IMPACT OF MERGER ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTION IN NEPAL

(With reference to NIC Asia Bank Ltd)

A Thesis

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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and found the thesis to be original work of the student and written according to the prescribed format of Faculty of Management. We recommend this thesis to be accepted as partial fulfillment of requirement for the degree of Masters of Business Studies (MBS).

Viva-Voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**IMPACT OF MERGER ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTION IN NEPAL (With reference to NIC Asia Bank Ltd)**" submitted to People's Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of the Degree of master of Business Studies (MBS) under the guidance and supervision of Madhusudan Gautam of People's Campus, Tribhuvan University.

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Finally, I would like to take the responsibility of any errors in this study. I will be thankful to all those who provided valuable suggestion for its improvements.

Unisha Shrestha

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ATM	: Automated Teller Machine
BAFIA	: Bank and Financial Institution Act
BOAN	: Bank of Asia Nepal
FY	: Fiscal Year
i.e.	: that is
IFC	: International Finance Corporation
ISO	: International Organization for Standardization
Ms	: Microsoft
NIC	: Nepal Industrial and Commercial Bank Limited
NICA	: NIC Asia Bank Limited
NEPSE	: Nepal Stock Exchange Limited
NPA	: Non Performing Assets
NPR	: Nepalese Rupees
NRB	: Nepal Rastra Bank
SPSS	: Statistical Package for the Social Sciences
UN	: United Nations
WTO	: World Trade Organization

CHAPTER I
INTRODUCTION

1.1 Background of the study

Mergers and Acquisitions have become the most widely used business strategy of restructuring and strong financial institution to achieve competitiveness, to ensure long term existence with suitable profitability, to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy-2068 and monetary policy 2072 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry (Acharya, 2020). The foremost requirement for a corporate looking to go global, to start with, is to change the old technocrat mindset and think big and global. Companies working in overly competitive environment have to change fast as per the evolving dynamics in their industry of operation. In such scenario mergers can be a useful for the company. Besides that, it helps in generating greater values for the company. It can be found very useful in adapting change and making flexible decisions during the era of change and transformation in the company. Merger could be a milestone for the company in achieving economies of scale and being competent enough to make crucial decision regarding pricing and valuations of the product and service of the company.

The Nepalese financial sector has witnessed tremendous growth in the number of financial institutions after the 1980s 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. A merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them. Meanwhile, due attention is also given to avoid a possible contraction in access to finance and concentration of business risks as a result of the merger process (Dwa, 2018).

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 2073 article

69 to 71 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. (www.nrb.com).

In the last two decades, government following the economic liberalization policies has encouraged the growth of joint venture business in Nepal especially in initiating the growth of number of joint venture banks in Nepal. As Nepalese financial market is characterized by low volume of turnover, high interest rate in lending, high interest rate spread, inefficient management, lack of practice of project financing, problem of inadequate working fund and unhealthy competition between the companies in finance sector may compel the process of merger between the companies in operation in order to overcome these problems. Merger becomes an urgent need, as Nepal had already become a member of WTO, especially in finance sector because foreign banks branch will be supposed to allow operating in Nepalese market after 2010. Besides the rise in capital base for banking and financial institutions, has also backed up the need for merger in Nepal. (www.nrb.com).

It is perceived that, merger will result in newer and larger organizations which is supposed to be efficient in allocating resources, human and capital and maximize the output gains. It is believed that the larger banks, with more resources can offer more products and services at lesser operating cost or we can say at economies of scale (Dwa, 2018).

Merger and Acquisition is considered a vital tool to facilitate the sound and efficient performance of the financial industry while subjugating the problems underlying the system. The instrument also plays a key role in bringing down the cost of operations and increasing the market competitiveness and profitability of the firms (Gautam, 2016). he encouragement for merger by the NRB has resulted in an overwhelming growth in the merger activities. Merger has been used as a means to address cost efficiency, economies of scale and scope of activities (Pathak, 2016).

Merger and Acquisition though sounds same but are two different aspects. Merger considers the interest of both the companies being merged with each other whereas acquisition is hostile in nature where a company swallows the business of another company. Acquisitions can be friendly or hostile. In the case of a friendly acquisition the target is willing to be acquired. Alternatively, the acquisition may be hostile. In this case the target is opposed to the acquisition. Hostile acquisitions are sometimes referred to as hostile takeover. Mergers are undertaken if it is believed two or more companies which are merging will be greater together than sum of its parts. Merger 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 (Ghimire, 2019).

1.1.1 Profile of Organization

1.1.1.1 Nepal Industrial & Commercial Bank Limited (NIC Bank)

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. NIC Bank was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System standard in the year 2006. The Bank has recently been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities for the first time in Nepal. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide. The shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank had over 34,000 shareholders.

To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers towards the Bank.

1.1.1.2 Bank of Asia Nepal Limited (BoAN)

Established with a vision to be one of the preferred banks by growing together with all the stakeholders, Bank of Asia Nepal Limited was set up under the Companies Act 2063 as

'A' Class financial institution. The bank started its commercial operations in full swing from 12th October 2007 from its registered office at Tripureshwor, Kathmandu.

The bank was established with a mission to deliver a wide range of prompt and quality services in order to constantly achieve sound performance through collaborative partnership at all levels, high standards of governance, optimization of information technology and effective network. The bank has the paid-up capital of Rs 2 billion out of which seventy percent is from the promoters and the remaining thirty percent from the general public and also the shares of the bank are listed with Nepal Stock Exchange, NEPSE.

The bank has been providing its products and services to its customers through its twenty-nine branches throughout the country, out of which fifteen are located inside the Kathmandu valley and the remaining fourteen outside the valley at different places in Nepal. The bank is pioneer in terms of introducing many innovative products and marketing concepts in the domestic banking sector and represents a milestone in the history of banking in Nepal. Its major objective has always been the customer satisfaction while doing business and the bank is also technologically driven progressive bank with brisk management and corporate governance culture.

1.1.1.3 NIC Asia Bank Limited

NIC ASIA Bank has its antecedents in NIC Bank which was established on 21st July 1998. The Bank was rechristened as NIC ASIA Bank after the merger of NIC Bank with Bank of Asia Nepal on 30th June 2013. This was a historic merger in the annals of Nepalese financial landscape as the first of its kind merger between two successful commercial banks in the country. Today, NIC Asia has established itself as one of the most successful commercial banks in Nepal.

During the post-merger integration phase, NIC Asia managed the transition very smoothly receiving accolades from the regulators as well as the stakeholders, paving the way for other mergers and consolidation in the Nepalese financial sector. After the merger, NIC Asia was recognized as "Bank of the Year 2013-Nepal" by The Banker, Financial Times, UN. This is the second time that the Bank was recognized with this prestigious award, the previous occasion being in 2007.

NIC Asia Bank is now, one of the largest private sector commercial banks in the country in terms of capital base, balance-sheet size, number of branches, ATM network and customer base. The bank has 270 branches, 37 extension counters,22 branch less banking and 289 ATMs across Nepal. with a network covering all major financial centers of the country. The Bank strongly believes in Meritocracy, Transparency, Professionalism, Team spirit and Service Excellence. These core values are internalized by all functions within the Bank and are reflected in all actions the Bank takes during the course of its business.

Nepal Industrial and Commercial (NIC) Bank and Bank of Asia Nepal (BoAN), two commercial banks, for the first time in Nepali banking history merged into NIC Asia Bank Limited. The merger has made NIC Asia, one of the top five banks of the country in terms of capital size and branch network.

1.2 Statement of the Problem

Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. Many studies carried out in the area of merger and acquisition has established inconsistent results. In some cases, it means well-publicized dissolution of the combination. The fact is that it is much easier to make a deal than to make a deal work. Mergers and acquisitions continue to be a highly popular form of corporate development in today's banking industry world over. However, in a paradox to their popularity, merger and acquisitions appear to provide at best a mixed performance to the broad range of stakeholders involved. While target firm shareholders generally enjoy positive short-term returns, investors in bidding firms frequently experience share price under performance in the months following acquisition, with negligible overall wealth gains for portfolio holders. The complex phenomenon that mergers and acquisitions represent has attracted substantial interest from a variety of management disciplines for a long time.

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. Along with commercial bank, the government allowed to open development banks, finance companies with the objective to increase people's access to financial institution. Consequently, as of mid-Jan 2021, the total number of banks and financial institutions have shrunk to 144 comprising of 27 commercial banks, 19 development banks, 21 finance companies, and 76 microfinance development banks. 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 principal 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

In order to study the impact of the merger bylaw 2011 in the Nepalese financial institutions, the case of NIC Asia Bank Limited has been taken as a sample of study. NIC Asia Bank Limited is a successful merger between two commercial bank Nepal Industrial and Commercial (NIC) Bank Ltd and Bank of Asia Nepal (BoAN). Through this study, efforts have been made to scrutinize financial performance of NIC Asia before and after merger and to test the impacts of mergers in NIC Asia's profitability. For this purpose, different financial and accounting indicators such as- Capital, Deposits, Investments, Advances, Fixed Assets, Interest Income, Total Income, Interest Expenses, Total Expenditure, Net Profit/Loss, Total Assets and Non-Performing Assets (NPA) have been used. Further, two queries have been created around which this entire thesis revolves. These are:

- What is the impact of merger in the financial performance of NIC Asia Bank Ltd?
- What are the pre and post profitability performance of NIC Asia Bank Ltd?

1.3 Objectives of the Study

The primary objective of this study is to analyze the impact of mergers on the different financial indicators of NIC Asia Bank Ltd.

The study has made an attempt to fulfill the following objectives:

- To examine the profitability pre and post merger of NIC Asia Bank Ltd
- To scrutinize financial performance of NIC Asia before and after merger.

- To analyze the impact of merger on financial performance for NIC Asia Bank Ltd.

1.4 Significance of the 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. This study provides information about the impact of merger on financial performance of NIC Asia Bank Ltd in Nepal. An attempt is made to study the financial performance in the Nepalese banking sector in the pre and post-merger. At the end, the study tries to come up with a conclusion that, either the growing banking business is backed up by the merger or need some other activities to be considered for its growth. Once the financial performance of the bank is compared with its pre and post merger era, it has a clear view of the impact of merger on the bank's financial performance. Also, we have an idea about either merger is doing good for the growth of the banking industry in Nepal or institutions are following it blindly to grow the business.

