables : EPS, CAR, CRR, NPL and LLP .

Table 9 Correlation of BOK before and after merger

		Correlations before merger						Correlations after merger							
		ROA	EPS	CRR	CAR	NPL	LLP	ROA	EPS	CRR	CAR	NPL	LLP		
ROA	Pearson Correlation	1						ROA	Pearson Correlation	1					
	Sig.2-tailed							ROA	Sig.2-tailed						
EPS	Pearson Correlation	.998**	1					EPS	Pearson Correlation	.970**	1				
	Sig.2-tailed	0.000						EPS	Sig.2-tailed	0.006					
CRR	Pearson Correlation	0.097	0.134	1				CRR	Pearson Correlation	-0.363	-0.537	1			
	Sig.2-tailed	0.877	0.830					CRR	Sig.2-tailed	0.548	0.350				
CAR	Pearson Correlation	-0.410	-0.358	0.693	1			CAR	Pearson Correlation	0.566	0.464	-0.325	1		
	Sig.2-tailed	0.493	0.554	0.195				CAR	Sig.2-tailed	0.320	0.431	0.594			
NPL	Pearson Correlation	-0.171	-0.166	0.757	0.470	1		NPL	Pearson Correlation	-0.550	-0.581	-0.073	0.361	1	
	Sig.2-tailed	0.783	0.790	0.139	0.425			NPL	Sig.2-tailed	0.336	0.304	0.908	0.550		
LLP	Pearson Correlation	-0.447	-0.433	0.694	0.671	.938*	1	LLP	Pearson Correlation	-0.167	-0.374	0.501	0.517	0.585	1
	Sig.2-tailed	0.450	0.466	0.194	0.215	0.018		LLP	Sig.2-tailed	0.788	0.535	0.390	0.373	0.300	

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

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

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

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

From table number 9 we can see the correlation analysis of bank before and after the merger. The correlation analysis for dependent and independent variables of the BOK can be read from the table. From Pearson correlation value, before merger EPS and CRR have positive correlation with the dependent variable i.e. ROA at the 0.05 and

0.01 level 2-tailed. EPS has very strong positive correlation with ROA compared to very weak positive correlation between CRR and ROA. On the contrast, CAR, NPL and LLP have negative correlation with ROA at -0.410,-0.171 and -0.447 respectively. NPL has weak negative relation with ROA and LLP and CAR with moderate negative correlation with ROA. On after merger table, we can see EPS and CAR to have positive correlation with ROA. There is negative correlation between NPL, CRR, LLP and ROA with weak negative relation of CRR and ROA, moderate negative relation of NPL and ROA and weak negative relation between LLP and ROA.

Table 10 Correlation of SBL before and after merger

Correlations before merger							Correlations after merger								
		ROA	EPS	CRR	CAR	NPL	LLP			ROA	EPS	CRR	CAR	NPL	LLP
ROA	Pearson	1						ROA	Pearson	1					
	Correlation								Correlation						
	Sig.2-tailed								Sig.2-tailed						
EPS	Pearson	.912*	1					EPS	Pearson	0.839	1				
	Correlation								Correlation						
	Sig.2-tailed	0.031							Sig.2-tailed	0.075					
CRR	Pearson	0.553	0.514	1				CRR	Pearson	0.345	0.211	1			
	Correlation								Correlation						
	Sig.2-tailed	0.333	0.376						Sig.2-tailed	0.569	0.734				
CAR	Pearson	0.459	0.475	0.404	1			CAR	Pearson	-0.889*	-0.948*	-0.078	1		
	Correlation								Correlation						
	Sig.2-tailed	0.437	0.418	0.499					Sig.2-tailed	0.044	0.014	0.901			
NPL	Pearson	0.748	0.767	0.784	0.839	1		NPL	Pearson	0.032	0.454	0.382	-0.284	1	
	Correlation								Correlation						
	Sig.2-tailed	0.146	0.130	0.117	0.076				Sig.2-tailed	0.960	0.442	0.526	0.643		
LLP	Pearson	0.754	0.772	0.730	0.872	.996**	1	LLP	Pearson	0.260	0.654	0.431	-0.477	.967**	1
	Correlation								Correlation						
	Sig.2-tailed	0.141	0.126	0.162	0.054	0.000			Sig.2-tailed	0.673	0.231	0.469	0.416	0.007	

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

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

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

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

From table 10 we can see the correlation of SBL before and after merger. From Pearson correlation value, before merger all the independent variables i.e. EPS, CRR, CAR, NPL and LLP have positive correlation with the dependent variable i.e. ROA at the 0.05 and 0.01 level 2-tailed. EPS, CRR, NPL and LLP has a strong positive relation with ROA but CAR has moderate positive relationship with ROA.

