

**IMPACT OF MERGER AND ACQUISITION ON ORGINATIONAL
PERFORMANCE OF NEPALESE COMMERCIAL BANKS (WITH
REFRENCE TO GLOBAL IME BANK & MACHAPUCHHRE BANK)**

A Thesis

Submitted

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In Partial Fulfilment of the Requirement for the Degree of

Masters of Business Studies (MBS Semester)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

January, 2021

CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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RECOMMENDATION LETTER

It is certified that thesis entitled **IMPACT OF MERGER AND ACQUISITION ON ORGANIZATIONAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS (WITH REFERENCE TO GLOBAL IME BANK & MACHHPUCHHRE BANK)** submitted by **Dhurba Bhusal** is an original piece of research work carried out by the candidate under my supervision literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgement. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL-SHEET

We, the undersigned, have examined the thesis entitled **IMPACT OF MERGER AND ACQUISITION ON ORGINAZATIONAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS (WITH REFERENCE GLOBAL IME BANK AND MACHHAPUCHHRE BANK)** presented by **Dhurba Bhusal**, a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ACKNOWLEDGEMENTS

As the partial fulfillment of the MBS degree, I have prepared this thesis. During the course, I worked with sincerely honestly and diligence, as far as possible. However, beside my continual efforts, I also got unforgettable support from different people and parties. I am extremely grateful and overwhelmed by their support while completing my work.

Firstly, I would like to express to genuine gratitude to my Supervisor Prof. Dr. Dhurba Lal Panday for this immense support in the entire thesis writing process, with this knowledge and excellent guidance. Supervisors pivotal supports providing essential materials encouraged and motivated me for completing my thesis work

I am thankful to Central Department of Management for providing opportunity to carry out this research programme, also thankful to Prof. Dr. Sanjay Shrestha For guidance and support. I am also thankful to Global IME bank and Machapuchhre bank staff team for providing me essential support to complete this thesis work.

Lastly, I would like to conclude that I am very grateful to all of my well-wishers who have directly and indirectly contributed to accomplish this task.

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ABBREVIATIONS

ADB	Asian Development Bank
AGM	Annual General Meeting
ATS	Automated Trading System
B.S.	Bikram Sambat
BAFIA	Bank and Financial Institutions Act
BFI	Bank and Financial Institutions
BOD	Board of Directors
CBON	Central Bank of Nepal
CEO	Chief Executive officer
CIT	Citizen Investment Trust
Co.	Company
CRO	Company's Registrar Office
DPS	Dividend Per Share
EPF	Employment Provident Fund
EPS	Earnings per Share
FIFO	First In First Out
FNCCI	Federation of Nepalese Chamber of Commerce and Industries
FY	Fiscal Year
GDP	Gross Domestic Production
GN	Government of Nepal
IMF	International Monetary Fund
IPO	Initial Public Offering

LOI	Letter of Intent
Ltd.	Limited
M &A	Merger and Acquisition
M&A	Merger and Acquisition
MOF	Ministry of Finance
MOU	Mutual understanding
NASDAQ	National Association of Securities Dealer Automated Quotation System
NBL	Nepal Bank Limited
NCML	NIDC Capital Market Ltd.
NEPSE	Nepal Stock Exchange
NI	National Income
NIDC	Nepal Industrial Development Corporation
NPAT	Net profit After Tax
NRB	Nepal Rasta Bank
NSTC	Nepal Security Trading Center
OTC	Over- The –Counter Pref. Preference
ROE	Return on Equity
SEBO	Security Board
SEBON	Security Board of Nepal
SEC	Security Exchange Center
SED	Sustainable Economic Development
SEQ	Shareholder’s Equity
SMC	Securities Marketing Centre

SWOT	Strength, Weakness, Opportunities & Threat
TU	Tribhuvan University
Vol.	Volume
WAN	Wide Area Network

ABSTRACT

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors. A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal.

Researcher has been employed the descriptive and causal comparative research design. Descriptive research design used to identify the level of employee satisfaction position, 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 perception of the direction, magnitude and forms of observed relationship between merger and the bank performance as well as the factor affection them. Moreover, this study has also employed casual comparative research design to determine the effect of those variables in the bank performance and employee's perception towards the same.

This study examines the impact of Merger and Acquisition on profitability of banks and assess the satisfaction position of employee after merger. There is satisfactory in credit to deposit ratio after merger of both banks. There is efficiently managed their assets to generate earnings when merger and acquisition of both banks. The return of asset (ROA, ROI) both banks are enabling to increase in comparison to premerger. There is fluctuation trend of net profit margin of Global IME bank but as a average there was increasing value in post-merger period and there is rapidly increase of net profit margin of Machhapuchchhre bank after merger. As merged entity reported a better financial performance in post-merger period then pre-merger period.

In the banks there are very few employees having qualification of intermediate level, majority of the employee they are happier with their work- they happier

because they have specified work place, defined work time, no pressure of manipulation, good understanding co-worker than pre- merger period. They feel competitive employee in the market and recognized as a professional on their work place. But some of the employee has inconvenience about the specified training for example: loan department employee.

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors (Sherman— Hart, 2006). According to Ross.et.al. (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross et.al, 2003). In practice, a merger between company A+ company B= company A, where company B merged with company A. In a consolidation, company A + company B = company C, where company C is an entirely new company (Gaughan, 2002).

“An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares” (Firer.et.al. 2004). Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another. (Ross et.al, 2003; Firer-Ross-Westerfield-Jordan, 2004)

According to Shrestha (2012), the concept of M&A was an entirely new thing to the Banking and Financial Institutions (BFIs) of Nepal when the Nepal Rastra Bank,

supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011. “It is something in which Nepal Rastra Bank has been preparing for years” (Gyanwali 2011). However, many had doubts that the BFIs would go for merger immediately as there were no separate acts and decree for a merger implementation. The objective of the merger by-laws is to strengthen the BFIs position and performance by reducing the number of institutions. The merger bylaws have a provision that can pressurize all BFIs to go for an immediate merger in the form of consolidation (Nepal Share Bazar, 2013).

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980’s by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brought several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and, at the verge of a collapse. “Merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them” (The Himalayan Times, 2013). According to the monetary policy report of the Nepal Rastra Bank (2016), the total number of the BFIs stood at 179 including 28A class commercial banks, 67 B class development banks, 42C class finance companies, and 42 D class micro finance institutions.

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

There is some confusion about the terminology of merger, consolidation, acquisition, and takeover. This is why the term used tends to be similar and can be used interchangeably (Sherman-Hart, 2006). As cited in the definition of merger, the underlying principle of merger and acquisition is to maximize the shareholders profit

by maximizing the profit of business corporations. However, each term carries a slightly different meaning under business situations. A merger is a combination of relatively same size companies forming a new company. Usually, a merger takes place on friendly terms and the newly created company shares equal profit among the stakeholders. The primary purpose of a merger is to expand their business operations. However, when one company takes over another company in the form of equity or and assets, it is known as acquisitions. An acquisition is mainly taken during the economic recession and constant decline of company profits. (Ross et.al 2003; Firer et.al, 2004)

Another significant difference between a merger and an acquisition lies in dealing of acquiring between firms. In an acquisition, a deal can be done without the mutual consent of the target company. Usually, the bigger, stronger and larger companies shallow the operation of a weak company. In case of a merger, the deal between merging companies is friendly where both the parties share the same percentage of ownership and profit. (Ross et.al 2003; Firer et.al, 2004)

There are three major types of merger and acquisition which are driven by different corporate strategies. They are categorized into horizontal, vertical and conglomerate. Each of the types possesses characteristics at the outset. (Ross et.al 2003)

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies. The factors affecting mergers change with their changing legal, political, economic and social environments. Firms engage in a merger and acquisitions activity for different economic reasons. The most common motives of firms for mergers and acquisitions are synergy, revenue enhancement, cost reduction, tax gains.

Merger and acquisition have become a corporate strategy to increase the core competences of organization. It affects the overall performance, each and every aspect of organization so it is necessary to research in this field. A lot of speculations have been going on in the financial sector whether the merger policy will be fruitful to strengthen the Nepalese bank and financial institutions. Some positive signals have been visible in the financial institutions as 43 financial institutions including

commercial banks, development banks and finance companies have merged so far and a few BFIs are in pipelines and some have got the letter of intent. This depicts that merger and consolidation has gradually taken place in the banking industry. The goal of this research is to find out the effect and impact of the merger policy adopted by the Nepal Rastra Bank. The research is carried out by analyzing the financial statements of the BFIs involved in the merger activity. A comparison is made between pre-merger performance and post-merger performance of the BFIs. In addition to it, a survey research is conducted by using a list of questionnaires to explore the impact of the merger policy on the employees and customers.

1.2 Statement of the problems

Merger is assumed as a tool for strengthens banks capacity and level of performance, but all merged institution is not delivering the expected performance. Various researchers concluded that post-merger banks have found their decreased ROE, ROA, decreased profit, negative feeling towards merged organization and strong evidence of uncertainty over the very existence of economics of scale.

Recently, the financial institutions of Nepal have been characterized by a low volume of turnover, high interest rate in lending, high interest rate spread, inefficient management, and lack of project financing practice, inadequate working fund and unhealthy competition. Some financial institutions such as the Gorkha Development Bank, Nepal Share Market, Capital Merchant and Finance were caught with a weak supervision and miss corporate governance. Moreover, the state-owned financial institutions such as the Rastriya Baniyya Bank and the Agriculture Development Bank are marked with excessive operating expenses and low operating profits. Thus, merger by law has been issued by Nepal Rastra Bank. M&A effect on each.

Though the merger trend is increasing in Nepal, it has witnessed challenge making the success of merged institution in doubt unexpected leaving of top-level management. Huge cost incurred in data migration and settlement of duplicate branches. The effective of post management of post-merger scenario plays vital to maintain employee psychological status to satisfy, retain and attract their decreased

motivational level, strong risk of job security. So, this study has tried to address the following research issues:

- i. What is the impact of Merger and Acquisition on profitability of Bank and Financial Institutions?
- ii. What is the impact of Merger and Acquisition on employee satisfaction position?

1.3 Objectives of study

This research work provides a comprehensive insight to the ongoing Merger and Acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs) since 2011 when the Nepal Rastra Bank, as a supervisory and regulatory body of all the BFIs, introduced a forceful merger by-law in May 2011. The main objective of this research work is to explore the possible effects and impacts on the financial Performance of BFIs caused by M&A since 2011 in the Nepalese financial sector.

Fowling specific objective can be mention to make the study easier:

- i. To examine the impact of Merger and Acquisition on profitability of banks.
- ii. To assess the satisfaction position of employee after merger.

1.4 Rationale of the study

With the change in the organization environment the environment the adaptation to the changes becomes crucial problem. When two or more banks get merge, then the environmental structure change. With the change in such structure employee might not be satisfied which hinders the performance of the organization.