It is believed that the outcome of this study is benefited to many stakeholders in the banking industry of Nepal. The banks that are being merged in future have an overview of the condition and the impact of mergers in the country and make possible strategies to make it successful. Besides that, investors have an overview of the impact of mergers in the Nepalese banking industry. They analyze the trend and growth of the banks being merged and pull out or invest more money in the banks according to their interest. Also, the result obtained from this thesis is helpful for the regulatory bodies to take necessary steps and make appropriate rules and regulation which facilitate the mergers and acquisition in the country and save the interest of the investors. It helps to identify either merger is the only solution for the growth and expansion of the banks in Nepal or it should identify more scope and explore more areas for the expansion and growth of banking industry in Nepal. Also, increased level of mergers can lead to existence of few big banks in terms of capital and customer base, which can exploit the financial market of the country and society too. So, this research bears a great level of significance for every stakeholder of the banking industry to know, where the banking industry is going towards, in order to save their own interest.

1.5 Limitations of the Study

The limitations of the study are:

i. This study is based on only one sample bank NIC Asia Bank Ltd pre and post merger.
ii. Apart from 12 different financial variables analyzed namely- Capital, Deposits, Investments, Advances, Fixed Assets, Interest Income, Total Income, Interest expenditure, Total Expenditure, Net Profit/Loss, Total Assets and Non-Performing Assets (NPA), other performance ratios like liquidity, leverage, efficiency, risk, cash flow has been ignored to know the performance of financial institutions that has undergone for merger and acquisition strategy.
iii. This study is based on secondary data, the findings is based on annual reports of respective banks.
iv. This study is based on descriptive and casual research design. Other research design has been ignored in this study.
v. The whole study is based on the data of five years pre-merger and five year post merger and conclusion are confined to above period.

1.6 Organization of the Study

The research study has been organized into five chapters – Introduction, Literature Review, Research Methodology, Data Presentation and Analysis, Summary, Conclusion and Recommendations. The first chapter deals with introduction of the study. It includes background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organizations of the study. Second chapter deals with review of literature which includes theoretical reviews, empirical literature review, review of Nepalese studies, conceptual framework and research gap. Third chapter includes the research methodology used in the study. It includes the research design, population and sample size, data collection procedure, data analysis tools and instrumentation of data. Data presentation and analysis are presented in the fourth chapter and includes descriptive analysis, analysis of financial variables, regression analysis and major findings. The last chapter of the study covers the summary of study and the main conclusion drawn from the study and some recommendations as well as suggestions on the basis of the study. References are also included at last of the thesis.

CHAPTER II
REVIEW OF LITERATURE

This chapter deals with the literature review of empirical studies and provides conceptual framework associated with impact of merger on financial performance of Nepalese financial institutions from other researchers that has been carried out in the same field of emerging market. It is divided into four sections. First section presents theoretical review of merger, second section is concerned with empirical studies regarding impact of merger on financial performance in international context. Third section includes review of Nepalese studies regarding impact of merger on financial performance. Fourth section presents conceptual framework.

2.1 Theoretical Reviews

There are various theories of M&A, which explain the various motives for which companies go for M&A deals. The syntheses of prior research on theories of mergers are made to bring insight to the potential benefits of mergers.

2.1.1 Efficiency Theory

Efficiency theory suggests that merger will increase company's and its shareholders' wealth through operative synergies. Main point in efficiency is that combination of two entities can perform more efficiently because for example the administration of the new entity can be handled by one entity's workforce. In general, the idea is that one plus one is more than two in the case of synergies of efficient (Weitzel 2011.)

2.1.2 Market Power Theory

Market power theory is another explanation why mergers increase shareholders' and other stakeholders' value. Primary target of the benefits are however shareholders. If efficiency theory suggested that wealth increases by more cost effective organization, market power theory suggests that wealth increase comes from higher prices. Higher prices are wealth transfers from customers and it is possible because increased market power enables firms to ask higher prices. Wealth link in market power theory is also synergies and these synergies are results from increased market power (Weitzel 2011.)

2.1.3 Corporate Control Theory

Corporate control theory is slightly related to efficient theory but significant differences arise at least in two issues. First, value increasing is not a result of combined assets of two firms but the acquirer firm's management and underutilized assets of acquired firm. Second, corporate control theory often includes hostile takeovers because incumbent management is likely to resist the takeover. Typically, bidders in these occasions are private investors or corporate riders which will bring in more sufficient management teams. In conclusion shareholders' wealth is increased by net gains through managerial synergies (Weitzel 2011.)

2.2 Empirical Literature Review

Mishra, Gordon and Peterson (2005) study examined the contribution of the acquired banks in only the non-conglomerate types of mergers (i.e., banks with banks). Basically, scholars tend to identify the motives for mergers between the firms but this paper had attempted to identify the components of risk in bank mergers in US. The sample consist of consists of 14 acquiring banks and their targets for this period. The weekly returns data for the banks are obtained from the Center for Research in Security Prices (CRSP), and the market value data for weights (w) are obtained from the COMPUSTAT database. Following Joehnk and Nielson (1974) and Prakash (1999), this paper estimates the various measures of risk using Sharpe's single index market model. Thirteen out of the 14 banks show a decline in total risk after the merger. Of these 13 banks, eight show a statistically significant decline. Only one of the 14 shows an increase after the merger. They found overwhelmingly statistically significant evidence that non conglomerate types of mergers definitely reduce the total as well as the unsystematic risk while having no statistically significant effect on systematic risk. The paper had provided convincing evidence that there is reduction in total risk after the merger.

Campa and Hernando (2006) studied the impact of mergers and acquisitions on the financial sector in Europe during the period 1998-2002. It also focuses on providing the evidence on shareholder returns from the merger. This article focused on certain characteristics of the single banking market and wanted to see the impact for the EURO, has studied the impact of involvement in such transactions on bank efficiency. A sample of 244 merger and acquisition transaction were taken that took place during the period 1998-2002. Comparing the financial statements of pre and post-merger period, the empirical results are attempted to be shown. Merger announcements implied positive excess returns to the shareholders of the target company around the date of the announcement, with a slight positive excess-return on the 3-months period prior to announcement. Returns to shareholders of the acquiring firms were essentially zero around announcement. One year after the announcement, excess returns were not significantly different from zero for both targets and acquirers. The study concluded that target banks show improvement in terms of efficiency obtained as a result of participating in an acquisition, instead operating improvements observed after fusion are not correlated with excess value received by shareholders upon announcement business.

Cornett, McNutt and Tehranian (2006) conducted a study to evaluate the changes in the performance of banks after mergers with the help of revenue enhancements and the cost reductions. The study examined long-term operating performance of bank mergers involving publicly and non-publicly traded banks over the period 1990 through 2000 in US. All the secondary data required for the study was collected from the Federal Reserve Board of Chicago website and initial announcement dates were obtained from Merger stat. The results are obtained after the analysis of Cash Flow Measures, Accounting Measures, Regression Analysis and Long Term Stock Returns. They find that industry-adjusted operating performance of merged banks increases significantly after the merger, large bank mergers produce greater performance gains than small bank mergers, activity focusing mergers produce greater performance gains than activity diversifying mergers, geographically focusing mergers produce greater performance gains than geographically diversifying mergers, and performance gains are larger after the implementation of nationwide banking in 1997. Further, they find improved performance is the result of both revenue enhancements and cost reduction activities. However, revenue enhancements are most significant in those mergers that also experience reduced costs. So, the paper concluded that overall performance of merged banks can be improved by increasing revenue on the first step and also should be backed by reducing the costs.

Martynova, Oosting and Renneboog (2006) investigated the long-term profitability of corporate takeovers of which both the acquiring and target companies are from Continental Europe or the UK. The sample of European acquisitions that were completed between 1997 and 2001 is selected from the Mergers and Acquisitions Database of the Securities Data Company (SDC) and Zephyr. They employed four different measures of operating performance that allowed them to overcome a number of measurement limitations of the previous literature, which yielded inconsistent conclusions. Both acquiring and target companies significantly outperform the median peers in their industry prior to the takeovers, but the raw profitability of the combined firm decreases significantly following the takeover. However, this decrease becomes insignificant after they control for the performance of the peer companies which are chosen in order to control for industry, size and pre-event performance. The acquirer’s leverage prior takeover seems to have no impact on the post-merger performance of the combined firm, whereas the acquirer’s cash holdings are negatively related to performance. This suggests that companies with excessive cash holdings suffer from free cash flow problems and are more likely to make poor acquisitions. Acquisitions of relatively large targets result in better profitability of the combined firm subsequent to the takeover, whereas acquisitions of a small target led to a profitability decline.

Kakani and Mehta (2006) stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector and still contains to capture the interest of a research and it simply because of after the strict control regulations had led to a wave of merger and Acquisitions in the Banking industry and states many reason for merger in the Indian Banking sector. The paper has attempted to provide the scenario of international mergers & acquisitions and compared it with the Indian scene. The main motive of the paper was to provide an idea of the benefits and the urgency of mergers and acquisitions in the scenario of Indian Banking Sector. The thesis with the help of various quantitative figures and financial variables explains about the benefits that can be obtained from the mergers and acquisitions. By analyzing various data available as secondary sources, this paper has shown the requirement of merger and acquisition for various purposes like stability in the Indian Financial System, maintaining a balance in Returns and Risk to Shareholders, managing appropriate level of Capital Adequacy Ratio etc. While a fragmented Indian banking structure may be very well beneficial to the customer because of competition in banks, but at the same time not to the level of global Banking Industry, and concluded that Merger and Acquisition is an imperative for the state to create few large Banks.