However, after merger EPS, CRR, NPL and LLP has positive correlation but CAR has strong negative correlation with ROA at -0.889. EPS is only able to hold strong positive relation with ROA but CRR has moderate correlation at 0.345 and NPL and LLP has weak correlation with ROA at 0.032 and 0.260 respectively.

Table 11 Correlation of BOK before and after merger

		Correlations before merger						Correlations after merger							
		ROA	EPS	CRR	CAR	NPL	LLP			ROA	EPS	CRR	CAR	NPL	LLP
ROA	Pearson	1						ROA	Pearson	1					
	Correlation								Correlation						
	Sig.2-tailed								Sig.2-tailed						
EPS	Pearson	.998**	1					EPS	Pearson	.970**	1				
	Correlation								Correlation						
	Sig.2-tailed	0.000							Sig.2-tailed	0.006					
CRR	Pearson	0.097	0.134	1				CRR	Pearson	-0.363	-0.537	1			
	Correlation								Correlation						
	Sig.2-tailed	0.877	0.830						Sig.2-tailed	0.548	0.350				
CAR	Pearson	-0.410	-0.358	0.693	1			CAR	Pearson	0.566	0.464	-0.325	1		
	Correlation								Correlation						
	Sig.2-tailed	0.493	0.554	0.195					Sig.2-tailed	0.320	0.431	0.594			
NPL	Pearson	-0.171	-0.166	0.757	0.470	1		NPL	Pearson	-0.550	-0.581	-0.073	0.361	1	
	Correlation								Correlation						
	Sig.2-tailed	0.783	0.790	0.139	0.425				Sig.2-tailed	0.336	0.304	0.908	0.550		
LLP	Pearson	-0.447	-0.433	0.694	0.671	.938*	1	LLP	Pearson	-0.167	-0.374	0.501	0.517	0.585	1
	Correlation								Correlation						
	Sig.2-tailed	0.450	0.466	0.194	0.215	0.018			Sig.2-tailed	0.788	0.535	0.390	0.373	0.300	

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

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

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

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

From table 11 we can see the correlation of BOK before and after merger. EPS and CRR has positive correlation with ROA at 0.998 and 0.097 respectively. EPS holds stronger positive relation in comparison to CRR's weak relation. Before merger, CAR, NPL and LLP all have negative correlation with ROA at -0.410, -0.171 and -0.447. CAR and LLP has stronger negative relation but NPL has lower negative relation. After merger we can see that EPS and CAR has positive relation with ROA

with both having stronger correlation at 0.970 and 0.566 respectively. CRR, NPL and LLP has negative correlation with ROA where CRR has moderate negative correlation, NPL has strong negative correlation and LLP has week negative correlation.

Table 12 Correlation

		Correlations					
		ROA	EPS	CRR	CAR	NPL	LLP
ROA	Pearson Correlation	1					
	Sig. (2-tailed)						
EPS	Pearson Correlation	.782**	1				
	Sig. (2-tailed)	0.000					
CRR	Pearson Correlation	-0.176	-0.078	1			
	Sig. (2-tailed)	0.327	0.668				
CAR	Pearson Correlation	-0.174	-.546**	-0.300	1		
	Sig. (2-tailed)	0.334	0.001	0.089			
NPL	Pearson Correlation	-0.182	-0.001	0.272	0.052	1	
	Sig. (2-tailed)	0.312	0.996	0.126	0.775		
LLP	Pearson Correlation	-0.263	-0.237	0.198	0.255	.830**	1
	Sig. (2-tailed)	0.140	0.184	0.269	0.153	0.000	

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

The above table no 12 postulates the relationship between overall dependent and independent variables such as ROA and other independent variables EPS, CRR, CAR, NPL and LLP. Here the positive correlation between dependent variable ROA and independent variable Eps is 0.782. it shows strong positive relationship. It also shows that increasing EPS leads to increasing ROA. Further, CRR, CAR, NPL, LLP hold negative relation with ROA i.e increase in ROA cause decrease in the ratios. All the negative ratios hold weaker negative relation with ROA. CAR has the weaker negative correlation with ROA at -0.174 and the highest week correlation is of LLP at -0.263.