I found various gap on previous research in this topic M & A on banking industry I will not able to equip all information of deviated on merging and acquisition but my best tries to find out what exactly performance performed by post and pre-merger effect on these particular banking performances.

To all practitioners within the banking industry, the outcome of this research could facilitate better understanding factor affecting the bank performance which can be used to increase competitive advantage in value and performance among others after M& A. the major research findings of this study provide the opportunity to manage

employee effectively for higher productivity. That helps to identify the shortcoming and strength of their human resources management practice of particular banks and how employee satisfaction affects the performance of banks as well as its profitability beneficiary i.e. shareholders and other stake holder can use those provided information to evaluate for their financing purpose. (Debt provider, depositor, governing institution etc.). It is greater significance towards academic as the new framework and findings are useful for future research tool to assess level of employee satisfaction.

1.5 Limitation of the study

In Every research there need to be fix some area of study. In this study there are also some limitations while doing it & which are as follows: -

- i. This study the merged banks only two merged banks named Machhapuchhre bank and Global IME bank are taken as sample randomly.
- ii. This study could not cover all the aspect of bank and financial Institution. It only covers performance level of bank in the form of earning per share, profitability, return on equity, return on asset and perception of employee towards the merger and performance. It does not consider the problems of merger stock market reaction after announcement of merger, adequacy of legal provision, institutional arrangement.
- iii. Study has used convenient as well as casual comparative survey method to collect primary data from the merger institutions. The study doesn't have specific sampling technique for the selection of the enterprise for the survey.
- iv. This study doesn't include the responses from the top-level manager in the organization. Only middle level and some lower level employees' responses were taken for the analysis.
- v. Resources and time factors also limit of the study and only 5 years period of data after merger presented in a sample.
- vi. The sample is small and before merger bank data has been shown for calculation pre-merger ratio analysis.

1.6 Chapter plan

In this research the whole study would be developed into five major chapters and divided into sub categories as per requirement.

Chapter 1: Introduction:

This chapter has included Background of the study, Objectives of the study, Research hypothesis, Statement of the problem, and Significance of the study and Limitation of the study.

Chapter 2: Review of literatures:

This chapter has included Review of act, rules, research report, thesis and dissertation etc. which are related to this topic.

Chapter 3: Research methodology:

This chapter has included Research Methodology under which the research design, population & sample, sampling procedure, Data Collection procedure, Statistical Procedure and Data Analysis.

Chapter 4: Presentation and analysis of data:

This chapter includes the Data Presentation and analysis and then the major findings of the study has present here with the help of various statistical tools followed by methodology.

Chapter 5: Summary, conclusion & recommendation:

This chapter includes Summary & conclusions of major finding with recommendation.

Bibliography and appendix have also been incorporated at the end of the study.

CHAPTER 2

REVIEW OF LITERATURE

This chapter deals with Conceptual Review and Research Review. Conceptual review covers the basic terms used in the studies and research reviews includes the review of Masters Dissertation, International journals and Nepalese journals.

2.1. Conceptual review

Theoretical review refers to the basic concept of the related subject such as Merger, Acquisition, different between merger and acquisition, Merger by laws etc. It clarifies and make easy to understand the real meaning and things about merger and acquisition.

2.1.1 Difference between mergers and acquisitions

There is some confusion about the terminology of merger, consolidation, acquisition, and takeover. This is why the term used tends to be similar and can be used interchangeably. (Sherman-Hart, 2006)

As cited in the definition of merger, the underlying principle of merger and acquisition is to maximize the shareholders profit by maximizing the profit of business corporations. However, each term carries a slightly different meaning under business situations. A merger is a combination of relatively same size companies forming a new company. Usually, a merger takes place on friendly terms and the newly created company shares equal profit among the stakeholders. The primary purpose of a merger is to expand their business operations. However, when one company takes over another company in the form of equity or/and assets, it is known as acquisitions. An acquisition is mainly taken during the economic recession and constant decline of company profits. (Ross.et.al, 2003)

Another significant difference between a merger and an acquisition lies in dealing of acquiring between firms. In an acquisition, a deal can be done without the mutual consent of the target company. Usually, the bigger, stronger and larger companies shallow the operation of a weak company. In case of a merger, the deal between

merging companies is friendly where both the parties share the same percentage of ownership and profit (Firer.et.al, 2004)

2.1.2. Types of merger and acquisition

There are three major types of merger and acquisition which are driven by different corporate strategies. They are categorized into horizontal, vertical and conglomerate. Each of the types possesses characteristics at the outset. (Ross.et.al, 2003)

a) Horizontal mergers

Horizontal Mergers takes place when two or more competitors operating in the same line of business combine together. Gaughan, (2002) states that if a horizontal merger causes the combined firm to experience an increase in the market power that will have an anticompetitive effect the merger may be opposed on antitrust ground. In addition to market power, the horizontal merger produces ripple effects when two small scale companies' joint together to gain competitive advantage over the competitor. (Ross.et.al, 2003)

Horizontal mergers have been the most important and prevalent form of mergers in Nepal. The Nepalese financial sector has witnessed twenty sets of horizontal mergers among the Banking and Financial Institutions. The merger among banks would be a horizontal merger. (Annual Bank Supervision Report, 2012)

b) Vertical mergers

A vertical merger refers to the expansion of firms caused either by mergers between two firms involved at successive stages of the production process or by firms developing their own vertical operations. (Lipczynski-Wilson, 2004)

Firms choose a vertical merger to gain efficiency in the business supply chain and to improve profitability position by the effect of economies of scale.

c) Conglomerate mergers

A conglomerate merger occurs when the companies are not competitors and do not have buyer-seller relations. One example would be a Philip Morris, a tobacco company, which acquired General Foods in 1985 for \$5.6 billion. (Gaughan, 2002)

2.1.3. Motives for merger and acquisition

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies. The factors affecting mergers change with their changing legal, political, economic and social environment. Firms engage in a merger and acquisitions activity for different economic reasons. The most common motives of firms for mergers and acquisitions are discussed below:

a) Synergy

Synergy is commonly used in a merger and acquisitions activity. Synergy has been described as the combined firms have a value that is greater than the sum of the values of the separate firms. (DePamphilips, 2011)

Hypothetically the underlying principle of synergy is $2+2=5$, or $5+5=11$ which is technically incorrect. However, it is believed that the net positive gain will be achieved resulting from the merger of two separate entities. Synergy can be produced as operational, managerial and financial synergies. (Ross.et.al, 2003)

Operational synergy can be explained as the combination of economies of scale, which would reduce average costs as a result of more efficient use of resources, and economies of scope, which would help companies, deliver more from the same amount of inputs. (DePamphilips, 2011)

Financial synergy refers to the impacts of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from a merger or acquisition. (DePamphilips, 2011)

The merged entity will be able to reduce the cost of capital and increase its buying power. A conglomerate merger enables an individual unit under the umbrella of one centralized parent company beyond what would have been achieved by each unit competing individually. (Frankie, 2009)

b) Revenue enhancement

Ross et.al (2003) states that one important reason for a merger or acquisition is that the combined firm may generate greater revenues than two separate firms. The increase in revenue may come from marketing gains, strategic benefits, and increase

in the market power. Enhancing the revenue of companies can be done by market gains, strategic benefits, and market power.

It is perfectly obvious that mergers and acquisitions can produce greater operating revenues from improved marketing. For example, when Microsoft purchased Tiny Vermeer in 1996, Vermeer's front-page software used to create webpage was selling at a snail's pace. But, when the software was superimposed on the Microsoft front page, the sales took off reflecting Microsoft marketing muscle. (Ross.et.al, 2003)

c) Cost reductions

Many merger and acquisition are undertaken with the belief that a merged firm may operate more efficiently than two separate firms. A firm can obtain cost reductions in several ways through a merger or an acquisition (Ross.et.al, 2003)

Motis (2007) states that a firm can obtain cost advantage when its average cost per unit decreases as the total level of output increases. Economies of vertical integration can be gained by combining the companies operating in same industry. For example, airline companies have purchased hotels and car rental companies. Vertical integration of companies may have a significant impact on companies to reduce cost, to improve supply chain operation, and in increasing the profit margin. Some companies acquire another company for the sake of complementary resources which makes the products commercially viable. For example, a winter clothing store equipment store could merge with a summer clothing store to produce more even sales over both the winter and summer seasons.

d) Tax gains

There are various ways that companies may lower their taxes through merger and acquisition activity. In many cases, a state government and its corporate bodies encourage companies opting for merger by imposing a flexible tax rate system. Some firms choose to merge with another company that has net operating losses. The combined firm will have lower tax liabilities than the two firms operating separately. In another case, whenever there is an acquisition of assets rather than shares, the

assets of the acquired company firm will be revalued. If the value of the assets is increased, the tax deductions for depreciation will be beneficial (Ross.et.al, 2003)

2.1.4. Merger by laws of NRB 2011

2.1.4.1. Introduction

By 2010, the Nepalese banking and financial sectors have been passing a through a very crucial period. The International Monetary Fund (2008) states that in its research paper almost one third of the Nepalese BFIs are marked by excessive liquidity, excessive operating expenses, inadequate working capital, unhealthy competition, and miss management. The balance sheet of the BFIs on the third quarter shows that with the exception of few banks, the profits of all the banks have declined and the percentage level of bad loans was growing. The ongoing political instability and uncertainty over the future has not only decreased the income of banks, but also discourages the investor's confidence to invest in any projects. It has caused a low demand of loans for big projects. Therefore, banks are facing increasing pressure of either investing in volatile housing and real estate business where there is maximum risk, or by failing to utilize the capital to generate more cash by not managing the capital. (New Spotlight News Magazine, 2011)

The Nepal Rastra Bank, as the main principal body of all the BFIs was becoming concerned with the unfortunate state of the BFIs. The Central Bank planned to improve the health of the financial sector by introducing the Merger Bylaw 2011 grounded on the Company Act 2063 article 177, BAFIA 2063 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. Otherwise, many BFIs may have to die. (Gautam, 2012)

2.1.4.2. Guidelines and conditions for opting merger bylaws 2011

The Nepal Rastra Bank had identified three conditions based on which it can force the BFIs to for immediate merger. As per the first condition, the BFIs operated and owned by the same business family, relatives, and groups will be considered to amalgamate. The central bank will order to those BFIs to merge if they are owned by

the same family, relatives and groups. The Merger Bylaws policy by the central bank also states that it can persuade the BFIs to merge if they are operated by a single-family group. Similarly, as per the second condition, the central bank will force such BFIs to go for a merger if there is a shortfall of capital. As per NRB banking and financial institution regulations, - commercial banks are required to maintain a minimum capital adequacy ratio (CAR) and development banks. A CAR is required to determine the capacity of the bank in meeting time liabilities and other risks such as the credit risk and the operational risk. If the BFIs fail to maintain a CAR imposed by the NRB, it will force them to merge which will help to strengthen their capital and increase competitive performance. (Subedi, 2012)

Major provisions of merger bylaws 2011

The New Business Age (2013) states that the major provisions of Merger- Bylaws laid by the NRB are: -

- i. A, B, C, class financial institutions can merge with each other but the D class financial institutions can merge only with another same class financial institution.
- ii. BFIs that want to merge should delegate separate merger committees from their annual general meetings and sign a memorandum of understanding (MOU).
- iii. The due process including a MOU should be endorsed with an action plan before applying to the Nepal Rastra Bank for a Letter of Intent (LOI). The NRB should hold a meeting within 15 days of receiving the LOI application.
- iv. The NRB has a right to grant whether to approve the LOI or not after meeting discussion and detailed study of the concerned financial institution.
- v. After receiving a LOI from the central bank a due diligence audit should be completed within six months.
- vi. The detailed evaluation comprising assets, liabilities and transactions of the concerned institutions should be submitted to the NRB.