Pazarskis, Vogiatzogloy, Christodoulu and Drogalas (2006) investigated the impact of corporate merger over the operating performance of Greece manufacturing acquiring firms. The data of this study is coming from two different sources for a sample of fifty acquiring firms. First, from financial statements of those companies that was received from the databank of the company ICAP (that were used later for calculation of firms' financial ratios). Second, from a confidential questionnaire, that provided primary data, and was promoted for depicturing the type of merger, the method of payment, and evaluation. In this study a sample of fifty Greek manufacturing firms are considered that are listed on Athens stock market. The time period for this study is 1998 to 2002. In this study the financial performance is evaluated by using financial and non-financial variables. Financial performance measurement is with financial ratios which are divided into the group namely profitability, liquidity & solvency. Profitability areas is measured with earning to net worth, return in asset and gross profit ratios. Liquidity is measured by quick ratios and solvency is measured by using net worth to total asset & total debt to net worth ratios. The results of this study concluded the performance of acquiring firms declined after merger. The main interesting finding of the survey is that there is strong evidence that the profitability of a firm that performed an M&A is decreased due to the merger/acquisition event.

Estanoland Ottaviani (2007) in their paper formulated a simple modelling framework to analyze the role of risk and diversification in banking competition and to quantify the impact of mergers on the welfare of borrowers and depositors. The model has two main ingredients. First, banks are assumed to be risk averse or behave in risk averse fashion. Second, banks are imperfect competitors in the markets for loans and deposits. Following the Monti-Klein framework, this paper model banks as financial intermediaries that grants loans and collect deposits. They showed that the correlation between the shocks to the demand for loans and the shocks to the supply of deposits induces a strategic interdependence between the two sides of the market. They characterized the role of diversification as a motive for bank mergers and analyze the consequences of mergers on loan and deposit rates. When the value of diversification is sufficiently strong, bank mergers generate an increase in the welfare of borrowers and depositors. If depositors have more correlated shocks than borrowers, bank mergers are relatively worse for depositors than for borrowers. At last, they analyzed that a more general analysis is necessary to drive firm conclusions about the effects of banks mergers on borrowers and depositors welfare and left the problem for future research.

Mantravadi and Reddy (2007) in their paper, aimed at analyzing the post-merger operating performance for acquiring firms in Indian industry during the post-reform period, from 1991-2003, which was expected to provide a large sample size across industries. The post-merger operating performance of acquiring firms for different relative sizes (of acquiring and acquired firms) was analyzed to see if differences in sizes of acquiring and acquired firms can cause a different impact on the outcome compared to general results of merger studies. The research was entirely based on secondary data collected from the Prowess database of the CMIE. They evaluated the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. They selected all mergers involved in public limited and traded companies in India between 1991 and 2003, result suggested that there were little variation in terms of impact as operating performance after mergers. In different industries in India particularly banking and finance industry had a slightly positive impact of profitability on pharmaceutical, textiles and electrical equipment sector and showed the marginal negative impact on operative performance. Some of the industries had a significant decline both in terms of profitability and return on investment and assets after merger.

Altunbas and Ibanez (2008) analyzed impact of strategic similarities between bidders and targets on post-merger financial performance. This article shows that on average, bank mergers in European Union resulted in improved return on capital. They ran the empirical analysis by using an extensive sample of individual bank mergers which, in turn, was linked to individual bank accounting information. This thesis is built on the model suggested who analyzed the impact of M&As in the US banking sector on performance according to the similarities between target and bidder. In the paper they first identify the financial features of targets and bidders considering the main characteristics regularly used by practitioners for analyzing the financial performance of banks. Then, to measure the strategic similarity of firms involved in M&A activity, a simple indicator of the strategic similarity of firms given their financial characteristics is calculated for each strategic variable and individual merger: Results from the descriptive analysis showed that the overall statistical picture is that of large, generally more efficient banks merging with relatively smaller and better-capitalized institutions with more diversified sources of income. They found that there are improvements in performance after the merger has taken place particularly in the case of cross-border mergers. In terms of the impact of strategic relatedness on performance, the overall results showed that broad similarities among merging partners were conducive to an improved performance, although there are important differences between domestic and cross-border mergers and across strategic dimensions.

Anand and Singh (2008) studied the impact of merger announcements of five banks in the Indian Banking Sector on the return of the shareholders of the bank. These mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had positive and significant impact on shareholder's wealth. Using the single-factor model, the study finds that the average cumulative abnormal return (CAR) of the bidder banks is positive and substantial. These results are also statistically significant. Thus, the bidder banks got significant positive abnormal returns. The effect on both the acquiring and the target banks, the result showed that the agreement with the European and the US Banks Merger and Acquisitions except for the facts the value of shareholder of bidder Banks have been destroyed in the US context, the market value of weighted Capital Adequacy Ratio of the combined Bank portfolio as a result of merger announcement is 4.29% in a three day period (-1, 1) window and 9.71 % in a Eleven days period (-5, 5) event window. The event study is used for proving the positive impact of merger on the bidder Banks.

Bhaumik and Selarka (2008) discussed the impact of concentration of ownership on firm performance. On the one hand, concentration of ownership that, in turn, concentrates management control in the hands of a strategic investor, eliminates agency problems associated with dispersed ownership. On the other hand, it may lead to entrenchment of upper management which may be inconsistent with the objective of profit (or value) maximization. Their paper examined the impact of M&A on profitability of firms in India, where the corporate landscape is dominated by family-owned and group-affiliated businesses, such that alignment of management and ownership coexists with management entrenchment, and draws conclusions about the impact of concentrated ownership and entrenchment of owner managers on firm performance. Their results indicated that, during the 1995-2002 period, M&A in India led to deterioration in firm performance. They also found that neither the investors in the equity market nor the debt holders can be relied upon to discipline errant (and entrenched) management. In other words, on balance, negative effects of entrenchment of owner manager strums the positive effects of reduction in owner-vs.-manager agency problems. Their findings are consistent with bulk of the existing literature on family-owned and group affiliated firms in India.

Hijzen, Görg and Manchin (2008) studied the impact of cross border merger and acquisitions (M&As) and analyzed the role of trade cost, and explained the increased in the number of cross border merger and acquisitions (M&As) and used industry data of 23 OECD countries over a period of 1990 -2001. The role of trade costs in determining international exchanges of capital and goods is far from negligible despite an increasingly globalized world. Hence, an analysis of the impact of trade costs on international merger activity is interesting not only from an academic point of view, but may also provide valuable information for policy makers. So, this paper is an attempt to benefit those policy makers by providing an insight of the impact of trade costs on international merger. Using a simple theoretical set-up that trade costs may affect horizontal and non-horizontal mergers in different ways, the thesis also presents the empirical model, describe the variables and the data sources used for the analysis, and discuss the econometric methodology. The result suggested that aggregate trade cost affects cross border merger activity negatively, its impact differ importantly across horizontal and non-horizontal mergers. They also indicated that the less negative effects on horizontal merger, which is consistent with the tariff jumping agreement, put forward in literature on the determinant of horizontal FDI.

Hagendorff and Kevin (2009) investigated the mergers and acquisitions in United States and in Europe, having the goal to see the differences between these two important financial systems. This study compares the design and performance implications of different post-merger strategies in both geographic regions. The sample of bank acquirers was obtained from Thomson Financials M&A database (SDC Platinum) with some data restrictions. The paper was entirely focused on quantitative measures to evaluate the results. Various factors like operating performance, cost saving strategies, revenue enhancement strategies, profitability results, regression analysis etc. were used to reach to the final results. Using accounting data, we show that European banks pursue a cost cutting strategy by increasing efficiency levels vis-à-vis non-merging banks and by cutting back on both labor costs and lending activities. US banks, on the other hand, raise both interest and non-interest income in the post-merger period. They had reached that M&A leads to performance gains for European banks in the years following a merger. By contrast, in the US, there is no evidence of M&A affecting the performance of acquiring institutions. This is consistent with explanations that revenue-enhancing strategies lead to lower productivity as the provision of additional services raise costs overall.

Kemal (2011) conducted a study the post-merger profitability of Royal Bank of Scotland where he had used accounting ratios to analyze the financial performance of Royal Bank of Scotland (RBS) in Pakistan after merger with an aim to find out the answer of "Does merger of the banks improves the profitability?" The report had analyzed their financial statements for four years (2006-2009) by using 20 vital ratios which includes the ratios from profitability, liquidity, market value etc. In spite of certain limitations, accounting ratios are still considered as a convenient and reliable analytical tool. Ratio analysis, being a time-tested technique, is most frequently employed in all financial decision-making processes. The sample of study includes financial reports of Royal Bank of Scotland (RBS) and ABN AMRO Bank. In order to analyze and calculate the liquidity performance and operating performance of the bank, secondary data (2006-09) audited financial statements including Balance Sheets, Profit and Loss Accounts and Cash Flow Statements of RBS and ABN AMRO Bank have been used. The results show that the financial performance of RBS in the areas of profitability, liquidity, assets management, leverage, and cash flows has been quite satisfactory before the merger deal. It means that merger deal fails to improve the financial performance of the bank. This conclusion may not be the result for all the banks, as others may gain profit or increase profitability from the mergers. But in case of this report of RBS in Pakistan, merger didn't work for it.

Prasad (2012) explained how mergers and acquisitions (M&As) continue to be a significant force in the restructuring of the financial services industry. With the onset of economic reforms, the banking sector in India has embarked upon mergers and acquisitions to capture the synergistic benefits like economies of scale and scope, in the face of increasing competition from domestic as well as foreign players and rapid technological developments. Several research studies examine merger related gains in banking and these studies have adopted one of the two approaches, based on either accounting information or market prices. The first stage of the research evaluates the impact of merger on financial performance of merging commercial banks in India by analyzing the accounting based information such as return on assets (ROA), operating costs and efficiency and productivity gains. A merger is expected to improve performance of the merging entities, if the resulting change in accounting based measures is superior to the change in the performance of comparable banks that were not involved in mergers. The findings (results of the t-test) indicate that while there is significant difference in a majority of business and productivity parameters before and after merger, the results also point to the fact that there is no significant difference in quite a few operational and profitability parameters(ratios). The results are at best mixed. The second stage of the research examines the post-merger efficiencies of the select commercial banks using the non-parametric data envelopment approach (DEA). In this context, Malmquist productivity index (MPI) and to bit regression techniques have been employed to evaluate the impact of mergers on the technological progress and to identify the critical factors influencing the efficiency of the Indian commercial banking sector respectively.