4.2 Discussion

This study concentrated on drawing the conclusion of all analysis of merger and acquisition and its impact on financial performance in commercial banks of Nepal with the help of secondary data analysis. The research adopted descriptive analysis and analytical model in order to know the pattern and association of merger and acquisition in the financial performance in banks of Nepal. According to the purpose of the study, this research study has adopted theoretical framework to identify factors influencing performance of sampled banks after merger in this respect variables of earning per share, capital adequacy ratio, loan loss provision, cash reserve ratio, non-performing loan and return on assets of the banks were identified as factor influencing performance of the banks.

It can see that The merger and acquisition activities are increasing in Nepalese Banking and Financial Institutions. It is basically due to the Merger by laws 2011 imposed by NRB on Nepalese BFIs. Initially the NRB had to apply force merger for the BFIs, which were not performing good in the market. Later BFIs themselves opted for merger activities. The basic reasons were liquidity crunch, capital requirement and open market.

From the data, it can observe that the return on asset has decreased for BOK and SBL after merger but has increased for NMB 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 indicated an increased financial performance by the firms for the five years after the merger than it was five years before the merger. As to see the earning per share, after the merger, EPS has again declined for SBL and BOK but it has marginally improved for NMB bank. As per the study result of Kemal(2011) the result show that the financial performance of RBS in the areas of profitability, liquidity, assets management, leverage and cash flows has been quite satisfactory before the merger deal and similar scene can be seen in the findings of EPS as well.

Non-performing loan can be seen to have increased for BOK and NMB but has significantly decreased for SBL bank 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. As per the findings, the loan loss provision has improved for BOK and NMB but declined for SBL. In general the average loan loss provision has increased after merger which is similar to findings of Murthy(2007) stating improved competitiveness and efficiency of the borrowing and lending operations of banking industry.

The result from Sinha(2010) show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value which can be observed from positive correlation. But, the correlation in table 12 show to have maximum negative correlation between the ratios and only EPS to have positive correlation with ROA. The study has similar findings to Shah(2017).

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

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

5.1 Summary

Merger means combining of two or more than two companies to raise their capital to survive in the industry. Bank mergers are claimed to be the sources of efficiency gains from the realization of economies of scale and economies of scope. The central bank planned to improve the health of the financial sector by introducing the Merger by law 2011 AD grounded on the Company Act 2006 AD article 177, BAFIA 2006 AD article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market.

The study aimed at establishing whether merger led to an improved performance of commercial banks in Nepal. The objective of the study was to determine the impact of mergers and acquisition on the financial performance of commercial banks in Nepal. To fulfil this research objective researcher used deductive and analytical research design. Bank of Kathmandu Limited, NMB bank Limited, and Siddhartha bank limited are selected as sample for this study which are merged during 2015 AD. Data are collected from the financial statement obtained from the annual report of the respected banks five-year before-merger and five-year after-merger. To analysis the data, both financial and statistical tools are used. Ratio analysis is used as financial tools and mean, standard deviation for data analysis.

First chapter of this study includes background of study, problem statement, objectives of the study, hypothesis of the study, limitation of the study, and rationale of the study that helps a research to know the foundation of merger and acquisition and its impact on the financial performance of the bank

Second chapter of this study includes theoretical and empirical review that significantly helps a researcher to develop ideas to select appropriate and adequate variables for this research study. It also facilitates a researcher to develop the conceptual framework that act as a blueprint for this research study. The research gap tells the research about the drawbacks and the gaps that the study was unable to analyze.

Third chapter of this study includes research framework and definitions, research designs, population and sample size, nature and sources of data, method of analysis and explain the methodologies used in this research study. This chapter has provided basic methodologies such as descriptive, analytical and statistical tools to analyze and interpret the collected data of ten year of fiscal year. To extract the meaning of collected data SPSS software is used to analyze and measure the variables.