- vii. An agreement copy of the final decision regarding name, address and share ratio of concerned the BFIs should be submitted to the NRB.
- viii. An action plan of the concerned financial institution including date of operation after merger is completed should be submitted to the NRB.

2.2 Review of previous works

2.2.1 Review of articles in the journal

By 2010, the Nepalese banking and financial sectors have been passing a through a very crucial period. The International Monetary Fund (2008) states that in its research paper almost one third of the Nepalese BFIs are marked by excessive liquidity, excessive operating expenses, inadequate working capital, unhealthy competition, and miss management. The balance sheet of the BFIs on the third quarter shows that with the exception of few banks, the profits of all the banks have declined and the percentage level of bad loans was growing. The ongoing political instability and uncertainty over the future has not only decreased the income of banks, but also discourages the investor's confidence to invest in any projects. It has caused a low demand of loans for big projects. Therefore, banks are facing increasing pressure of either investing in volatile housing and real estate business where there is maximum risk, or by failing to utilize the capital to generate more cash by not managing the capital. (New Spotlight News Magazine, 2011)

Adebayo & Olalekan (2012) was conduct research on title of 'An Analysis of the Impact of Merger and Acquisitions on Commercial Banks Performance in Nigeria'. The purpose of study is to determine implications of merger and acquisition of commercial banks in Nigeria on their profitability and other associated measures of performance. The research analysis used published audited accounts of ten (10) out of twenty-four (24) banks that emerged from the consolidation exercise and data from the Central Banks of Nigeria which consists of both primary data. The result of the analysis revealed that there is significant relationship between pre and post-merger and acquisition capital base of commercial banks and level of profitability. After analyzing the pre and post-merger performance research was conclude that the merger and acquisition programmed has improved the overall performance of banks

significantly and also has contributed immensely to the growth of the real sector of sustainable development.

Kanahalli and Jayaram (2014) were conducted research on title of the effect of merger and acquisitions on financial performance: A study of select TATA group companies in India. The main objective of the study was to evaluate the post-merger financial performance of the acquirer companies in India. The financial data has been collected for six years from 2004-10. The result of the analysis reveals that there is no significant difference between the financial performance of the companies before and after the merger. Further, it has been found that the type of company does seem to make a difference to the post-merger operating performance of acquiring firms.

Joash and Njanjiru (2015) were conducted research on title of the effects of mergers and acquisitions on financial performance of banks (A Survey of Commercial Banks in Kenya). The purpose of the study was to determine the effects of the mergers and acquisitions on the shareholders' value and to examine the implication of merger and acquisitions on profitability. The study was based on census of which all the 14 banks that have merged or acquired other in the period from 2000 to date were investigated. Data was collected by use of questionnaires with both open and close ended questions. After analyzing the data this research was concluded on the merger and acquisition raised the shareholder value of the merged/acquiring banks in Kenya. The study further revealed that the main reason why most banks merged or acquired was to raise their profitability.

Gupta (2015) was conducted research on title of the merger and acquisitions in Indian banking sector: A study of select banks. The purpose of the study was to find out the effect of merger and acquisition on financial performance of the selected banks. The study was based on selected financial ratios which measure the financial performance of the banks. After analyze the pre and post-merger of financial performance, the researcher was concluded that there was positive impact of merger and acquisition on financial performance of the selected banks.

The study argues that mergers in the finance regions are mainly the result of destabilization in the competitive environment for economic services, which was brought about by the national reregulation of markets and then add in new methods of dealing with employees' satisfaction, motivation and job security. It is hard to distinguish definite impacts made on employees from merger and acquisition movement within the different financial services sector. M and as activity should be seen as a result and an answer to the strengthening of competition across the retail financial services industry. Increased competition is a product of wider regulatory changes and a reduction in the entry barriers to retail financial services. This has involved a move away from reliance upon collecting and utilizing face to face knowledge. Developments are changing and reshaping rapidly and effectively in individual and company business nationally and internationally. How to overcome financial crisis positively is major concern in this environment? This research explains that how Merger and Acquisition insights change and check behavior through the employees. Examine and find that Merger and Acquisition vary significantly during the crisis, job satisfaction, job motivation and job security of employees working in the different organizations. (Yousaf Raza.et.al, 2015)

2.2.2 Review of previous thesis

The result obtained provides the evidence that BFIs have a significant influence on the working department of employees. Employees of HRM tend to fall sharply triggered by merger activity. Similarly, it is shown that the employees working outside the capital city shows no fear of losing a current job as well no remarkable shift of employees has been observed. Also, one third employees fully disagree, meaning that they were not enjoying working on the sampled banks. It also appears that the employees were not satisfied by the wages, salary and working hours of the concern BFIs. However, employees are optimistic about the future on the new company and wish to continue their job in the concern BFIs. The results show the 80 percent of service consumers of banks are not aware of the merger transition in Nepali BFIs. Only few, corporate and rich clients were aware of the structural changes in BFIs. The increment in service charge and complex procedure of merged BFIs has an immense effect on the consumers. In the long run, it will be detached customer from

bank service and offerings. However, customers were fully satisfied with the quality of service provided by the private banks of Nepal. Through the result has obtained by comparing the pre-and post- merger financial performance it is looking at the post-merger trend, we can conclude that the sampled bank can produce more return to its shareholders in the days to come. Despite many setbacks, the Nepal Rastra Bank has successfully implemented the merger bylaws policy in Nepali BFIs and transformed the weak and unstable financial institutions into strong, stable and credible financial institutions. (S. Adhikari, 2013)

2.3 Conceptual framework

The conceptual framework contained the different indicators which measure the financial performance as well as employee satisfaction position. The researcher has calculated the different ratios which help to measure the financial performance and he also collected the data to identify the employee satisfaction after merger.

Financial performance:

Financial performance is the mirror of financial institutions which reflect the real situation of financial institution. The followings are the major ratios which measure the financial performance of financial institutions, with the help of following ratios researcher identify the financial performance of the BFIs.

- i. Credit to Deposit ratio
- ii. Return on Assets
- iii. Return on Equity
- iv. Net Profit Margin
- v. Return on Investment
- vi. Earnings Per Share
- vii. Market Value Per Share

Employee satisfaction position:

The level of employee satisfaction also parts the quality of organizations performance. Without employee we can't imagine any kind of institution. For this research

researcher collect the data from the different branch of sample banks (Global IME bank and Machhapuchchhre bank), with the help of questionnaires related to employee's satisfaction.

Organizational performance

This is the whole performance of organizations. Researcher assumes that the integration of financial performance and employee's satisfaction is organizational performance.

2.4 Research gap

Various studies have been conducted in the topic merger and acquisition in the US and other countries. It has been a very new concept in Nepal. There is no long history behind Merger and Acquisition; it is about only four years old concept for Nepal. There are only few academic researchers conducted in the topic Merger and Acquisition in Nepal. Those researches are related on needed and process of Merger and Acquisition. They try to find out why merger and Acquisition needed in Nepal and what the process of Merger and Acquisition in Nepal are. When Nepal Rastra Bank the supervisory and monitory body of Nepal Bank and Financial institutions introduced Merger by law in May 2011, it causes overall effect in financial sector but there is no research about the impact of Merger and Acquisition in Bank and Financial institutions. Thus, there is not enough information about this. So, this research has tried to examine the impact of Merger and Acquisition on the stakeholders of the Bank and Financial institution i.e. employee, consumers, shareholders and its performance i.e. profitability of the BFIs through the survey and analyzing the financial report of the bank and financial institutions.

CHAPTER 3

METHODOLOGY

This is third chapter, which is the most important part of research. To accomplish the stated objectives of study, researcher has followed the special research procedure. This chapter tried to explain those procedures one by one. Like research design adopted, population sample selected. Further it specified of source of data, data collection technique, analyzing tools and limitation of technology.

Thus, it is the process of arriving at the solution of problems through a planned and systematic method of finding out solution to a problem with certain objectives in view. Research Methodology helps to find out accuracy, validity and stability of research.

3.1 Research design

In this study, researcher has been employed the descriptive and causal comparative research design. Descriptive research design used to identify the level of employee satisfaction position, 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 perception of the direction, magnitude and forms of observed relationship between merger and the bank performance as well as the factor affection them. Moreover, this study has also employed casual comparative research design to determine the effect of those variables in the bank performance and employee's perception towards the same.

3.2 Population and sample

Bank and financial institution licensed by Nepal Rastra Bank to carry financial transactions comprise population of this study. Primary data are collected from the questionnaires to employee in the merged bank. Twenty-seven commercial banks are existing now, out of it 20 banks come through the merger process. In this research have been selected two banks for sampling purpose which is described as below. The reason behind to selecting the Machhapuchhre and Global IME bank is to know the

perception of employees toward the merger and acquisition as well as easily asses the relevant data from the respective banks.

Table 3.1
Merged Bank

S.N	Banks After Merger	Banks Before Merger
I	Machhapuchhre Bank	Machhapuchhre Bank
		Standard Finance
ii	Global IME Bank	Social Development Bank
		Global Bank
		Commerz and trust Bank
		Reliable Development Bank
		Pacific Development Bank
		Gulmi Bikas Bank
		IME Finance
		Lord Buddha Finance
		Hathway Finance

Source: Appendix I and merged bank Report

3.3 Sources of data

This research based on both primary as well as secondary data. The secondary data has been collected from the Nepal Rastra Bank supervision report and sample banks annual reports. For getting perception of employees, survey has been conducted with twenty-six items questionnaire on five options to identify the employee view. (Reference were taken from previous research questionnaire- survey through email questionnaire).

3.4. Data collection procedure

After collecting the both primary and secondary data, it has been presented in table and then made necessary figures to show the information as per requirement. While analyzing the data by questionnaire, different mathematical and financial tools.