Srivastava and Tiwari (2013), in their journal, analyzed the effects of M&A on the financials of the merger of Nedungadi Bank Ltd. (NBL) With Punjab National Bank (PNB) before and after merger. For this purpose, various variables namely, capital, deposits, investments, advances, interest earned, interest paid, total income, total expenditure and net profit have been identified. For the analysis of variables, figures for four year prior to merger and figures of variables for four years after the merger have been taken. Figures prior to merger are the total of value of variables of both amalgamating bank (the bank which loses its identity) and amalgamated bank (the bank which continues its existence). The result of regression equation has been found effective after merger of PNB and NBL from the point of view of capital, deposits, advances, interest earned and total income. In the case of investments, fixed assets, interest expenditure, total expenditure, net profit and total assets, result of regression equation has been found ineffective. The Null Hypothesis is rejected in all variables except capital, fixed assets and interest expenditure. In order to ensure the significance of change in mean value before and after merger, t-test has been used at 5% level of significance at 8

Degree of freedom. The predicted values of identified variables have been calculated by using regression equation (y = a + bx) and presented in tables and charts.

Joash and Njangiru (2015) examined whether the merger had any effect on the bank's performance in Kenya. The study determined the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of mergers and acquisitions on profitability.14 banks that have merged or acquired others in the period from 2000 to date were investigated. Study found that the mergers and acquisitions raised the shareholders' value of the merged/acquiring banks. Researcher recommended that thorough feasibility studies should be carried out before the merger/acquisition process can be done. It was also recommended that effect of mergers/acquisitions in other sectors of the economy should be established with a view of drawing a parallel with the effects of the same processes in the banking sector.

Ghosh & Dutta (2015), states that Mergers and Acquisitions as a smart means of corporate restructuring. The study explores the overall strategic impact of mergers and acquisitions in the banking sector. The study focused on 20 M&A deals in the Indian banking sector during 2000-2010. The study is based on pre and post- merger comparison of HR and Financial parameters. For the purpose of analysis the ratios for each of the performance parameters were estimated for all the ten mergers individually followed by Shapiro-walk 26 normality test. The findings of the study indicates a non-significant change in performance in the post- merger period

Njogo B. Ayanwale and Nwankwo E (2016) evaluated the impact of mergers and acquisitions on the performance of deposit money banks in Nigeria using a sample of ten banks. Research used secondary data, obtained from the bank's annual reports and statements of accounts covering a period of 2001-2010, Using nine variables; Return on Assets, Return on Equity, Net Profit Margin, Asset Utilization, Equity Multiplier, Earnings per share, Debt Equity ratio, Debt Asset ratio & Leverage ratio, the study evaluated the performance of the banks before and after mergers and acquisitions using pair sample t-test. The results showed that there is significant difference in the performances of Deposit Money Banks in the pre and post-merger periods using the ROA, ROE and LR as yards tick but shows no significant impacts in the performances of

Deposit Money Bank using other variables as yard stick. The study hereby recommends that the CBN should set and enforce corporate governance standards for commercial banks and also enforce risk based supervision in banks.

Khan and Javed (2017) depicted merger is the path of business to achieve optimum growth, when two entities come together to work but also continues to generate single area of interest. Their study highlighted the important factors which could affect bank after the merger, in terms of enterprise value and market capitalizations. The study analyzed the financial performance in terms of Profitability, Operational Efficiency and Asset Utilization Capacity, Solvency, Enterprise Value and Business Performance of a strategic mergers and amalgamations in India since economic liberalization with special reference to the Banking sector. The results suggest that there are many focus areas where the performance of bank improved after the merger particularly in relation to operating efficiency, solvency, and enterprise value and business performance except the profitability of the bank, which does not change significantly after the merger. Researcher also shows that PNB financial performance is significantly changed in terms of Total Income, Total Expense and Net Profit by carried out a comparative static analysis of merger.

Gupta & Banerjee (2017) “impact of merger and acquisitions on financial performance”: Evidence from selected companies in India. This research paper scrutinized the impact of merger and acquisitions on the financial performance of selected acquire firms across India. The particular paper seeks objectives of effect of merger upon profitability and liquidity position. It analyzes three years pre and post merger financial performance of the companies. Sample size of this research consists of selected seven different industries undergone merger and acquisitions during 2006- 2012. To achieve the study’s objective secondary data of three years prior and post merger collected from annual audited financial statements from period 2000-2015. Various financial ratios applied to assess the profitability and liquidity position. The analysis is conducted with the help of statistical tool paired t test used on accounting ratios by SPSS to test the significance of the study. The finding of this study shows that there is no improvement in financial performance of acquirer companies after merger. Post-merger profitability and liquidity indicators of selected sample deteriorated.

Sujud and Hachem (2018) examined the pre- and post-merger effects on financial performance of Audi-Saradar Group. To achieve this aim, two research methods were used to compare pre- and post-merger financial performance. An analysis of ratios used to compare the performance of Audi-Saradar Group during the pre-merger period (2000-2003) and the post-merger period (2004-2007), second, paired sample t-test determines the significant differences in financial performance before and after the merger. The results showed that return on assets and return on equity improved but only insignificantly. The merger had no significant positive impact on the rate of return on shareholders' equity and on return on assets. Earnings per share increased significantly after the merger. The merger had significant positive impact on earnings per share. This study concluded mergers can have a significant positive impact on the quality of bank assets, capital adequacy, management efficiency, and liquidity of banks.

Qureshi, Azeem and Javed (2020) concluded that mergers and acquisition are not only related to accounting measures of performance of firms but it also affects the wealth of shareholders either positively or negatively. Their study intended to analyze the effect of mergers and acquisition on stock returns separate for long and short run period. To capture immediate effect on shareholders, return study used Market Model to calculate abnormal returns and employed the t-test on it to check the significant differences in two sample data set. Out of 12 cases of M&A eight mergers showed negative abnormal returns for post period with statistical significance at 1% level, two at 5% and two acquiring firms reduced returns were not statistically significant. Overall, on the basis of most M&A results, the study concluded consistent results with earlier studies. The long run analysis employed by using Ohlson (1995) model for firm value with introducing dummy variable for the pre and post period. The results indicated coefficient of dummy for merger was -0.52 with statistical significance at 1% level which is demonstrating negative effect on share price which ultimately reduces the returns. The study concluded that merger and acquisition announcement bring negative effect on shareholders return either for short run or long time period

2.3 Review of Nepalese Studies

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

Dhakal (2015), after the Nepal Rastra Bank implemented the merger bylaws policy in 2011, Nepalese market was able to observe increasing trend in merger and acquisition in banking and financial institutions (BFIs) of Nepal. This study focused on the post-merger impact to the employees, customers and shareholders of the merged bank. The research method used in this study was descriptive research which implies the results based on the survey and the analysis. The impact on employees and customers were analyzed through questionnaires whereas the impact on shareholders was observed through analysis of financial data of merged bank in 2years of pre and post-merger phase. The results showed that employees were satisfied with work, wages, working conditions etc. but they were intensely worried about the HR issues like cultural clash, positions issues, socialization, favoritism etc. The customers felt the changes in value, product and service in post-merger phase but required more innovative service. The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth.

Pathak (2016) conducted post-merger operating performance of financial institutions using the data set published in their annual reports. Based on 22 merger deals made during 2004-20013 by financial institutions listed in the Nepal Stock Exchange, this paper analyzed their financial statements for four years (two year before the merger and two year after the merger) by using six key accounting ratios. In spite of certain limitations, accounting ratios were still considered as a convenient and reliable analytical tool. The article concluded that merger deals fail to significantly improve the post-merger operating performance of financial institutions.To examine the effects of the merger on operating performance of the merged FIs, this research article analyzed 22 merger cases that were occurred during the period of 2004 to 2013. Hypothesizing that merger would improve performance of FIs in terms of profitability; six different accounting ratios were examined for two year before and two year after their merger. Paired sample t-test was used to compare the operating performance of merged FIs before and after the merger. Out of the six, three ratios (ROA, earning yield ratio and EPS) increased and the rest three ratios (ROE, operating profit margin and net profit margin) decreased after the merger. But none of the differences were significant at 0.05 level. This indicates that the changes in mean value of profitability ratios were not due to the merger leading to the failure of rejection of null hypothesis that 'there is no significant increase in the operating performance of the acquirer FIs following the merger deals.' Thus, the paper concluded that operating performance measured in terms of profitability ratios of FIs does not increase significantly after merger. The result was consistent with results found Post-merger Effect on Operating Performance of Financial Institutions: Evidence from Nepal 21 Repositioning . Volume 1 . Number. 1 . January 2016 by Berger and Humphrey (1992), Piloff (1996), Berger (1997), Sharma and Ho (2002), Pathak (2013), and Long (2015), who report that there is no significant difference in operating performance before and after merger. But the result contradicted with the results of Cornett and Tehranian (1992) and Spindt and Tarhan (1992) who found increases in post-merger operating performance.

Adhikari (2017) studied financial sector of Nepal to investigate the impact of ongoing M&A's on Nepali BFIs and to assess the empirical results whether the M&A's play an important role in strengthening the Nepalese banks and financial institutions. Web-based online survey tool has been used to identify the impact of M&A's on the employees and service consumers of merged entities. Sample banks were Machhapuchchhre Bank Limited, Apex Development Limited, Yeti Development Bank Limited and NIC Asia Bank Limited. The result revealed that very less of the sampled financial institutions is technically efficient in generating more returns to share owners. However, the postmerger trend shows that the sampled bank can produce more return to its shareholders in the days to come.