In forth chapter of this research study, collected data are interpreted and presented in the tables as prescribed by APA format. Data are presented for each of the financial ratio of the three banks, Bank of Kathmandu Limited, Siddhartha Bank Limited and NMB Bank.

The final chapter includes summary, conclusion and recommendation. It has properly explained the summary of the entire research study and had tried to fetch out conclusions and try to provide proper recommendations to the users of this research study.

5.2 Conclusion

The 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. Merger has been undertaken for various motives including cost efficiency, revenue enhancement, capital position consolidation, economies of scale and scope and so on. The study shows that merger is beneficial only in the cases where large and stable parties such as commercial banks are involved and the financial performance of bidder BFIs improves after merger but the changes are not significant. As a consequence of merger between the two or more BFIs, the capital and LLP have

improved at a cost of lower NPL and 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 insignificant impact. This is true for both pre and post merger periods. The success or failure of merger largely depends on the financial strength and position of the merging entities prior to merger.

Merger was successful for those entities that had complementary financial status with its target partners and failure for those which had to carry the financial burden such as debt of its target partners. It has shown both aspects of success and failure of merger in the Nepalese Banking. Further, merger can be expected to yield positive impact when the bidder BFIs is commercial banks, which are relatively larger. These larger institutions have the capacity to provide the financial stability and backup to the merging institution and produce synergy effect after the merger. In case of the merger between the smaller BFIs, the merger is seen to be counterproductive, as the weaker and troubled parties have to face huge financial loss after the merger. The analysis reveals that merger plays an important role in solving problems such as, increasing capital base, making the BFIs financially strong, reducing the number of BFIs and so on. But it is also observed that merger may not have positive impact on operating performance for every institution. Another problem faced by the BFIs is selecting the right partner for merger and agreeing on terms and conditions to implement merger. Banks have been blacklisted by NRB for continuing the talks of merger for months but not following through with it due to lack of consensus on terms of merger. Commercial banks that have not met the Rs 8 billion paid-up capital mark are under a lot of stress to find the correct merging partners but finding them is not the ultimate problem, the problem is to make the merger a successful and profitable one.

5.3 Implications

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

- i. The profitability of the banks was found to improve after mergers. Banks need to be encouraged if by doing so their profitability improve. Improvement in profitability is likely to have a positive effect on the financial performance of the firm.
- ii. The solvency of a firm was found to improve after mergers and acquisitions. Firms need to be encouraged if by doing so their solvency improve. Improvement in liquidity is likely to have a positive effect on the financial performance of the firm.
- iii. Capital adequacy have significant impact on profitability of commercial bank in Nepal advised to bank management to give due attention capital adequacy to improve profitability.
- iv. Through mergers and acquisitions, the commercial banks be able to extend their market share and revenue base hence increase their profitability. In addition, mergers and acquisition leads to a higher capital adequacy position which improves the financial soundness of commercial banks.
- v. The current study fully employed secondary data obtained from financial reports of banks or through Nepal Rastra Bank can have potential bias. Thus, future research is recommended to substantiate and/or triangulate secondary data by primary data.
- vi. The main difficulties faced by the banks in terms of the merger are swap ratio, composition of BOD, management team structure, the socio-cultural factors like cultural complexity, informal relationship, nepotism, favoritism, corporate cultural clash, position issues, collusions in managerial level, fear of losing job, adjustment problem, socialization etc. The qualitative factors like services provided by banks are difficult to analyze and need more research and study.
- vii. There are various challenges facing the formation of mergers and acquisition. Research should be carried out to figure out these challenges and the reasons why many firms are hesitant to embrace M & A s despite the many advantages that come with it.
- viii. The study also highlights that at present BFIs have to merge to maintain the capital requirement and financial stability and therefore M&A should be done by realizing the necessity rather than being

forced into it. The merger should not be considered as the definite solutions to overcome the challenges faced in the market

- ix. The study is limited to focus on the few selected financial institutions for the period of ten years and consider the six financial ratios to measure the performance of the sample. The future researchers are further recommended to incorporate the recent merged BFIs and consider additional financial ratios along with swap ratios to analyze the effects of merger
- x. This study, however, has a weakness as the sample used in the study is relatively smaller which provides an opportunity to other researchers to take a wider sample for better results. But in the absence of other published studies for impact of merger, this research will serve as a basis for more intensive study for policy makers and scholars alike.