3.5. Data processing procedure

Secondary data have been taken mainly from annual reports, auditors reports and balance sheet, profit and loss account. Previous Thesis and all the relevant Publication relating to Banks performance as well as employee satisfaction position were reviewed for achieving the desire result.

3.6 Data analysis tools techniques

For this research following types of financial tools and statical are used.

3.6.1 Ratio analysis

a) Credit to deposit ratio (C/D Ratio)

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for a lending, the main banking activity. The latest standard of credit to deposit ratio is 80%. A higher ratio indicates more reliance on deposit for lending and vice- versa.

$$\text{C/D Ratio} = \frac{\text{Total credit}}{\text{Total Deposit}}$$

b. Return on assets (ROA):

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relations to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement.

$$\text{ROA} = \frac{\text{Net profit}}{\text{Total Assets}}$$

c. Return on equity (ROE):

Return on equity (ROE) is the amount of net income returned as a percentage of shareholder equity. Return on equity measure a corporations profitability by revealing how much profit a company generates with the money shareholders have invested.

$$\text{ROE} = \frac{\text{Net profit}}{\text{Shareholders Equity}}$$

d. Net profit margin

Net profit margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales.

$$\text{Profit Margin} = \frac{\text{Net profit}}{\text{Total Income}}$$

e. Return on investment (ROI):

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investments cost.

$$\text{ROI} = \frac{\text{Net profit}}{\text{Investment}}$$

f. Earnings per share (EPS):

Earnings per share (EPS) are the portions of the company's profit that is allocated to each outstanding share of common stock, serving as an indicator of the company's profitability.

$$\text{EPS} = \frac{\text{Net Profit}}{\text{No.of common shares outstanding}}$$

g. Market value per share (MVPS)

The market value per share is simply the price of each share on the open market or how much it would cost to buy a share of stock at any given point.

3.6.2 Statistical tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. Following statistical tools have been used in this study.

a. Mean

The mean is the average of the numbers. Add up all the numbers, then divide by how many numbers there are. In other words it is the sum divided by the count. It can be express as:

$$\text{Mean} = \frac{\text{Sum of Values} \sum x}{\text{No of values (n)}}$$

b. Average mean

It is defined as mean of the all means of the several sample. By calculating the mean of means values it comes single value that can help summarize a lot of data. It can be expressed as follow

$$\text{Average mean} = \text{Sum of all means} / \text{Number of mean}$$

CHAPTER 4

RESULTS AND DISCUSSION

This chapter consists of analysis and presentation of secondary data related with different variables using different tools as described in Research Methodology. In order to achieve the objectives, described in first chapter the gathered data are presented and analyzed with the help of above described tools. Data presentation and analysis is one of the important part of the research work. This chapter deals with the main body of study, the presentation and analysis of collected data from the different sources. The sample banks which help to find out the impact of M&As on its stakeholders. It also helps to find out the process of M&As as well as opportunities and challenges of M&As. The rest part deals with the profitability of the company, impact on economy and major findings of the study.

4.1 Impact of M&A on financial performance of merged BFIs

To identify the impact of merger and acquisition on financial performance of BFIs, this research work compares and analyze the extensive pre-and post-merger financial performance of the two sampled merged banks namely Global IME Bank Ltd. and Machhapuchre Bank limited by using different financial and accounting indicators. Comparative statement analysis is an analysis method to understand the comparative position of financial performance at different period of time.

Current ratio (CR), Return on Assets (ROA), Return on Equity (ROE), Return on Investment (ROI), Net profit margin (NPM) and Earnings per Share (EPS) are the important financial indicators as it measures the financial performance. A trends analysis was conducted to understand the trend relationship with various figures appear in financial statements. The trend analysis can be taken as index number showing relative changes in the financial information.

4.1.1. Sample bank I (Global IME Bank Ltd.)

For the research, researcher has taken a Global IME bank as a sample. Global IME Bank Ltd. (GIBL) emerged after successful merger of Global Bank Ltd (an “A” class

commercial bank), IME Financial Institution (a “C” class finance company) and Lord Buddha Finance Ltd. (a “C” class finance company) in year 2012.

Table: 4.1

Financial Performance Indicator of Global IME Bank Limited

Years	Pre-Merger					Post-Merger					
	2008-09	2009-10	2010-11	2011-12	Mean	2012-13	2013-14	2014-15	2015-16	2016-17	Mean
C/D Ratio	81.34	83.48	84.82	77.15	81.70	79.13	82.72	83.47	85.64	87.44	83.68
ROA (%)	0.39	0.42	1.28	0.86	0.74	1.15	1.62	1.38	1.39	1.49	1.41
ROE (%)	4.23	4.79	13.17	10.45	8.16	13.9	15.89	13.11	15.32	17.42	15.13
NPM (%)	9.92	10.92	26.19	28.97	19	24.4	41.05	30.31	33.68	35.49	32.99
ROI (%)	3.02	3.21	7.7	6.24	5.04	8.09	11.22	8.96	9.26	10.24	9.55
EPS (Rs)	4.08	4.95	14.06	11.79	8.72	16.15	19.57	15.58	17.54	19.54	17.68
MVPS (Rs)	243	260	209	160	218	432	640	479	495	509	511.00

Source: Appendix II and Bank Annual Report

The above table no. 4.1 shows all of the different percentage of ratios which are calculate from the Rastra Bank supervision report and bank annual report. The Ratios of Global IME bank limited showed values from the financial year from 2008/09 up to 2016/17.

Credit to deposit ratio of pre-merger period can be seen at the time of pre-merger as like (81.34,83.48,84.82,77.15) and mean value 81.70. Ratios express fluctuation up to the year of 2009/10 and decreased in the financial year of 2011/12 at the time of merger process. After merger percentage values were (79.13,82.72,83.47,85.64,87.44) and mean was 83.68. At the time of bank process on merger there was 79.13, increment simultaneously at the financial period of 2016/17.

Return on assets of the bank financial year from 2008/09 up to 2011/12, pre-merger period seen as like (0.39,0.42,1.28,0.86) and mean was 0.74. there is slightly higher at the period 2008/9 and fluctuated at the time of merger process. After Merger there was mean values (1.15,1.62,1.38,1.39,1.49) and mean 1.41. At the time of bank operating its business there was 1.15 and increased simultaneously at the financial period of 2016/17. Return on equity on pre-merger illustrates (4.23,4.79,13.17,10.45) and mean was 8.16. This elaborate that some fluctuation on return and after merged there was (13.9,15.89,13.11,15.32,17.42,15.13). This shows the return on equity slighter increment which symbolized that after merger result on ROE increased.

Net profit Margin express, percentage of net profit relative to the revenue earn during the period. Pre-merger year of 2008/9 was (9.92,10.92,26.19,28.97) and mean 19. Post-merger was (24.4,41.05,30.31,33.68,35.49) and 32.99. It shows that after merger there was significant different on profit margin after merger.

Return on investment is performance measure use to evaluate the efficiency of investment. Before Merger values shows (3.02,3.21,7.7,6.24) and 5.04. Bank able to rise up its investment cost throughout the year 20010/11. After merger investment return was (11.22,8.96,9.26,10.24) and 9.55. In the beginning year of merger bank had good performance to generate good sing of profit and somehow fluctuated in the financial period of 2014/15 but able to generate satisfy result in the period of 2016/17. Earnings per share describes a bank profit per outstanding share. Banks generate EPS in the period of pre-merger 4.08,4.95,14.06,11.79 and 16.15. It tells that fluctuated rate of return on per share. Post-merger position was 16.15,19.57,15.58,17.52,19.54 and 17.86. After merger it can be seen that bank perform good business activities and growth in the way of increasing some deviation remain on it.

Market value per share it reveals that the value that market currently assign to each share of banks stocks. Before merger situation was 243 at the financial year of 2008/09 and 243,260,209,160 and 218, fluctuated scenario has been appeared. In the period of post-merger 432 financial year of 2012/13 and 640,479,495,509,511 so on up to 2016/17. Market value was higher at the time of 2013/14 but fluctuation scenario remaining up to 2016/17 year.

4.1.1.1 Credit to deposit ratio (C/D Ratio)

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for a lending, the main banking activity. It tells how cash liquidity banks are able to mobilize.

The table no 4.1 shows the credit to deposit ratios of sample bank named Global IME bank before merger and after merger. After merger of banks the average mean of C/D Ratio has been shown (83.68) and before merger was (81.70) . If the ratio is low, banks may not be able earning as much as they could be. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements. So, there is no specified requirement but generally (70- 80) loan disbursement can be taken as a good symbol. So, after merger Bank has enable to equip strength to slighter increment in Credit lending position.

4.1.1.2. Return on assets (ROA):

This ratio measures the bank's ability to earn a rate of return on the total assets invested. The ratio is calculated by dividing the net profit after tax by total assets. A higher ratio usually indicates efficiency of a bank.

The table no 4.1 shows, after merger of banks the average mean of ROA has been shown (1.41) and before merger was (0.74). If the ratio is low, banks may not be able to utilize as much as their assets. In the above table before merger period there was low level of performing result in the matter of utilizing of assets it means bank unable to mobilize their equity and liability properly which is shown lower (0.74). Again, after merger process bank make strength by accumulating network among other new

comer then enable to enhance its liability and fund utilization comes (1.41) in the period of 2011/18.

4.1.1.3. Return on equity (ROE)

Return on equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures BFIs profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on equity is another finance tool measuring the financial performance and impact on shareholders or find out condition of shareholders. The above table no. 4.1 shows percentage of ROE of Global IME bank. First four years indicate pre-merger ROE (8.16) and next five years indicate post-merger ROE (15.13) . The average ROE of post-merger is higher than pre-merger. Higher ROE is better for the bank and financial institutions.

4.1.1.4. Net profit margin (NPM)

The net profit margin is intended to be a measure of the overall success of BFIs. A high net profit margin indicates that the BFIs having a good cost control.

The above table no. 4.1 shows NPM of Global IME bank, before and after merger. Before merger mean was (19) and after merger (32.99). Post-merger indicates that higher than before, so we could conclude that huge volume can be reduce the cost on petty expenses. The average net profit margin of after merger is higher than before merger. Higher net profit margin indicates better profitability of bank and financial institutions.

4.1.1.5. Return on investment (ROI)

Return on investment is performance measure use to evaluate the efficiency of investment. It is calculated from the income statement and balance sheet of Nepal Rastra bank supervision report.

The above table no. 4.1 shows the ROI of Global IME bank mean of before merger (5.04) and after merger (9.55). It shows nine years return on investment of Global IME bank, where first four years indicates the before and next five years indicates the

after-merger ROI. According to figure the average ROI of after merger is higher than before merger. A higher ROI means that investments gains compare favorably to investment costs. Bank able to perform efficiency on different investments. Mostly it is known as 10% increment on investment is good sign so post-merger situation has seen good scenario than pre-merger.