Dwa and Shah (2018) conducted to find the impact of mergers on operating performance of sample merged banks. To attain the research objective, this study has taken 8 independent variables; operating profit margin, net profit margin, return on assets, return on equity, debt equity ratio, return on loan loss provision, return on staff expenses and return on operating expenses. Three cases have been taken for the study as a sample to examine whether merger has led to a profitable situation or not. Research mainly focused on quarterly secondary data which is analyzed using paired sample t-test, correlation analysis, VIF test and regression analysis. From the analysis it was deduced that merger has no significant role in case of Nepal Bangladesh Bank and NIC Asia Bank in terms of various operational ratios, since many operational ratios have been found weaker in post-merger period than pre-merger period. But merger played a significant role in case of Machhapuchchhre Bank where almost all operational ratios have improved in post-merger. While analyzing the situation of overall commercial banking sectors, with the help of sampled data, it was observed that largely the merger isn't able to produce positive results for the merged entities. The study showed the reason for negative result of merger as the poor financial position of the target banks. Further the merger would somewhat act as a solution for the current problems of Nepalese BFIs. Merger would be a wise option to bring BFIs in strong and growing position and to meet the requirement of current paid up capital as per the latest NRB directive. But it also must be considered that merger in itself is not the ultimate solution to strengthen the financial position of BFIs. A lot of factors must be taken into account before finding the right partner to merge with and executing the merger.

Shrestha, Thapa and Phuyal (2018) indicated that merger and acquisition is relatively new reorganization practice undertaken to strengthen the BFIs in the Nepalese financial market. This study made an attempt to analyze the financial performance of merged banking and financial institutions relative to their pre-merger performance, and assess the perception of the stakeholders towards merger. Six banks and financial institutions were considered as sample to undertake this study along with 120 respondents for secondary and primary data respectively. The financial ratios comparison method along with t-test of changes in performance measures has been used. This study found that merger impacts performance positively when larger and stable parties such as commercial banks act as bidders as opposed to the merger between smaller BFIs mainly other than commercial banks as bidder. The loan quality significantly deteriorates after merger in most of the cases and profitability measured in terms of ROA and ROE were adversely affected in most of the cases after the merger. Therefore, the merger should not be considered as the definite solutions to overcome the challenges faced in the market; enough evaluation is needed to select the right partners before executing the merger.

Shrestha (2019) showed that the merger and acquisition serve as a disciplinary device for the bank management to improve the performance of the bank or as a means of implementing unpleasant business measure. This study aimed to study the effect of merger and acquisition practice based on perceptions of personnel of financial institutions of Nepal. For the study, a closed-end questionnaire were prepared and distributed among 180 banking personnel of three merged commercial banks (i.e. NIC Bank Ltd. and Bank of Asia Ltd., Global IME Bank Ltd. and Commerce & Trust Bank Ltd., and Prabhu Bank Ltd. and Grand Bank Nepal Ltd.) to analyze their views towards banking merger process. Out of them 80 (53.33%) questionnaires have been returned and used in this study. The results of this study indicated that merger and acquisition affect the liquidity position of the bank. The results also showed that M&A practices increase the capital base of BFIs & thus develop the competent capabilities. Further, the results also showed that development of market for M&A requires transparency and accountability in corporate governance. However, the results showed that M&A has no significant impact on performance of banking institution. Even though merger process in Nepal has supported in reducing the number of BFIs but the objective of financial stability has not been achieved in the reality.

Acharya (2020) depicted how mergers and acquisitions have become the most widely used business strategy of restructuring and strong financial institution to achieve competitiveness, to ensure long term existence with suitable profitability, to forge entering in new markets, and to ascertain the capital base etc. Specially, the merger law policy-2068 and monetary policy 2072 issued by Nepal Rastra Bank, the regulatory body of banks in Nepal, have been experienced as the most effective weapons for merger and acquisition in Nepalese Banking industry. This study made an attempt to the latest Monetary Policy lays down measures meant to encourage banks to merge. The objective of the study was to critically analyze the impact of mergers and acquisitions on the operating performance of the firm in Nepal. This research was descriptive analysis based only on secondary data. In this paper, five financial ratios are used for analysis. These ratios were share capital, EPS, P.E. ratio, Net Worth and MVPS. Three banks Global IME, NMB and Prime Commercial were selected as samples for analysis. The data was based on the third quarter report of fiscal year 2075/76 and 2076/77 respectively before and after merger. Accordingly, the focus was on the post merger situation of Global IME, NMB and Prime Commercial. After the merger, the capital structure of all banks has increased. According to Global IME Bank has become the largest bank in Nepal. Similarly earning per share and net worth per share of all bank appear to have declined. The main causes of decline were the ratio of their profit and their share capital. P.E. ratio of all banks and the market value per share of NMB Bank seems to have increased, and the Global IME and Prime commercial bank has declined. However, there are other factors besides M&A that affected the stock market.

Goet (2021) focused on “Does merger of the banks improves the profitability?” It also explores the effect of merger on profitability of the bank by using different accounting rations. For this purpose, profitability ratios and stability ratios have been considered as the most reliable and efficient ratios to check the profitability of the bank. These accounting ratios also helped in making rational decisions and future planning for the betterment of the bank. The study has used descriptive and correlational research design to test the objectives of the study. It relied upon discretionary data that was collected form yearly reports of picked banks. Citizen international bank has been taken as a sample bank for the purpose of the study. The bank has been chosen as a purposive technique out of twenty-seven commercial banks in Nepal. The study has used six-year data consisting of three years pre and three-year post-merger data for the purpose of analysis. The results revealed that post-merger most of the financial parameters have not exhibited any basic improvement in the both of cases while a couple of parameters have shown enormous improvement yet it may be possible that there was an improvement in these extents in later years as only three years financial extents were considered. While overseeing mergers and acquisitions, agreeable vitality increments were made as time goes on achieving the improvement in the profitability and execution of banks. Consequently, it might be assumed that there would be bright outcomes of mergers and acquisitions on the budgetary presentation of the banks.

2.4 Conceptual Framework

Among the above-mentioned reviews of the papers by various authors, the present study is based upon the journal of World Economic Research namely "Special reference to merge Nedungadi bank Ltd on base of a case study about merging banks". In this study, efforts have been made to analyze the effects of M&A on the financials of the merger of Nedungadi Bank Ltd. (NBL) with Punjab National Bank (PNB) before and after merger. The study has been under taken to examine the effectiveness of merger of the Nedungadi Bank Ltd. (NBL) with Punjab National Bank (PNB) on the basis of selected variables namely, capital, deposits, investments, advances, interest earned, interest paid, total income, total expenditure and net profit. The result of the study depicts that regression equation has been found effective after merger of PNB and NBL from the point of view of capital, deposits, advances, interest earned and total income. In the case of investments, fixed assets, interest expenditure, total expenditure, net profit and total assets, result of regression equation has been found ineffective. The Null Hypothesis is rejected in all variables except capital, fixed assets and interest expenditure. However, in the present study, which is very similar to that of NBL and PNB's case, the outcome shows that regression equation has been found effective after merger of NIC and BOaN from the point of view of capital, deposits, investment, interest expenditure and total expenditure. In the case of fixed assets, total assets, interest income, total income, net profit and non performing assets the result of regression equation has been found ineffective. Similarly, the null hypothesis is rejected in all variables except NPA. For this purpose, various variables namely, capital, deposits, investments, advances, fixed assets, interest income, interest expense, total income, total expenditure, net profit, total assets and nonperforming assets have been identified. In the analysis of variables, figures for five years prior to merger and figures of variables for five years after the merger have been taken.

Figure 2.1

Conceptual Framework

2.5 Research Gap

Merger is one of the most important diversification tools for any business in today's world. In 2011, NRB has also decided to merge the Nepalese Financial Institution for healthy financial market by directive of M&A bylaws to compete in global market allowing foreign bank branches in Nepal. As observed from the above studies, most of the works have been done on trends, policies and their framework. Research papers were mainly found regarding the international banking industry. However, it can be clearly seen that, we cannot find much of the concerns or research being done on Nepalese Banking Industry. Subjective analysis was mostly found in case of analyzing the impact of merger on banking industry while less secondary analysis is done past due to unavailability of data. In this paper we have attempted to analyze the impact (pre and post analysis) of merger with the help of secondary data.

So, the present paper would go to investigate the details of mergers with a great focus on Nepalese banking sector. The study will also discuss the pre and post-merger financial performance of the selected bank in terms of various variables such as, capital, deposits, investment, loans & advances, fixed assets interest expense, interest income, total expenditure, total income, net profit, total assets and non performing assets. This paper would further try to find out whether it is going good for banks in Nepal or is deteriorating the environment of banking industry through unethical mergers.

CHAPTER III
RESEARCH METHODOLOGY

This chapter expresses the technique and procedure useful in the whole portion of the study. In this chapter, the research design, data collection procedure and procedures concerning analysis of data are described thoroughly. This chapter mainly emphasizes on the research process and methods design to meet the stated objectives of the study. It covers research plan and design, description of the sample, instrumentation, data collection procedure and analysis plan.

3.1 Research Design

This study is based on descriptive and casual research designs to examine impact of merger on financial performance of commercial bank in Nepal. This study is based only on secondary data collected from annual report published in banks website. This paper covers the study of financial performance of the bank before and after being merged. Various statistical tools were used to interpret and analyze the data that was collected through secondary sources.

3.2 Population and Sample Size

There are all together 27 commercial banks, 19 development banks and 21 finance company, 76 micro finance in Nepal which is the population of Nepal and out of them NIC Asia Bank Limited is the sample of the study.

3.3 Data Collection Procedure

Since the data that has been used in the research is financial statements of the selected bank, these have mostly been collected through websites of the respective bank. The financial statements of 5 years before the merger and 5 years after the merger have been considered for the study. The secondary data have been collected through websites, annual reports of the company from year 2007 to 2017. This research used secondary data to collect the data on the subject matter and also know further about subject.

3.4 Data Analysis Tools

Since the data used for the study is secondary. The study is all about comparing the pre and post financial health of sample bank with the help of data collected from bank's websites.