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APPENDIX

Financial Ratios of Siddhartha Bank Limited (From Fiscal Year 2010 to 2019)**Siddhartha Bank**

Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2010	1.28	19.82	10.89	5.61	10.78	0.79	1.41
2011	1.12	20.41	10.25	11.86	11.03	1.52	1.89
2012	1.43	29.8	14.40	9.6	11.8	2.39	2.68
2013	1.74	38.63	19.72	17.22	11.39	2.75	2.85
2014	1.51	37.77	19.83	8.63	11.1	1.8	2.18
2015	1.69	41.53	26.28	6	11.25	1.47	2.05
2016	1.53	26.6	18.61	8.68	12.74	1.3	1.9
2017	1.59	26.45	16.70	6.37	12.12	1.09	1.75
2018	1.49	23.07	15.49	4.56	12.7	0.75	1.57
2019	1.26	19.55	12.48	5.03	13.17	1.38	1.87

Financial Ratios of Bank of Kathmandu Limited (From Fiscal Year 2010 to 2019)**Bank of Kathmandu**

Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2010	2.44	44.51	39.34	8.1	11.62	1.82	2.25
2011	2.10	37.88	39.58	8.72	11.07	2.3	2.4
2012	1.90	36.64	37.85	9.41	12.58	1.5	2.14
2013	0.65	13.25	15.36	6.82	11.57	1.06	1.95
2014	0.74	15.78	17.85	9.98	13.00	3.47	4.47
2015	0.82	14.86	31.89	8.71	13.01	2.51	3.47
2016	1.57	20.69	40.40	9.36	13.41	1.29	3.33
2017	1.45	19.46	33.74	7.3	14.88	3.04	3.67
2018	1.88	23.53	40.69	6.92	14.3	1.54	3.45
2019	1.33	17.09	32.91	11.39	14.16	2.28	3.9

Financial Ratios of NMB Bank Limited (From Fiscal Year 2010 to 2019)

NMB Bank Limited

Year	ROA	EPS	NPM	CRR	CAR	NPL	LLP
2010	1.39	11.08	13.37	6.85	16.39	0.27	1.2
2011	0.28	2.61	2.79	18.91	14.84	2.45	3.29
2012	1.43	18.02	17.40	23.35	11.74	1.8	2.51
2013	1.36	20.5	16.34	13.72	10.75	0.55	1.55
2014	1.21	25.05	18.42	13.32	11.13	0.42	1.36
2015	1.49	22.1	20.90	10.81	10.98	1.81	2.71
2016	1.69	22.24	20.52	7.72	13.61	1.68	2.37
2017	1.65	21.86	18.09	6.68	15.75	0.88	1.63
2018	1.67	18.79	18.06	4.19	15.45	0.82	1.52
2019	0.95	11.18	11.94	5.93	15.08	2.68	3.37

**MERGER AND ACQUISITION AND ITS IMPACT ON FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS:**

A Comparative study on Siddhartha Bank, Bank of Kathmandu and NMB Bank

A Thesis Proposal

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CHAPTER I

INTRODUCTION

1.1 Background of the study

Mergers, acquisitions and takeovers, consolidation have been a part of the business world for so many years ago. In today's dynamic economic environment, the main objective of a company is to maximize the shareholder's wealth. Through mergers and acquisitions, a company can develop a competitive advantage and ultimately increase shareholder value.

Bank mergers is claimed to be the sources of efficiency gains from the realization of economies of scale and economies of scope, the removal of overlapping services and the increasing awareness of innovative banking tools; however, one needs to read over the assertions with caution. It is due to the fact that much of the prior research has focused on the market driven merger or the voluntary merger. At the one hand, the voluntary bank merger refers to the process by which two or more banks merged and become one new entity. The merger takes place without any objection from the shareholders and the board of both banks. Banking sector plays a leading role in financing a country economic activities. Its performance is crucial in determining a country's economy growth and stability.

It is perceived that, merger result in newer and larger organizations which are supposed to be efficient in allocating resources, human and capital and maximize the output gains. It is believed that the larger banks, with more resources can offer more products and services at lesser operating cost i.e., at economies of scale. (www.nrb.gov.np). However, the perceived gains don't occur, at least not to the extent that is perceived. Some of the genuine impacts or effect of mergers on the banking industry can be observed around the world, which has been the reduced availability of loans to the customer base after merger. It is mainly because of decline in competitiveness in banking industry and increase in the interest rates above reasonable level.