4.1.1.6. Earnings per share (EPS)

Earning per shares is another indicator of finance performance of company. It is calculated from the income statement and balance sheet of Nepal Rastra bank supervision report.

The above table no. 4.1 shows earning per share of sample bank named Global IME bank. It shows that the average EPS of post-merger (17.68) is higher than pre- merger (8.72). It means that there is higher profit after merger. There is positive impact of merger. Specially 25% on growth in EPS it indicates that company able to make strong product and services in their business, so post-merger can be fruitful for their investment stakeholder.

4.1.1.7. Market value per share (MVPS)

Market value per share is the indicator which measures the shareholder value. The following figure shows the market value per share of Global IME banks pre and post-merger.

The above table no. 4.1 shows the MVPS of Global IME bank. The first four years indicate before MVPS (218) and next five years indicate after merger MVPS (511) The average MVPS post-merger is higher than pre-merger. Higher MVPS means that there is increase of shareholders value and it is symbol of bright future of the company. Investors are satisfied on higher MVPS.

4.1.2 Sample bank II (Machhapuchhare Bank Ltd.)

For the research, researcher has taken another sample bank (Machhapuchhre bank ltd.). Machhapuchhre bank ltd. (A class commercial bank) and Standard finance (C class finance) are merged on 2012.

Table: 4.2**Financial Performance Indicator of Machhapuchchhre Bank Limited**

Years	Pre-Merger					Post-Merger					
	2008-09	2009-10	2010-11	2011-12	Mean	2012-13	2013-14	2014-15	2015-16	2016-17	Mean
C/D Ratio	79.68	80.78	89.77	74.62	81.21	79.79	79.56	78.77	78.12	77.86	78.82
ROA (%)	0.33	0.35	0.04	0.15	0.22	0.49	1.11	1.26	1.32	1.40	1.12
ROE (%)	4.09	4.13	0.46	1.44	2.53	5.31	14.05	15.44	16.28	16.92	13.6
NPM (%)	10.37	10.51	1.53	6.47	7.22	12.49	32.26	36.12	37.96	38.52	31.334
ROI (%)	3.44	3.49	0.58	2.24	2.44	6.15	13.13	13.76	14.34	16.84	12.844
EPS (Rs)	4.21	4.5	0.5	1.54	2.69	5.99	16.37	17.69	18.12	19.64	15.562
MVPS (Rs)	266	282	133	107	197	203	576	564	586	604	506.6

Source: Appendix III and Bank Annual Report

The above table no. 4.2 shows the sample bank III (Machhapuchhre bank ltd.) all the indicators which measure the financial performance of the sample bank pre-merged and post merged. The above table shows in separately by the following figures.

It shows all of the different ratios which are calculate from the Rastra Bank supervision report and bank annual report. The Different financial ratios of Machhapuchhre bank limited showed from the financial year of 2008/09 up to 2011/12.

Credit to deposit ratio of pre-merger period seen as like (79.68,80.78,89.7774.62) and over all mean was 81.21. there is slightly higher at the period 2008/9 and fluctuated at

the time of merger process. After Merger there was mean values (79.68,79.56,78.77,78.12,77.86) and mean was 78.82. At the time of bank merger there was 79.68 decreased simultaneously at the financial period of 2016/17.

Return on assets five -year period in the financial year from 2008/09 up to 2011/12 the mean values of ROA of pre-merger period seen as like (0.33,0.35,0.4,0.15) and 0.22. There is slightly higher at the period 2010/11 and fluctuated at the time of merger process. After Merger the values (0.49,1.11,1.26,1.32,1.40) and mean was 1.12.

Return on equity on pre-merger shown as (4.09,4.13,0.46,1.44) and average mean was 2.53. This elaborate that some fluctuation on return and after me merged was (5.13,14.05,15.44,16.28,16.92). This shows the return on equity slighter increment which symbolized that after merger result ROE increased.

Net profit Margin percentage of net profit relative to the revenue earn during the period. Pre-merger year values was (10.37,10.51,8.53,6.47) and mean 7.22. Post-merger was (24.4,41.05,30.31,33.68,35.49) and 32.99. it expresses that after merger there was significant different on profit margin after merger.

Return on investment is performance measure use to evaluate the efficiency of investment. Before Merger values shows (3.44,3.49,0.58,2.24) and 2.44. Bank able to rise up its investment cost throughout the year 20010/11. After merger investment return was (6.15,13.13,13.76,14.34,16.84) and 12.84. In the beginning yar of merger bank had good performance to generate good sing of profit and somehow fluctuated in the financial period of 2014/15 but able to generate satisfy result in the period of 2016/17.

Earnings per share describes a bank profit per outstanding share. Banks generate EPS in the period of pre-merger (4.21,4.5,3.5,1.54) and 16.15. It tells that fluctuated rate of return on per share. Post-merger position was (5.99,16.37,17.69,18.12,19.64) and 15.56. After merger it can be seen that bank perform good business activities and growth in the way of increasing some deviation remain on it.

Market value per share it reveals that the value that market currently assign to each share of banks stocks. Before merger situation was 266 at the financial year of 2008/09 or (282,133,107) and 218. Fluctuated scenario has been appeared. In the period of post-merger 203 financial year of 2012/13 and (576,564,586,604) and 506.6 so on up to 2016/17. Market value was higher at the time of 2013/14 but fluctuation scenario remaining up to 2016/17 year.

4.1.2.1 Credit to Deposit ratio (C/D Ratio)

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for a lending, the main banking activity. The following figure shows the C/D ratio of pre-merger and post-merger of Machhapuchchhre Bank.

The table no. 4.2. shows, average C/D ratio after merger is decrease (78.82) percent, but it is in satisfactory level because banks need to liquidity also. If the ratio is too low, banks may not be earning as much as they could be. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements.

4.1.2.2 Return on Assets (ROA)

The following figure shows the return on assets, which has calculation from the income statement and balance sheet of Nepal Rastra bank supervision report.

The table no 4.2 shows, after merger of banks the average mean of ROA has been shown (1.12) and before merger was (0.22). If the ratio is low, banks may not be able to utilize as much as their assets. In the above table before merger period there was low level of performing result in the matter of utilizing of assets it means bank unable to mobilize their equity and liability properly which is shown lower (0.39). Again, after merger process bank make strength by accumulating network among other new comer then enable to enhance its liability and fund utilization comes (1.12) in the period of 20117/18. Whereas first four year indicates the pre-merger and five years indicates the post-merger ROA. The average ROA of pre-merger is less than post-merger. It gives the positive impact of merger and acquisition.

4.1.2.3 Return on Equity Ratio (ROE)

This ratio is calculated from the income statement and balance sheet of Nepal Rastra bank supervision report. Following figure helps to know the pre and post-merger performance. Return on equity is another finance tool measuring the financial performance and impact on shareholders or find out condition of shareholders.

The above table no. 4.1 shows percentage of ROE of Global IME bank. First four years indicate pre-merger ROE (1.44) and next five years indicate post-merger ROE (13.6). The average ROE of post-merger is higher than pre-merger. Higher ROE is better for the bank and financial institutions.

4.1.2.4. Net Profit Margin

Net profit margin ratio is the percentage of net profit relative to the revenue earned during the period. The net profit margin is intended to be a measure of the overall success of BFIs. A high net profit margin indicates that the BFIs having a good cost control.

The above table no. 4.2 shows NPM of Global IME bank, before and after merger. Before merger mean was (7.22) and after merger (31.33). Post-merger indicates that higher than before, we could conclude that huge volume can reduce the cost on petty expenses. The average net profit margin of after merger is higher than before merger. Higher net profit margin indicates better profitability of bank and financial institutions.

4.1.2.5 Return on Investment (ROI)

Return on investment is performance measure used to evaluate the efficiency of investment. It is calculated from the income statement and balance sheet of Nepal Rastra bank supervision report.

The above table no. 4.2 shows the ROI of Global IME bank mean of before merger (2.69) and after merger (12.84). Table shows nine years return on investment of Global IME bank, where first four years indicate the before and next five years indicate the after-merger ROI. According to figure the average ROI of after merger is higher than before merger. A higher ROI means that investments gains compare

favorably to investment costs. Bank able to perform efficiency on different investments. Mostly it is known as 10% increment on investment is good sign so post-merger situation has seen good scenario than pre-merger.

4.1.2.6 Earning Per Share (EPS)

Earning per shares is another indicator of finance performance of company. It is calculated from the income statement and balance sheet of Nepal Rastra bank supervision report.

The above table no. 4.1 shows earning per share of sample bank named Global IME bank. It shows that the average EPS of post-merger (15.56) is higher than pre-merger (2.69). It means that there is higher profit after merger. There is positive impact of merger. Specially 25% on growth in EPS it indicates that company able to make strong product and services in their business, so post-merger can be fruitful for their investment stakeholder.

4.1.2.7 Market Value per Share (MVPS)

Market value per share is the indicator which measures the shareholder value. The following figure shows the market value per share of Machhapuchhre banks pre and post-merger.

The above table no. 4.1 shows the MVPS of Global IME bank. The first four years indicate before MVPS (197) and next five years indicate after merger MVPS (506.6) The average MVPS post-merger is higher than pre-merger. Higher MVPS means that there is increase of shareholders value and it is symbol of bright future of the bank. Investors are satisfied on higher MVPS.

4.2 Impact of Merged Banks Employees Satisfaction Position

Human resource is the most importance resource of a company because it controls all the other resource. It is dynamic in nature so that it is highly affected from each and every action of company, thus M&As also affects the Employee (HR) of the company. One of the most importance objective of this research is that what types of impact is shown on employee and how. To fulfill this object a survey was done on employee of sample banks. The survey question was distributed to 35 employees

among the Global IME Bank Ltd, and Machhapuchhchre Bank several branch in Kathmandu valley and every employee responded the question.