Financial variables used for study are explained as below;

Capital

Capital represents the resources contributed by owners. The capital includes share capital and undistributed profits. The growth of capital indicates capacity of banks to attract deposits, lend to the business unit and to borrow from the public. One of the aims of merger is to increase the capital base of the banks. It is expected that the banks after merger would have sufficient capital base (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Deposits

The important element of conventional banking business is to accept deposits from the customers. One of the important sources of lending money is deposit. Without deposits, the bank cannot provide loan in different sectors. Deposits refer to the bank balances in different accounts (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Investments

Investment refers to the investment of funds in the different areas such as government securities, subsidiary companies, mutual funds and others which are shown in the assets side of balance sheet of banks (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Loans &Advances

Advances is another important aspect of conventional banking operations. In this study total advances include term advances, short term advances, advances to assisted company, advances to priority sector, advances in public sector etc. (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Fixed Assets

Fixed assets represent the economic resources that are used to generate future earnings. Fixed assets refer to the net fixed assets. Without fixed assets, it is impossible to run the banking industry. It is assumed that there would be positive impact on the fixed assets after the merger (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Interest Income

One of the main sources of income of banking industry is the interest earned (Srivastava, 2013). They will be mentioned in monetary terms of NPR.

Total Income

The revenue earned from the different sources is total income. In the case of banking industry, interest income is the main income. However, for the purpose of this study, total income refers to interest received, dividend received, security transactions, exchange transaction, commission and brokerage etc. It is expected that the total income will be increased after the merger and acquisition (Srivastava,2013). They will be mentioned in monetary terms of NPR.

Interest expenditure

Interest provided to customer in different saving and fixed deposits accounts and interest of debt capital is the interest expenditure. The interest expenditure can be minimized by increasing the operating efficiency. The operating efficiency can be increased by merger and acquisition (Srivastava, 2013). They will be mentioned in monetary terms of NPR.

Total Expenditure

The expense incurred to operate the bank is the total expenditure. The total expenditure should be controlled to increase the profitability. By increasing the operating efficiency, the total expenditure can be reduced. It is possible by M&A (Srivastava, 2013). They will be mentioned in monetary terms of NPR.

Net Profit/Loss

The profit is an indicator of the efficiency with which the business operations are carried out by corporate sector. The poor operational performance may result in poor sales leading to poor profits. The merger intends to boost profits through elimination of overlapping activities and to ensure savings through economies of scale. The amount of profit may be increased through reduction in overheads, optimum utilization of facilities, raising funds at lower cost and expansion of business (Srivastava, 2013). They will be mentioned in monetary terms of NPR.

Total Assets

Assets represent economic resources that are the valuable possessions owned by a firm. Assets are mainly used to generate earnings. The total assets refer to net fixed assets and current assets. One aim of business strategy namely, merger and acquisition are, the maximization of total assets of merged banks i.e., firms' ability to produce large volume of sales revenue. It is expected that the bank units after merger would function efficiently (Srivastava, 2013). They will be mentioned in monetary terms of NPR.

Non-Performing Assets (NPA)

It is the default portion of the loan. It is the loan that is due past 90 days**.** In other words, non-performing asset (NPA) is a classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be a non-performing asset. Nonperforming assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

Statistical Tools

To meet the objectives of the study statistical tools are equally important. It helps us to analyze the relationship between two or more variables. In this research, simple analytical tools such as mean, standard deviation, regression trend analysis are adopted which are as follows:

Mean

Term 'mean' is simply understood as arithmetic average. Mean is the most popular method of representing the entire data by the one central value. Mathematically, mean is the sum of individual scores or measures divided by the number of individual i.e. total frequency (Sthapit, 2009).

Symbolically,

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

Where,

$\sum X$=sum of the variable 'X'

N=Number of observation

Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatterings of the mass of figure in a series about an average is known as dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letterσ (Sthapit, 2009).

Symbolically,

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N}\sum (X - \overline{X})^2}$$

where,

N = Number of observations

X = Expected return of the historical data

Coefficient of corrélation (r)

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances (Sthapit, 2009).

Symbolically,

Correlation coefficient (r) = $\frac{N\sum XY-(\sum X)(\sum Y)}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

,

N=No of observation

$\sum X$=sum of the variable ‘X’

$\sum Y$= sum of the variable ‘Y’

$\sum XY$= Sum of the variable ‘X’ and ‘Y’

Regression Analysis

Regression is a mathematical measure of the average relationship between two or more variables in terms of original units of data. The general process of predicting the value of one variable, on the basis of known values of other variables, is known as regression analysis. Thus, regression analysis studies the statistical relationship between variables. (Sthapit, 2009).

Symbolically,

Y=a+bx

gives,

$\sum Y = na + b\sum X$

$\sum XY = a\sum X + b\sum X^2$

3.5 Instrumentation of Data

Instrumentation is basically explained as the tools used in data collection and analysis. In this research data was collected through various sources i.e. annual reports of sample bank of several periods that was arranged and managed in Ms-Word and Excel so that it can be further used in SPSS for analyzing the data. The data in the excel sheet is presented in exact figures. In this research, secondary data is analyzed with the help of Paired Sample t-test in SPSS.

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data. The data was gathered exclusively from the secondary data. The secondary data has been collected through published materials i.e. websites of Nepal Rastra Bank, Nepal Industrial & Commercial Bank Limited, Bank of Asia Nepal Limited and NIC Asia Bank Limited. The secondary data has been analyzed using financial and statistical tools. The data have been fed into SPSS software and the results are presented in the form of graphs and tables. In data presentation and analysis, the study was focused on impact of mergers on financial performance of commercial banks in Nepal.

4.1 Descriptive Analysis

In this section, the mean of different variables has been calculated and presented before merger and after merger, to examine the impact of M&A on different variables. The table below gives the maximum, minimum, mean and standard deviation values for each variable in the pre and post-merger period for descriptive analysis of the study. It further clarifies changes in variables before and after merger.

Table 4.1
Descriptive Statistics of Pre-merger Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Capital	5	863	1541	1305.40	283.25
Deposit	5	9741	19858	14914.40	3785.40
Investment	5	1775	4129	3179.00	1010.49
Loans and Advances	5	8419	15550	12332.00	2664.31
Fixed Assets	5	150	323	257.20	69.60
Interest Income	5	684	2269	1562.40	690.16
Total Income	5	390	992	750.80	258.65
Interest Expenses	5	380	1519	978.60	481.11
Total Expenses	5	117	372	247.40	102.63
Net Profit	5	164	400	296.80	97.71
Total Asset	5	11590	23010	18066.00	4364.78
NPA	5	18	101	39.00	34.98

Table 4.2

Descriptive Statistics of Post-merger Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Capital	5	2312	8031	4494.40	2393.97
Deposit	5	39909	86679	58907.40	19153.98
Investment	5	6485	12790	9541.00	2806.09
Loans and Advances	5	31560	71585	48013.00	16630.90
Fixed Assets	5	465	1066	737.40	302.14
Interest Income	5	2663	6909	4377.40	1557.73
Total Income	5	1534	3447	2387.00	708.06
Interest Expenses	5	1420	4357	2551.60	1086.52
Total Expenses	5	467	1595	950.60	418.42
Net Profit	5	642	1476	939.40	343.33
Total Asset	5	46535	99266	67655.40	21915.22
NPA	5	26	253	146.60	98.00

The given Table 4.1 illustrates descriptive statistics of variables before and Table 4.2 illustrates descriptive statistics of variables after merger process. The pre-merger average value of capital is 1305.40 and after merger, the average value reached 4494.40. Before merger standard deviation of capital is 283.25 and after merger standard deviation of capital is 2393.97. The average value of deposit increased to 58907.40 after the merger from the average of 14914.40. Before merger standard deviation of deposit is 3785.40 and after merger standard deviation of deposit is 19153.98. The pre-merger average value of investment is 3179 and after merger, the average value reached 9541. Before merger standard deviation of investment is 1010.49 and after merger standard deviation of investment is 2806.09. Loans and advances are noted at 48013 from the average figure of 12332. Before merger standard deviation of loans and advances is 2664.31 and after merger standard deviation of loans and advances is 16630.90. Similarly, fixed assets increased up to the average of 737.40 from the value of 257.20. Before merger standard deviation of fixed deposits is 69.60 and after merger standard deviation of fixed deposits is 302.14. Interest income has increased to 4377.40 from the average value of 1562.40. Before merger standard deviation of interest income is 690.16 and after merger standard deviation of interest income is 1557.73. The average of total income has increased to

2387 from the value before merger of 750.80. Before merger standard deviation of total income is 258.65 and after merger standard deviation of capital is 708.06. Interest expenses reached the value of 2551.60 from 978.60. Before merger standard deviation of interest expenses is 481.11 and after merger standard deviation of interest expenses is 1086.52. Total expenses too have increased to 950.60 from the average value of 247.40. Before merger standard deviation of total expenses is 102.63 and after merger standard deviation of total expenses is 418.42. The net profit's average value before merger is 296.80 whereas the net profit's average value increased notably to 939.40. Before merger standard deviation of net profit is 97.71 and after merger standard deviation of capital is 343.33. Furthermore, the total assets have increased to an average of 67655.40 from the average value of 18066. Before merger standard deviation of total assets is 4364.78 and after merger standard deviation of total assets is 21915.22. NPA have increased to146.72 from the average figure of 39.10. Before merger standard deviation of NPA is 34.98 and after merger standard deviation of NPA is 98.

4.2 Analysis of Financial Variables

For inferential analysis, paired sample t-test is used to evaluate the significant impact of merger on financial performance of variables. A paired t-test is used to compare two population means where you have two samples in which observations in one sample can be paired with observations in the other sample. As the objective of this research is to evaluate the impact of mergers on financial performance of the selected bank and the whole commercial bank sector drawing conclusions from the sample, paired sample t-test is chosen as a best statistical tool for the analysis according to the nature of data available from various bank's financial highlights. The t-value less than 0.05 denote significant difference between pre and post-merger financial variables.

The following null and alternative hypotheses have been formulated to test the objectives of the study:

H0: There is no significant difference between the pre and post-merger financial performance of the bank.

H1: There is a significant difference between the pre and post-merger financial performance of the bank.