1.2 Problem Statement

It is new concept in Nepalese BFIs and there is a lot of confusion about the merger and their impacts on the long-term growth and profitability of the BFIs. Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a merger.

This study is designed to fill the knowledge gap by answering the research question, what is the impact of Mergers and Acquisitions on the overall financial performance of commercial banks in Nepal? This study tries to answering the following questions:

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

1.3 Objective

It is important that the objective of any study is clear and precise. It must highlight the purpose of the study. The main objective of the study is to analysis the effect merger on the financial performance of banks. The specific purposes of the study are:

1. To analyze the impact of merger on EPS position of banks.
2. To examine the impact of merger on CAR position of banks.
3. To examine the impact of merger on CRR position of banks.
4. To examine the impact of merger on NPL position of banks.
5. To examine the impact of merger on LLP position of banks.
6. To examine the impact of merger on ROA position of banks.
7. To examine the impact of merger on liquidity, profitability and capital adequacy before and after in Nepalese commercial banks.

1.4 Rational

In the light of the fact that mammoth resources both financially and non-financially are usually committed to effectively implement mergers and acquisitions, it is noteworthy to establish the actual impact of M&A on the financial performance in the commercial banks in Nepal. The submission of this fact is significant used to the Policy makers to devise new standards in establishing an appropriate level of merger and acquisition.

Similarly, this study provides a base for further research especially in the areas of merger and acquisitions for researchers interested in building on the already existing knowledge base about theoretical and empirical work on the impacts of mergers and acquisition on the financial performance of commercial banks. It would be benefit to executives and managers of the commercial banks as the study would cover banks that have recently merged and their relative performance.

1.5 Organization of Study

The study report will be organized in following structure.

- Chapter-1: Introduction
- Chapter-2: Review of Literature
- Chapter-3: Methodology
- Chapter-4: Results
- Chapter-5: Conclusion

CHAPTER II

LITERATURE REVIEW

2.1 Literature Review

As a foundation for our study, we sought to develop an understanding of prior art focused on the underlying sources of value in merger and acquisition, as opposed to studies focused on performance outcomes. We thus conducted a systematic literature review of research explicitly mentioning synergy or value in the context of merger and acquisition. Literature review enables the reader to find out the areas yet to be studied in the concern topic and need for additional research. In this section, the documented literature on the effect of mergers and acquisitions on financial performance of companies is discussed. The chapter details the empirical literature relevant to this study. To get the proper understanding of the subject matter, the context is described briefly.

Mergers are most commonly done to gain market share, reduce costs of operations, expand to new territories, unite common products, grow revenues, and increase profits—all of which should benefit the firms' shareholders. After a merger, shares of the new company are distributed to existing shareholders of both original businesses. Acquisition refers to the situation where "one firm buys a controlling, or 100 percent interest in other firm with the intent of using a core competence more efficiently by making the acquired firm a subsidiary business within its portfolio. Acquisitions, unlike mergers, are generally not voluntary and involve one company actively purchasing another.

2.2 Theoretical review

Theoretical review explores theories that expound on the topic under study and which, thereby help in better understanding of the study in question while at the same time putting forth a justification for the current study. The theories that are reviewed on this study are: Economic Motive Theories (EMT), Theory of Synergy, Profitability and Operating Synergy, Financial Synergy Theory, Tax Incentive Hypothesis Theory and finally Managerial and Agency Motives, Acquirer motives and others. Some of the motives explained are as follows.

2.1.1 Profitability and operating synergy

Profitability is normally determined by the long run performance. Shams and Gunasekarage (2016) investigated long-run operating performance of a sample of Australian private target and public target acquirers and found there was no significant difference in their operating performance during the post-acquisition period. Similarly, Martynova, Oosting and Renneborg (2006), did a study of 155 mergers and acquisitions deals in Europe that occurred between 1997 and 2001. They measured the earnings before interest and tax less the working capital as opposed to measuring earnings before interest and tax which is normally the method used when calculation operating performance. They used that method to put in a measure of cash flow performance as it takes into account changes in receivables, payables and inventories. They found that there was insignificant improvement in profitability post-acquisition.