Table 4.3

Employee Satisfaction Position

Items					
Work Related:	N	Minimum	Maximum	Mean	Average of Mean
I feel encouraged to come up with new and better ways of doing things this after merging.	32	1	5	3.5000	3.345
Working environment has improved after merger in this bank.	32	1	5	3.4100	
I enjoy the majority of tasks that are associated with my current job.	32	1	5	3.4100	
My manager clearly defines my job content after merger.	32	1	5	3.3800	
This bank is aware about employees training and development after merger.	32	1	5	3.3100	
I get necessary information to accomplish my work.	32	1	5	3.2800	
I feel too much work-related stress in my job.	32	1	5	3.2500	
My senior clearly defines my job responsibilities.	32	1	5	3.1900	
After merger this organization is better place to work than other organizations.	32	1	5	3.1600	
Jobs are here well organized and coordinated respectively.	32	1	5	3.5600	

ENVIRONMENT RELATED:					
I have good understanding about the working structure and well familiar with well-equipped tools.	32	1	5	3.5600	3.36
Bank has adopted new and advance technology that gives easy to work after merger in this bank.	32	1	5	3.1600	

PEER RELATED:					
There is friendly feeling behavior among the staffs.	32	1	5	3.4100	3.41
I get support from teammates of different departments.	32	1	5	3.4100	
There is good communication among the employee.	32	1	5	3.3800	
I feel comfortable to work with the group of people to whom I engaged with.	32	1	5	3.4200	
SUPERVISOR RELATED:					
My manager or supervisor provides me continuous feedback in my work.	32	1	5	3.2800	3.28
My senior work clearly mentions my job responsibility.	32	1	5	3.2500	
My supervisor/manager encourages high achievement by reducing the fear of failure.	32	1	5	3.1900	
My manager communicates me the areas of improvement in my job.	32	1	5	3.1600	

My manager motivates me to encourage my full potential.	32	1	5	3.4100	
I got regular and timely feedback on my performance from my supervisor.	32	1	5	3.3800	
INCENTIVE AND SALARY RELATED:					
I am satisfied with salary and benefits in this bank after merging.	32	1	5	3.2600	3.21
I am satisfied with additional benefits offered me by the bank.	32	1	5	3.2300	
There is quick promotion opportunity.	32	1	5	3.1700	
Job security is increased after merger.	32	1	5	3.1800	

(Appendix iv, Questionnaires from Global IME Bank Ltd)

The above table no. 4.2 shows the impact of M&A on employee satisfaction. The mean value shows (3.45) in the work related there is positive response on every item which impact in the employee satisfaction. Employee are somewhat agreed with the merger and acquisition that impact in employee satisfaction. The above environment related satisfaction (3.36) have been ranked positive sign, which indicates that the above the satisfaction level. According to survey must of the employees have satisfied their salary after the merger. The average response shows that overall sector is above neutral value (3). It shows that the M&A impacting positively on employee satisfaction. The hierarchy shows that the most improvement is on employee salaries and benefit as it has higher average level than other factors. The second and third factor shows that the peer and supervisor (3.41), (3.28) respectively is improving after M&A. The next three factors job security, job promotion and quality of work life shows (3.21) that the employees are feeling that organizational citizen with this organization. Organizational culture, structure and working environment has been slightly increasing after the merging which has been reflect by the above table. These can be evaluating by the remaining factors like feedback of the manager, working

environment, advance technology, performance appraisal and behavior shows by the organization to the employees.

4.2.1. Work-related satisfaction position

There are Five level satisfaction factor are recantation, sense of achievement for work accomplishments, opportunities for growth, responsibility and growth.

To measure work related satisfaction position, it can be calculated through average mean which comes 3.345. By comparing this value (standard Value = 3)

$3.345 > 3$, After Merger Employee happier with the coop of their work related. It also tells that employee have good understanding of security of job, specification on job defined work schedule. This impact can be seen productivity of the Both Banks.

4.2.2. Environment related satisfaction position

Working environment represent the structure of equip equipment, technology, internal layout system and moreover banking working environment all. From the above table no 4.2, average of average is 3.36. Which shows $3.36 > 3$, it indicates employee after merger has positive sign of well knowledge of environment, it also tells they are able to manage their working environment as family environment.

4.2.3. Peer related satisfaction position

Satisfaction position of peer related, if there is friendly environment among staff and behavior good company with top to bottom staff. It indicates that personal make their productivity higher than his/her average.

From the above table 4.2 shows average mean 3.41.

$3.41 > 3$ Highly satisfied with their staff circle.

4.2.4. Supervisor related satisfaction position

If Supervisor/manager encourages high achievement or productivity could be realize in the individual life as well as improvement in performance. Supervision with help can be more Fruitful. In the table no 4.2, illustrates that value of average mean 3.28.

$3.28 > 3$, So after merging employee get good coordination with their supervisor. May be supervisor treat more friendly so it is good sign for Global IME bank.

4.2.5. Incentive and salary related satisfaction position

Salary and other non- financial benefit can be taken employee forever in the banks and financial institutions. Positive and promoted staff can be assets for the organization. From the above table 4.2, demonstrates that Incentive and Salary of The Global IME bank average mean was 3.18.

$3.18 > 3$, which shows employee satisfied with their salary and other benefit after merger.

4.3 Major findings of the study

The above study shows, there is a great fluctuation in the financial market in Nepal. After the restoration of democracy in 2047 B.S. the number of bank and financial institutions were increases in Nepal. It creates cutthroat and unfair competition in financial market of Nepal which leads to the weak position of BIFs. After the implementation of merger by laws in 2011, there is now substantial development of financial markets and increasing strength of BIFs. The following major themes were finding from above study.

- i. There is satisfactory in credit to deposit ratio after merger of both banks. Before merger (81.70) and after merger (83.68)
- ii. There is efficiently managed their assets to generate earnings when merger and acquisition of both banks. Before merger (0.74) and after merger (1.41)
- iii. The return of asset (ROA) both banks are enabling to increase in comparison to premerger. Before merger (5.04) and After merger (9.55)
- iv. There is fluctuation trend of net profit margin of Global IME bank but as a average there was increasing value in post-merger period (32.99) in comparison with pre-merger (19) and there is rapidly increase of net profit margin of Machhapuchchhre bank after merger (31.34) which is nearly 4 times of pre-merger (7.22).
- v. When the compare of pre-merger and post-merger of Return on investment (ROI) of banks there is investment gains compare favorably to investment

costs of both sample banks. Pre-merger (5.04) ,(2.44) and post-merger (9.55), , (12.84) Global IME bank and Machhapuchhre bank respectively.

- vi. The earnings per share (EPS) increased rapidly after the merger transaction. Pre-merger (8.27), (17.68) and (2.69), (15.56) Global IME as well as Machhapuchhre bank respectively.
- vii. There is highly increase of market value per share after merger of both sample banks by (197, 218) after merger (511,506.6) respectively Global IME and Machhapuchhre Bank.

The findings collected from questionnaire survey are discussed below.

- i. In the banks there are very few employees having qualification of intermediate level, majority of the employee they are happier with their work- they happier because they have specified work place, defined work time, no pressure of manipulation, good understanding co-worker than pre- merger period.
- ii. They feel competitive employee in the market and recognized as a professional on their work place. But some of the employee has inconvenience about the specified training for example: loan department employee.
- iii. The study also shows that the major reason for merger is to increase the size of the bank followed by increase profitability. Result found that employee satisfaction is not major reason for the merger

4.4 Discussion

The study was conducted with of assess Impact of merger on commercial banks of Nepal on the basis of profitability and employee satisfaction position. The study was based on five years data of selected Two commercial Banks of Nepal. The selected two commercial Banks were Global IME, and MBL. Study covers up to the Fiscal years 2018-19. There were multiple academic researches has been carried out by the different researcher but the previous studies were mainly emphasis whether it is needed or not , performance of the commercial banks satisfied level or not, but there was a space or gap to study and examine on others parameters, the study is focused on Profitability measurement by using ratios of individual sample banks , Satisfaction position of employee as well.

The research was based on Descriptive and casual comparative analysis where Convenience sample size and secondary source of data via internet has considered as the source of data. Various Financial and Statistical are used as an analytical tool.

(Gaughan, 2002). “An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares”.

These studies can be concluded as; The Overall performance of sample banks is well satisfactory in terms of the components. ROA, ROE, EPS, NPM was better than previous i.e. C/D ratio of Global IME Bank Post-merger was better than Pre-merger. But we can draw the conclusion based on major findings the Global IME performance was better after merger. Machhapuchhre bank parameter and its impact on earning shows the greater than after merger. In this study there was positive sign of growth of both banks.

In this regards we can conclude that the ratios analysis approach is considered as an important tool for identifying the financial strength and weakness of a bank. This study helps to point out possible weaknesses suggest necessary corrective measures to overcome weakness and thus improve the overall performance of the bank. It is focused that on an average C/D, NPM, EPS, MVPS, ROI, ROE of banks is much higher than before merger period.

This study helps to different stakeholders like decision making personnel of Banks and Financial Institutions, Academic and non-Academic Researchers, Investors, Students and to all concerns those who are interested on financial sectors.

The previous research major findings are similar with this study so it can be concluded that this study supports previous research Sherman, Fire-Ross, Gupta, Shrestha, D. (2017) study on impact of merger on banking performance also support the statement that Gautam 2013 the bank has experienced various challenges and complexities. After merger this deviation can be settle. Ross.et.al 2012 the primary

purpose of a merger is to expand their business operations. However, merger and acquisition taken during the economic recession and constant of company profits, which elaborate that and can be concluded that all sign follow the Ross.et. sample and Analytical tools which makes this study distinct with the previous research.

CHAPTER 5

CONCLUSION

This chapter the brief summary of the entire study and highlights major findings of the study. In addition, the major conclusions are discussed in separate section of this chapter which is followed by some implications and the recommendations regarding the merger and performance in Nepalese banking sector. Finally, the chapter ends with the scope of the future research in same field.

5.1 Summary

With the view of measuring the various statement of the banks and opinion of respondents regarding merger and bank performance the primary sources as well as secondary of data have been used. The questionnaire survey has been conducted to record the opinions, perceptions, and characteristics of employees in the bank with respect to merger and bank perception. The set of 32 questionnaires were distributed to employees in the reference banks.

The study shows that majority of worker are female. It revealed about 43.37 employees are male and 52.63% employees are female. Results indicate that female are more attracted to banking job than male. Majority portion of the employees believe that recent problem in financial sector can be solved through mergers and acquisitions as well as staff who are working in the period from merger, they have found easier and strengthen in their working environment well.

When banks go inter merger, employees of Nepalese bank expect that their salary and remuneration would increase, nature of work would improve and more training and development opportunities would arise. Employees give more priority on salary, nature of work and training and development than on promotion opportunities, working condition. This study also shows the improvement of financial performance and level of employee satisfaction after merger and acquisitions of sample banks. It indicates that there is positive relationship of M&A on organizational performance of Nepalese commercial banks.

Undoubtedly merger by laws play exclusive role to strengthen the bank and financial institution of Nepal as well as financial sector. The year history of M & As shows that merger by laws is the most importance tools to increasing strengthens of Nepalese financial sector.

After the merger activities there is satisfactory level of credit to deposit ratio (C/D ratio) banks are able to disbursement adequate level of saving deposit and significantly improvement on net profit margin (NPM), earnings per share (EPS), return on investment (ROI) and return on equity as well as there is highly increase of market value per share (MVPS). There are many opportunities and few threats of merger and acquisition in Nepal.

5.2 Conclusion

Merger and acquisition are the growing concept for Nepal to make complete financial solution by one bank. Nepal Rastra Bank the monitoring and supervising body of Nepalese BFIs introduces it on May 2011 for maintaining sustainable development of Nepalese BFIs.