Table 4.3

Changes in Variables and Hypothesis Test Summary

Variables	Pre Merger	Post Merger	t-value	P-value	% Change	Decision
Capital	1305.4	4494.4	2.958	0.04	244.29%	Significant
Deposits	14914.4	58907.4	5.038	0.006	294.97%	Significant
Investments	3179	9541	4.77	0.005	284.24%	Significant
Loan & Advances	12332	48013	4.737	0.008	200.13%	Significant
Fixed Assets	257.2	737.4	3.28	0.011	160.74%	Significant
Interest Income	1562.4	4377.4	3.695	0.006	186.70%	Significant
Total Income	750.8	2387	4.852	0.001	216.51%	Significant
Interest Expenses	978.6	2551.6	2.961	0.018	217.93%	Significant
Total Expenditure	247.4	950.6	3.649	0.007	180.17%	Significant
Net Profit	296.8	939.4	4.026	0.012	289.34%	Significant
Total Assets	18066	67655.4	4.962	0.006	274.49%	Significant
NPA	39	146.6	2.31	0.069	275.90%	Not Significant

Table 4.3 illustrates changes in variable and hypothesis analysis has been done. In this section, the mean, standard deviation, standard error of mean and "t" values of different variables have been calculated and presented, pre-merger and post-merger, to examine the impact of merger on different variables. Table shows $t=2.958$, $p=0.040<0.050$ of capital, which indicates positive result of merger. Table further shows $t=5.038$, $p=0.006<0.050$ of deposits, $t=4.770$, $p=0.005<0.050$ of investments, $t=4.737$, $p=0.008<0.050$ of loans and advances, $t=3.280$, $p=0.011<0.050$ of fixed assets, $t=3.695$, $p=0.006<0.050$ of interest income, $t=4.852$, $p=0.001<0.050$ of total income, $t=2.961$, $p=0.018<0.050$ of interest expenses, $t=3.649$, $p=0.007<0.050$ of total expenditure, $t=4.026$, $p=0.012<0.050$ and $t=4.962$, $p=0.006<0.050$ of total assets has accepted alternative hypothesis H1 which means that there is a significant difference between the pre and post-merger. On the other hand, $t=2.310$, $p=0.069>0.050$ of non performing assets has accepted null hypothesis H0 which indicates that there is no significant difference between pre and post-merger period. From the Table 4.3, it can be seen that there is significant difference between pre-merger and post-merger capital, deposits, investment, loan and advances, fixed assets, interest income, total income, interest expenses, total expenditure, net profit and total

assets of the bank. There is no significant difference between pre-merger and post-merger NPA of the bank.

The given Table 4.3 depicts the percentage changes in independent variables of NIC Asia before and after its merger. It is observed that all variables have notably increased. Fixed assets have increased by more than 150% after the merger process completed. Interest income and total expenses has increased by more than 180%. Likewise, total income, interest expenses and loans and advances of NIC Asia increased to more than 200%. Similarly, capital increased by more than 240% whereas total assets and non performing assets increased by more than 270%. Post-merger investment and net profit increased to more than 280%. Furthermore, deposits increased to more than 290%.

4.3 Regression Analysis

In order to establish the impact of mergers and acquisition on the financial performance of commercial banks in Nepal the study conducted a regression analysis. The researcher applied SPSS aid in the computation of the measurements of the multiple regressions for the study. Two regression analyses were conducted: one for before the merger whiles the other one for after the merger.

Table 4.4

Pre-Merger and Post-Merger β for the Explored Variables

Explored Variables	Pre-Merger β_1	Post-Merger β_2
Capital	169.02	1455.71
Deposit	2371.07	11804.44
Total Expenditure	64.81	254.61
Investment	457.42	1566.83
Interest expenses	301.78	612.08
Fixed Asset	42.21	121.63
Net Profit	47.87	190.27
Total Income	153.05	420.09
Interest Income	428.53	889.72
Loans and Advances	1643.31	10217.65
Total Asset	2708.5	13441.72
NPA	15.72	-56.43

Table 4.4 shows the beta for the explored variables during pre-merger and post-merger period. **β_1** denotes pre-merger beta coefficient and β_2 denotes pre-merger beta coefficient. Pre-merger beta coefficient of capital, deposit total expenditure, investment, fixed assets, net profit, total income, interest income, loans and advances and total asset are 169.02, 2371.07, 64.81, 457.42, 301.78, 42.21, 47.87, 153.05, 428.53, 1643.31, 2708.5 and 15.72 respectively. Similarly, post-merger beta coefficient of capital, deposit total expenditure, investment, fixed assets, net profit, total income, interest income, loans and advances and total asset stands as 1455.71, 11804.44, 254.61, 1566.83, 612.08, 121.63, 190.27, 420.09, 889.72, 10217.65, 13441.72 and -56.43 respectively. It can be seen that the beta for capital, deposit, total expenditure, investment, fixed assets, net profit, total income, interest income, loans and advances and total asset has increased, which means that the rate of increase in these variables have increased after merger. Similarly, the beta for NPA has decreased, which means that the rate of increase of these variables has decreased after the merger. Beta coefficient increase show improved financial performance for variables in post-merger period. Beta coefficient decrease in NPA post-merger show that post-merger financial performance of NIC Asia has improved. Merger proved to be fruitful for NIC Asia.

1) Capital

Table 4.5

Actual and Predicted Capital of NIC Asia

Fiscal Year	Actual Capital(Y)	Predicted Capital (Y*)
2007/08	863	-169
2008/09	1208	511
2009/10	1374	1191
2010/11	1541	1871
2011/12	1541	2551
2012/13	2312	3231
2013/14	2658	3911
2014/15	3695	4591
2015/16	5776	5272
2016/17	8031	5952

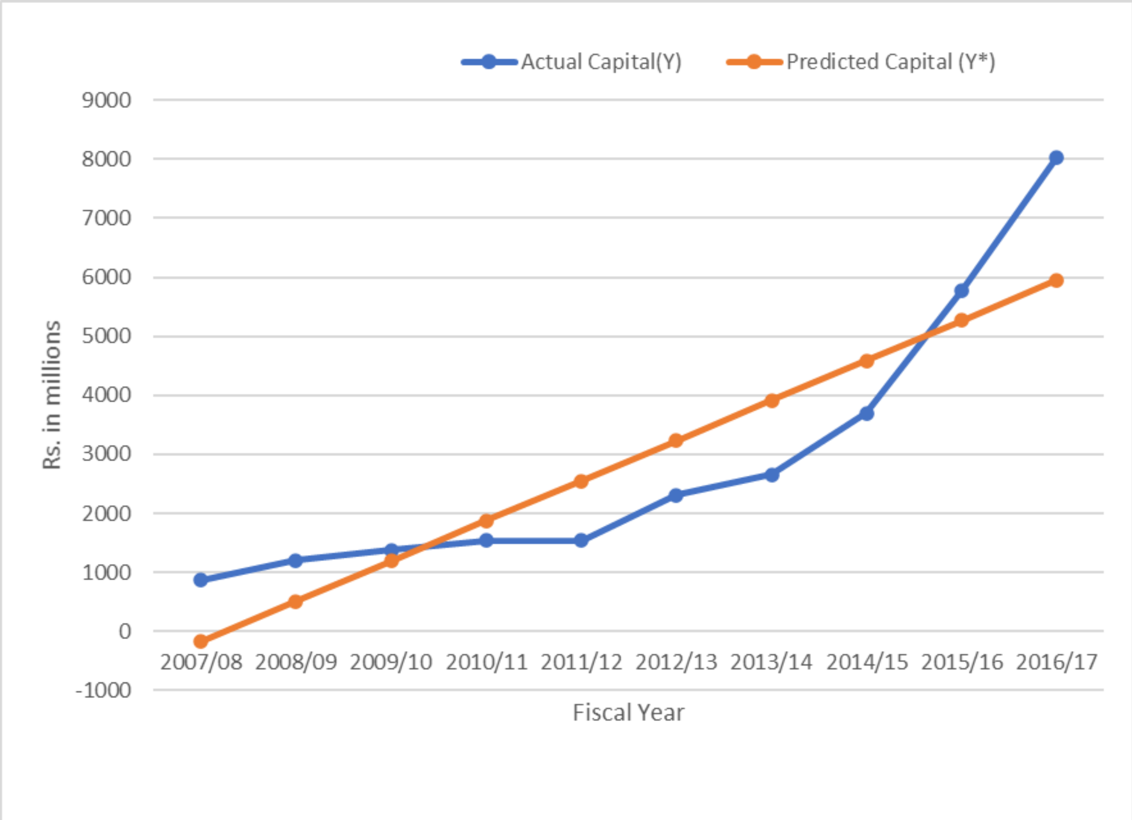

Figure 4.1 Capital and its Predicted Values

Table 4.5 shows the actual value of capital and its predicted values of NIC Asia pre-merger and post-merger period of study. Table 4.5 shows the actual capital and predicted capital of NIC Asia from FY 2007/08 to 2016/17 and Table 4.5 clearly shows that the difference of capital and its trend value is negative during fiscal year 2010/11 to 2014/15 while positive during 2007/08 to 2009/10 and in 2015/16 to 2016/17. The negative difference is very large in FY 2013/14 while positive difference is very large in FY 2016/17.Actual capital shows constant growth in pre-merger period with higher deviation growth in post-merger period in FY 2015/16 and 2016/17 revealing improved performance after merger.

Figure 4.1 shows the actual and predicted value of capital of NIC Asia from FY 2007/08 to 2016/17. The curve of actual capital shows an increasing trend. The curve of actual capital is higher than the curve of trend value in period 2007/08 to 2009/10 and in 2015/16 to 2016/17. The curve of actual capital is lower than the curve of trend value from 2010/11 to 2014/15.