2.1.2 Agency motives

According to Kemal (2011) takeovers can also arise because of the agency problem that exists between shareholders and managers, whereby managers are more concerned with satisfying their own objectives than with increasing the wealth of shareholders. From this perspective, the motives behind some acquisitions may be to increase managers' pay and power. Managers may also believe that the larger their organization, the less likely it is to be taken over by another company and hence the more secure their jobs become. Takeovers made on these grounds have no shareholder wealth justification since managers are likely to increase their own wealth at the expense of the shareholders. According to agency motive, the acquisition is undertaken by managers, not in the interest of the shareholders. Managers engage in acquisitions to diversify the business activities which would smooth out the earnings across the activities thereby depicting a better picture of the organization. Moreover, manager's salary is also tied to the size of the organization and it also feeds their ego to head a big organization.

2.3 Empirical Review

The study is carried out to demonstrate the merger and acquisition and its impact on financial performance in commercial banks. The aim of this paper is to look at various dimensions where merger and acquisition is studied.

Seth, Song, and Pettit, (2000) too hypothesized and found through empirical results that (in case of hubris) the wealth of shareholders of acquiring firms declines while the wealth of target firms rise and that there are zero total gains realized by the combined firms. Since the hubris hypothesis proposes that acquisitions entail nothing more than a transfer of value from the acquirer to the target, there should be no correlation between total gains and the wealth gained by the target, and a negative correlation between wealth gained by the acquirer as opposed to the target.

Mantra, Vadi, and Reddy (2008) have done the study to understand which type of mergers have been more successful in improving the performance of merging firms, among horizontal mergers, vertical mergers and conglomerate mergers. The research study has adopted the methodology of comparing pre- and post-merger performance of merging companies by using operating profit margin, gross profit margin, net profit margin, return on net worth, return on capital employed and debt equity ratio.

Maditinos (2013) also carried out a study on the effect of mergers and acquisitions on the performance of companies. The study focused on two banks in Greece that had merged to form one bank. The main purpose of the study was to investigate the effects of the merger that took place in 1999 on the performance of the resultant bank. The study was carried in two parts. The first part analyzed the short-term effects of the merger and the second part the long-term effects of the merger. The findings from the study indicate that the resultant bank after the merger was not only profitable in the banking industry but was also more competitive than the other banks. However, the study revealed that the stock performance of the resulted bank is not the decisive factor to appreciate the performance of the bank, since the stock value is many times the result of speculative actions, wrong expectations or simply a game of the fortune.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

In this section will outline the theoretical or quantitative analysis of the method applied to this field of study which is used to be able to further develop the research. The research methodology demonstrates the understanding of research design theory. This helps to make the study replicable- in other words, it allows other researcher to undertake the study using the same design, and compare their finding to the study. This section identifies and discusses any methodological issue or problems and explains how to mitigate the impact of these on the study.

3.2 Research design

To fulfill the objectives of the study certain research design in essential so the analysis of the study is based on the nature of data and tools for analysis. This research used descriptive and analytical research design in order to examine impact of merger on the financial performance of commercial banks.

3.3 Population and sample of data

The total number of commercial banks represent as the total population for the purpose of this study as there are 28 commercial banks in Nepal. Hence population consists of all commercial banks. Out of the total population three private sector commercial banks are used as sample. These are Siddhartha Bank, NMB Bank and Bank of Kathmandu.

3.4 Period covered

To do this research work ten years annual report have been taken of respective banks which are published by bank after audit to general public in the form of annual report. It covers the fiscal year of 2010 to 2019.

3.5 Source of data

This research study basically is based on the secondary data. The required data for the study was collected in the following ways.

- Library research study
- Internet ,homepage and related links
- Derivatives of NRB
- News published by NRB
- Annual report of Siddhartha Bank, NMB Bank, Bank of Kathmandu.
- Published articles and journals from various researchers and lecturers

3.6 Data analysis tools

Secondary information collected from annual reports of the sample banks was first tabulated in Excel spreadsheet and then analyzed using formula and charts. Correlation analysis and financial tools such as ratio analysis will also be used. Some data were parametric and some were non-parametric. Suitable tools such as descriptive statistics, Mean, Standard deviation, etc. will be used.

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