After the research we can conclude that the quality of service has been upgraded after merger and acquisition. The situation of weak and unstable financial institutions was transformed into strong, stable and creditable financial intuitions. Merger by laws increases the internal strengthens of BFIs. Merger by laws helps to maintain sustainable development of financial institutions and helps to sustainable economic growth. The merger can improve to increased capital/size, customer flow and ultimately increasing the profitability of the banks. The secondary data collected from banks showed that Net Profit After tax of banks can be increased after merger then sample banks showed signs of great improvement ROE, ROI, MVPS and EPS are also increased after the merger of one or more financial institutions.

Merger can succeed by attraction more customers for quality and better service. When banks merge, employees expect that their salary and non- financial benefits would increase more growth opportunities as well as training and development opportunities would rise. Employee believe that merger can help improvement in working

condition, salary and remunerations, training and development and relation with co-workers and supervisors, so that employee's performance would be better. Employees also believe that merger can solve current financial problem of liquidity, less confidence as well.

The commitment of the stakeholders is the opportunity for the implementation of merger by laws. The forceful law of Nepal Rastra Bank for the increase of capital of BFIs is also the opportunity and M & As is one of the best options for maintain the provision of capital. The weak situation of coordination and corporate governance is the threat of merger by laws. It shows that merger is a better tool for sustaining the financial sector of Nepal. In the long run, it will be detached consumer from bank serviced and offering. Among the sample banks Global IME Bank and Machhepuchchhre banks are shown as the best practice of the Merger and acquisition. All banks increase their overall performance after merger and acquisitions.

5.3 Implication

The author would like to recommend some suggestions for further research as there are many areas still need to be discovered in relation to the merger transition in Nepal and its impact on employees, customer, shareholder's and financial market.

In order to get more precise data, the author recommends future researchers to adopt better research techniques and method and cover more merged banks into consideration since this research has been conducted only in few merged BFIs.

Merger & Acquisition is only one solution to solve problem of BFIs. It is recommended that government & regularity body should encourage the BFIS for merging.

M&A does not play any type of negative role in BFIS. It ensures sanity& stability in this steam as well as the economy. It also increases the management efficiency. So, M&A is very useful for Nepal.

For the time being, the research can be helpful for the Nepal Rastra Bank and BFIs of Nepal to develop new policy and strategy in the future.

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APPENDIX 1

Table 3.1 Merged Bank Sample

S. N	Banks After Merger	Banks Before Merger
I	Machhapuchhre Bank	Machhapuchhre Bank
		Standard Finance
ii	Global IME Bank	Social Development Bank
		Global Bank
		Commerz and trust Bank
		Reliable Development Bank
		Pacific Development Bank
		Gulmi Bikas Bank
		IME Finance
		Lord Buddha Finance
		Hathway Finance

APPENDIX 2

Table: 4.1

Financial Performance of Global IME Bank Limited

Years	Pre-Merger					Post-Merger					
	2008-09	2009-10	2010-11	2011-12	Mean	2012-13	2013-14	2014-15	2015-16	2016-17	Mean
C/D Ratio	81.34	83.48	84.82	77.15	81.70	79.13	82.72	83.47	85.64	87.44	83.68
ROA (%)	0.39	0.42	1.28	0.86	0.74	1.15	1.62	1.38	1.39	1.49	1.41
ROE (%)	4.23	4.79	13.17	10.45	8.16	13.9	15.89	13.11	15.32	17.42	15.13
NPM (%)	9.92	10.92	26.19	28.97	19	24.4	41.05	30.31	33.68	35.49	32.99
ROI (%)	3.02	3.21	7.7	6.24	5.04	8.09	11.22	8.96	9.26	10.24	9.55
EPS (Rs)	4.08	4.95	14.06	11.79	8.72	16.15	19.57	15.58	17.54	19.54	17.68
MVPS (Rs)	243	260	209	160	218	432	640	479	495	509	511.00

Global IME BANK Annual Report

Chart of Calculation (Figure in million)

Financial year	Credit	Deposit	Profit	No Of shares	Market Capital
2008/9	3.02	3.71	0.23	0.3	18.12
2009/10	5.03	6.02	0.34	0.4	22.45
2010/11	8.23	9.70	0.37	0.6	27.69
2011/12	9.26	12	0.42	0.7	30.33
2012/13	16.15	19.77	0.57	0.9	36.22
2013/14	17.87	22.58	0.82	0.12	38.66
2014/15	21.14	25.55	0.99	0.15	43.23
2015/16	22.37	27.33	1.36	0.17	49.34
2016/17	31.32	37.42	1.47	0.18	54.35

APPENDIX 3

Table: 4.2

Financial Performance Indicator of Machhapuchchhre Bank Limited

Years	Pre-Merger					Post-Merger					
	2008-09	2009-10	2010-11	2011-12	Mean	2012-13	2013-14	2014-15	2015-16	2016-17	Mean
C/D Ratio	79.68	80.78	89.77	74.62	81.21	79.79	79.56	78.77	78.12	77.86	78.82
ROA (%)	0.33	0.35	0.04	0.15	0.22	0.49	1.11	1.26	1.32	1.40	1.12
ROE (%)	4.09	4.13	0.46	1.44	2.53	5.31	14.05	15.44	16.28	16.92	13.6
NPM (%)	10.37	10.51	1.53	6.47	7.22	12.49	32.26	36.12	37.96	38.52	31.334
ROI (%)	3.44	3.49	0.58	2.24	2.44	6.15	13.13	13.76	14.34	16.84	12.844
EPS (Rs)	4.21	4.5	0.5	1.54	2.69	5.99	16.37	17.69	18.12	19.64	15.562
MVPS (Rs)	266	282	133	107	197	203	576	564	586	604	506.6

Machapuchhre Bank

Chart of Calculation (Figure in million)

Financial year	Credit	Deposit	Profit	No Of shares	Market Capital
2008/9	2.02	3.71	0.09	0.3	8.12
2009/10	3.03	6.02	0.13	0.4	12.45
2010/11	5.23	9.70	0.17	0.6	17.69
2011/12	6.26	12	0.19	0.7	20.33
2012/13	9.15	19.77	0.32	0.9	26.22
2013/14	11.87	22.58	0.48	0.12	28.66
2014/15	17.14	25.55	0.69	0.15	33.23
2015/16	19.37	27.33	0.85	0.17	39.34
2016/17	21.32	37.42	1.07	0.18	44.35

APPENDIX 4

Table 4.3

Employee Satisfaction Position

Items					
Work Related:	N	Minimum	Maximum	Mean	Average of Mean
I feel encouraged to come up with new and better ways of doing things this after merging.	32	1	5	3.5000	3.345
Working environment has improved after merger in this bank.	32	1	5	3.4100	
I enjoy the majority of tasks that are associated with my current job.	32	1	5	3.4100	
My manager clearly defines my job content after merger.	32	1	5	3.3800	
This bank is aware about employees training and development after merger.	32	1	5	3.3100	
I get necessary information to accomplish my work.	32	1	5	3.2800	
I feel too much work-related stress in my job.	32	1	5	3.2500	
My senior clearly defines my job responsibilities.	32	1	5	3.1900	

After merger this organization is better place to work than other organizations.	32	1	5	3.1600	
Jobs are here well organized and coordinated respectively.	32	1	5	3.5600	
ENVIRONMENT RELATED:					
I have good understanding about the working structure and well familiar with well-equipped tools.	32	1	5	3.5600	3.36
Bank has adopted new and advance technology that gives easy to work after merger in this bank.	32	1	5	3.1600	

PEER RELATED:					
There is friendly feeling behavior among the staffs.	32	1	5	3.4100	3.41
I get support from teammates of different departments.	32	1	5	3.4100	
There is good communication among the employee.	32	1	5	3.3800	
I feel comfortable to work with the group of people to whom I engaged with.	32	1	5	3.4200	
SUPERVISOR RELATED:					
My manager or supervisor provides me					

continuous feedback in my work.	32	1	5	3.2800	3.28
My senior work clearly mentions my job responsibility.	32	1	5	3.2500	
My supervisor/manager encourages high achievement by reducing the fear of failure.	32	1	5	3.1900	
My manager communicates me the areas of improvement in my job.	32	1	5	3.1600	
My manager motivates me to encourage my full potential.	32	1	5	3.4100	
I got regular and timely feedback on my performance from my supervisor.	32	1	5	3.3800	
INCENTIVE AND SALARY RELATED:					
I am satisfied with salary and benefits in this bank after merging.	32	1	5	3.2600	3.21
I am satisfied with additional benefits offered me by the bank.	32	1	5	3.2300	
There is quick promotion opportunity.	32	1	5	3.1700	
Job security is increased after merger.	32	1	5	3.1800	

ENVIRONMENT RELATED:

- | | | | | |
|--|--|--|--|--|
| | | | | |
| | | | | |
- 1 I have good understanding about the working structure and well familiar with well-equipped tools.
- 2 Bank has adopted new and advance technology that gives essay to work after merger in this bank.

PEER RELATED:

- | | | | | |
|--|--|--|--|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
- 1 There is friendly feeling behavior among the staffs.
- 2 I get support from teammates of different department.
- 3 There is good communication among the employee.
- 4 I feel comfortable to work with the group of people to whom I engaged with.

INCENTIVE AND SALARY RELATED:

1 I am satisfied with salary and benefits in this bank after merging.

2 I am satisfied with additional benefits offered me by the bank.

3 There is quick promotion opportunity.

4 Job security is increased after merger.

Thank you

**IMPACT OF MERGER AND ACQUISITION ON ORGINATIONAL
PERFORMANCE OF NEPALESE COMMERCIAL BANKS (WITH
REFRENCE TO GLOBAL IME BANK & MACHAPUCHHRE BANK)**

A Thesis Proposal

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In Partial Fulfilment of the Requirement for the Degree of
Masters of Business Studies (MBS Semester)
In the
Faculty of Management
Tribhuvan University

Kirtipur, Kathmandu

March, 2019

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1. Background of the Study

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors (Sherman— Hart, 2006). According to Ross—Westerfield—Jordan (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross et.al, 2003). In practice, a merger between company A+ company B= company A, where company B merged with company A .In a consolidation, company A + company B = company C, where company C is an entirely new company (Gaughan, 2011).

“An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares” (Firer-Ross-Westerfield-Jordan, 2004). Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another. (Ross et.al, 2003; Firer-Ross-Westerfield-Jordan, 2004)

According to Shrestha (2012), the concept of M&A was an entirely new thing to the Banking and Financial Institutions (BFIs) of Nepal when the Nepal Rastra Bank, supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011. “It is something in which Nepal Rastra Bank has been preparing for years” (Gyanwali 2013). However, many had doubts that the BFIs would go for merger immediately as there were no separate acts and decree for a merger implementation.

The objective of the merger by-laws is to strengthen the BFIs position and performance by reducing the number of institutions. The merger bylaws have a provision that can pressurize all BFIs to go for an immediate merger in the form of consolidation (Nepal Share Bazar, 2013).

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brought several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and, at the verge of a collapse. "Merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them" (The Himalayan Times, 2013). According to the monetary policy report of the Nepal Rastra Bank (2015), the total number of the BFIs stood at 184 including 29A class commercial banks, 70 B class development banks, 44C class finance companies, and 41 D class microfinance institutions.

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

There is some confusion about the terminology of merger, consolidation, acquisition, and takeover. This is why the term used tends to be similar and can be used interchangeably (Sherman-Hart, 2006). As cited in the definition of merger, the underlying principle of merger and acquisition is to maximize the shareholders profit by maximizing the profit of business corporations. However, each term carries a slightly different meaning under business situations. A merger is a combination of relatively same size companies forming a new company. Usually, a merger takes place on friendly terms and the newly created company shares equal profit among the

stakeholders. The primary purpose of a merger is to expand their business operations. However, when one company takes over another company in the form of equity or assets, it is known as acquisitions. An acquisition is mainly taken during the economic recession and constant decline of company profits. (Ross et.al 2003; Firer et.al, 2004)

Another significant difference between a merger and an acquisition lies in dealing of acquiring between firms. In an acquisition, a deal can be done without the mutual consent of the target company. Usually, the bigger, stronger and larger companies shallow the operation of a weak company. In case of a merger, the deal between merging companies is friendly where both the parties share the same percentage of ownership and profit. (Ross et.al 2003; Firer et.al, 2004)

There are three major types of merger and acquisition which are driven by different corporate strategies. They are categorized into horizontal, vertical and conglomerate. Each of the types possesses characteristics at the outset. (Ross et.al 2003)

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies. The factors affecting mergers change with their changing legal, political, economic and social environments. Firms engage in a merger and acquisitions activity for different economic reasons. The most common motives of firms for mergers and acquisitions are synergy, revenue enhancement, cost reduction, tax gains.

Merger and acquisition have become a corporate strategy to increase the core competences of organization. It affects the overall performance, each and every aspect of organization so it is necessary to research in this field. A lot of speculations have been going on in the financial sector whether the merger policy will be fruitful to strengthen the Nepalese bank and financial institutions. Some positive signals have been visible in the financial institutions as 43 financial institutions including commercial banks, development banks and finance companies have merged so far and a few BFIs are in pipelines and some have got the letter of intent. This depicts that merger and consolidation has gradually taken place in the banking industry. The goal

of this research is to find out the effect and impact of the merger policy adopted by the Nepal Rastra Bank. The research is carried out by analyzing the financial statements of the BFIs involved in the merger activity. A comparison is made between pre-merger performance and post-merger performance of the BFIs. In addition to it, a survey research is conducted by using a list of questionnaires to explore the impact of the merger policy on the employees and customers.

2. Statement of the Problems

Since the economic liberalization of the financial sector in Nepal, there has been an unnatural growth of banks and financial institutions which led to an intense cutthroat competition amongst them in enticing institution, borrowers and individuals. Before the merger bylaws was introduced, the BFIs endorsed easy loans to real estate, land and housing sector borrowers without assessing their financial capacity for repayment of interest and principle amounts. This led to rapid rises in the value of land and building. When the price started to fall, the borrowers were unable to pay back resulting to a shortfall of liquidity.

Recently, the financial institutions of Nepal have been characterized by a low volume of turnover, high interest rate in lending, high interest rate spread, inefficient management, lack of project financing practice, inadequate working fund and unhealthy competition. Some financial institutions such as the Gorkha Development Bank, Nepal Share Market, Capital Merchant and Finance were caught with a weak supervision and miss corporate governance. Moreover, the state-owned financial institutions such as the Rastriya Baniya Bank and the Agriculture Development Bank are marked with excessive operating expenses and low operating profits. Thus merger by law has been issued by Nepal Rastra Bank. M&A effect on each any every sector of organization such as consumer, employee, shareholders, management and financial performance of organization. Especially its effect on financial performance of organization. There is problem to get proper information about what kinds of impact on above sector is created through merger by laws to implement and evaluation of merger by law.

- i. What is the impact of Merger and Acquisition on profitability of Bank and Financial Institutions?

- ii. What is the impact of Merger and Acquisition on employee satisfaction position?

3. Purpose of study

This research work provides a comprehensive insight to the ongoing merger and acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs) since 2011 when the Nepal Rastra Bank, as a supervisory and regulatory body of all the BFIs, introduced a forceful merger by-law in May 2011. The main objective of this research work is to explore the possible effects and impacts on the financial Performance of BFIs caused by M&A since 2011 in the Nepalese financial sector.

Fowling specific objective can be mention to make the study easier:

- i. To examine the implication of Merger and Acquisition on profitability of Banks.
- ii. To examine the impact of Merger and Acquisition on employee satisfaction position.

4. Rationale of the study

The practice of M&A in Nepal still is in infant stage. But it proceeding is significant. Thus, it is difficult to get proper information about M&A. The significant of the study is to find out and analysis the impact on stakeholders, institutional profitability and its impact on sustainable development of developing country like Nepal. The focus is further its negative and positive impact on stakeholders of BIFs. The possible outcome of these research findings will be transmitted to the Nepal Rastra Bank for further investigation concerning the merger bylaws provisions and its impact on employees, stakeholders, clients and customers, and the financial market. As well as it will use full for concern organization, employee and customer of bank and financial institutions. Further it will facilitate to those who are interest to conduct a research work in respective topic.

5. Review of the study

By 2010, the Nepalese banking and financial sectors have been passing a through a very crucial period. The International Monetary Fund (2008) states that in its research paper almost one third of the Nepalese BFIs are marked by excessive liquidity, excessive operating expenses, inadequate working capital, unhealthy competition, and

miss management. The balance sheet of the BFIs on the third quarter shows that with the exception of few banks, the profits of all the banks have declined and the percentage level of bad loans was growing. The ongoing political instability and uncertainty over the future has not only decreased the income of banks, but also discourages the investor's confidence to invest in any projects. It has caused a low demand of loans for big projects. Therefore, banks are facing increasing pressure of either investing in volatile housing and real estate business where there is maximum risk, or by failing to utilize the capital to generate more cash by not managing the capital. (New Spotlight News Magazine, 2011)

Joash and Njanjiru (2015) were conducted research on title of the effects of mergers and acquisitions on financial performance of banks (A Survey of Commercial Banks in Kenya). The purpose of the study was to determine the effects of the mergers and acquisitions on the shareholders' value and to examine the implication of merger and acquisitions on profitability. The study was based on census of which all the 14 banks that have merged or acquired other in the period from 2000 to date were investigated. Data was collected by use of questionnaires with both open and close ended questions. After analyzing the data this research was concluded on the merger and acquisition raised the shareholder value of the merged/acquiring banks in Kenya. The study further revealed that the main reason why most banks merged or acquired was to raise their profitability.

We conclude that the approach adopted by previous researchers, who have explicitly extended the definition of corporate failure to include financially distressed firms which are acquired, is incorrect, since the acquisition of a distressed firm is a different economic event from corporate failure but one of equal importance to analysts, shareholders and creditors. The empirical results presented in this paper suggest that the traditional fail/non-fail corporate failure modeling approach may be usefully extended to incorporate the distressed acquisition outcome. In future work we would hope to report on the feasibility of developing statistical models which aim to discriminate simultaneously between three corporate outcomes: failure/non-failure/distressed acquisition.

6. Conceptual framework

The conceptual framework contained the different indicators which measure the financial performance as well as employee satisfaction. The researcher has calculated the different ratios which to measure the financial performance and he also collected the data to identify the employee satisfaction after merger.

6.1. Financial performance:

Financial performance is the mirror of financial institution which reflects the real situation of financial institution. The following are the measuring ratio which measures the financial performance of the financial performance.

- i. Credit to deposit ratio
- ii. Return on assets
- iii. Return on equity
- iv. Net profit margin
- v. Return on investment
- vi. Earnings per share
- vii. Market value per share

6.2. Employee satisfaction:

The level of employee satisfaction also parts the quality of organization performance. Without employee we can't imagine any kind goal of the business firm. For this research researcher collect the data from the different branch of sample banks (global IME and machhapuchhere bank) with the help of questionnaires related to employee's satisfaction.

7. Research methodology

7.1 Research design

In this study, researcher has been employed the descriptive and causal comparative research design. Descriptive research design used to identify the level of employee satisfaction position, 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 perception of the direction, magnitude and forms of observed relationship between merger and the bank performance as well as the factor

affection them. Moreover, this study has also employed casual comparative research design to determine the effect of those variables in the bank performance and employee's perception towards the same.

7.2 Nature and sources of data

This research based on both primary as well as secondary data. The secondary data has been collected from the Nepal Rastra Bank supervision report and sample banks annual reports. For getting perception of employees, survey has been conducted with thirty-two items questionnaire on five options to identify the employee view. (Reference were taken from previous research questionnaire- survey through email questionnaire).

7.3 Population and sample

Bank and financial institution licensed by Nepal Rastra Bank to carry financial transactions comprise population of this study. Primary data are collected from the questionnaires to employee in the merged bank. Twenty-seven commercial banks are existing now, out of it 20 banks come through the merger process. In this research have been selected two banks for sampling purpose which is described as below. The reason behind to selecting the Machhapuchhre and Global IME bank is to know the perception of employees toward the merger and acquisition as well as easily asses the relevant data from the respective banks.

7.4 Data procedure

After collecting the both primary and secondary data, it has been presented in table and then made necessary figures to show the information as per requirement. While analyzing the data by questionnaire, different mathematical and financial tools.

7.5 Tools and techniques

On the basis of purpose of this research researcher will used different types of financial and statistical tools to analysis the different variables.

7.5.1 Financial tools

For this research following types of financial tools will be used

- i. ratio analysis
- ii. Profitability analysis

7.5.2 Statistical tools

For this research following types of statistical tools will be used

1. Mean
2. Average mean

8. Chapter plan

In this research the whole study would be developed into five major chapters and divided into sub categories as per requirement.

Chapter 1: Introduction:

This chapter has included Background of the study, Objectives of the study, Research hypothesis, Statement of the problem, and Significance of the study and Limitation of the study.

Chapter 2: Review of literatures:

This chapter has included Review of act, rules, research report, thesis and dissertation etc. which are related to this topic.

Chapter 3: Research methodology:

This chapter has included Research Methodology under which the research design, population & sample, sampling procedure, Data Collection procedure, Statistical Procedure and Data Analysis.

Chapter 4: Presentation and analysis of data:

This chapter includes the Data Presentation and analysis and then the major findings of the study has present here with the help of various statistical tools followed by methodology.

Chapter 5: Summary, conclusion & recommendation:

This chapter includes Summary & conclusions of major finding with recommendation.

Bibliography and appendix have also been incorporated at the end of the study.

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