2) Deposit

Table 4.6

Actual and Predicted Deposit of NIC Asia

Fiscal Year	Deposit(Y)	Predicted Deposit(Y*)
2007/08	9741	-866
2008/09	13345	7518
2009/10	14806	15902
2010/11	16822	24285
2011/12	19858	32669
2012/13	39909	41053
2013/14	44984	49437
2014/15	53477	57821
2015/16	69488	66204
2016/17	86679	74588

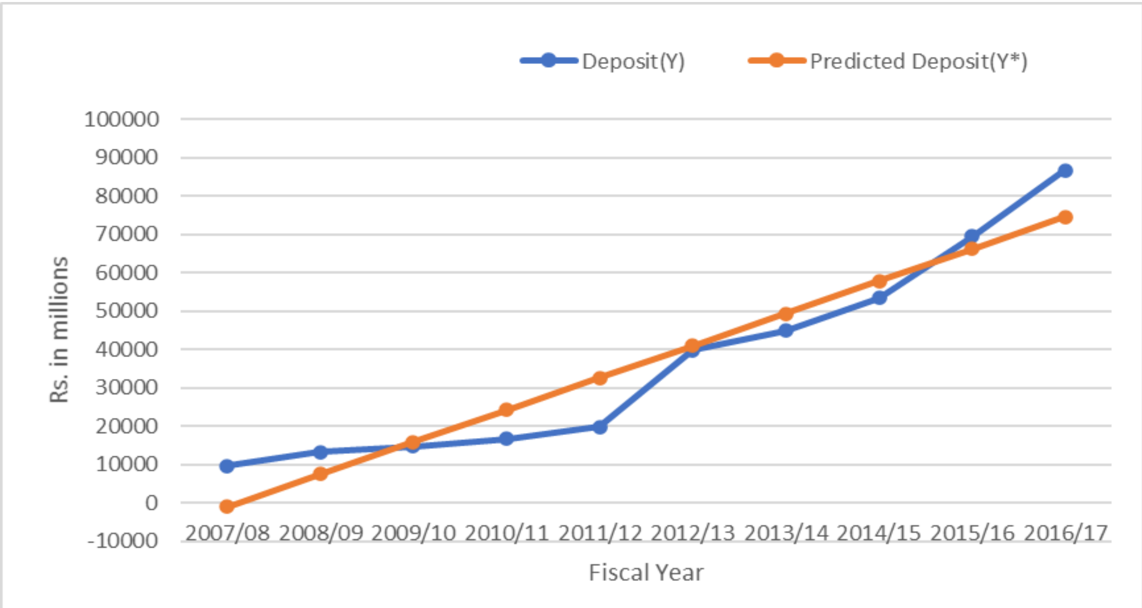

Figure 4.2 Deposits and its Predicted Values

Table 4.6 shows the actual value of deposit and its predicted values of NIC Asia pre-merger and post-merger period of study. The table illustrates that the difference of deposit and its trend value is negative during fiscal year 2009/10 to 2014/15 while positive during 2007/08, 2008/09, 2015/16 and 2016/17. The negative difference is very large in FY 2011/12. The positive difference is very large in FY 2016/17. Actual deposit depicts better improvement after merger.

Figure 4.2 shows the actual and predicted value of deposit. The curve of actual deposit shows an upward trend. The curve of actual deposit is higher than the curve of trend value in period2007/08, 2008/09, 2015/16 and 2016/17. The curve of actual deposit is lower than the curve of trend value from 2009/10 to 2014/15.

3) Investment

Table 4.7

Actual and Predicted Investment of NIC Asia

Fiscal Year	Actual Investments(Y)	Predicted Investment(Y*)
2007/08	1775	904
2008/09	2593	2114
2009/10	4103	3323
2010/11	4129	4532
2011/12	3295	5742
2012/13	6812	6951
2013/14	6485	8160
2014/15	10124	9369
2015/16	12790	10579
2016/17	11494	11788

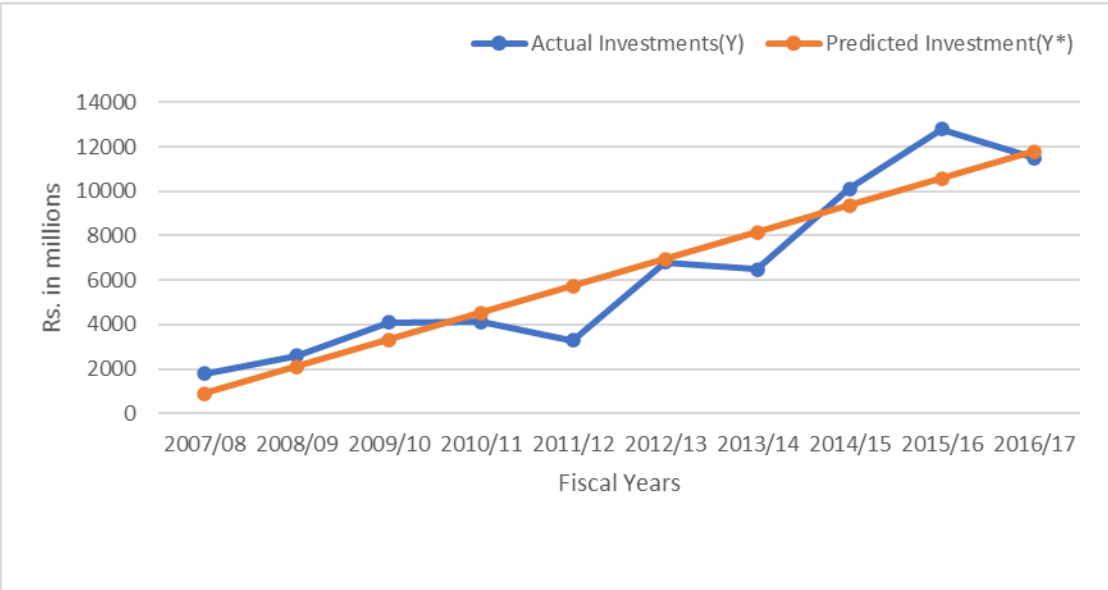

Figure 4.3 Investment and its Predicted Values

Table 4.7 shows the actual value of investment and its predicted values of NIC Asia pre-merger and post-merger period of study. The table depicts that the difference of investment and its trend value is negative during fiscal year 2010/11 to 2014/15 then on 2016/17 whereas positive during 2007/08, 2008/09 and 2015/16. The negative difference is very large in FY 2011/12. The positive difference is very large in FY 2015/16.With regard to investment the performance of investment more satisfactory during post-merger period.

Figure 4.3 shows the actual and predicted value of investment. The curve of actual investment shows a fluctuating trend. The curve of actual deposit is higher than the curve of trend value in period 2007/08, 2008/09, 2015/16 and 2016/17. The curve of actual deposit is lower than the curve of trend value from 2009/10 to 2014/15.

4) Loan & Advances

Table 4.8

Actual and Predicted Loan & Advances of NIC Asia

Fiscal Year	Loan & Advances(Y)	Predicted Loan & Advances(Y*)
2007/08	8419	454
2008/09	11665	6397
2009/10	12190	12341
2010/11	13836	18285
2011/12	15550	24229
2012/13	31560	30173
2013/14	36325	36117
2014/15	42144	42061
2015/16	58451	48005
2016/17	71585	53949

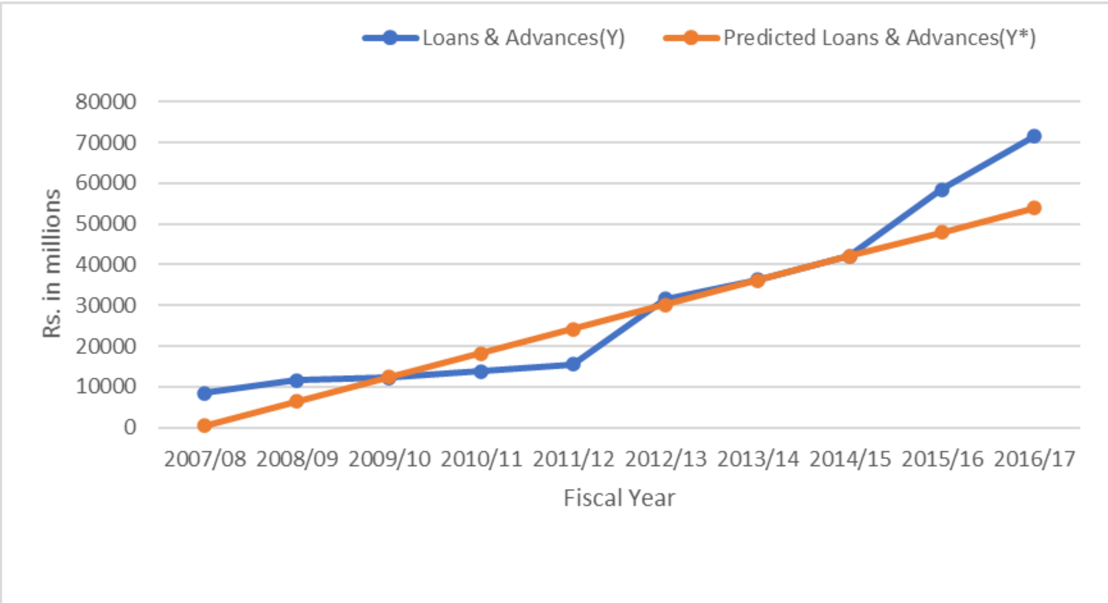

Figure 4.4 Loans & Advances and its Predicted Values

Table 4.8 displays the actual value of loans & advances sand its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of loans & advances and its trend value is negative during fiscal year 2010/11 and 2011/12 whereas positive during 2007/08, 2008/09, 2009/10 then from 2012/13 to 2016/17. The negative difference is very large in FY 2011/12. The positive difference is very large in FY 2016/17. The actual value of loans and advances is higher than its predicted value after merger which shows that the performance of NIC Asia with regards to loans and advances has improved and is satisfactory after merger.

Figure 4.4 shows the actual and predicted value of loans and advances. The curve of actual loans and advances shows an increasing trend. The curve of actual loan and advances is gradually higher than the curve of trend value in post-merger period. The curve of actual loans and advances is lower than the curve of trend value during 2010/11 and 2011/12 while higher in all remaining FY.

5) Fixed Assets

Table 4.9

Actual and Predicted Fixed Assets of NIC Asia

Fiscal Year	Fixed Assets(Y)	Predicted Fixed Assets(Y*)
2007/08	150	100
2008/09	229	177
2009/10	279	253
2010/11	305	330
2011/12	323	406
2012/13	465	483
2013/14	523	560
2014/15	567	636
2015/16	537	713
2016/17	1066	790

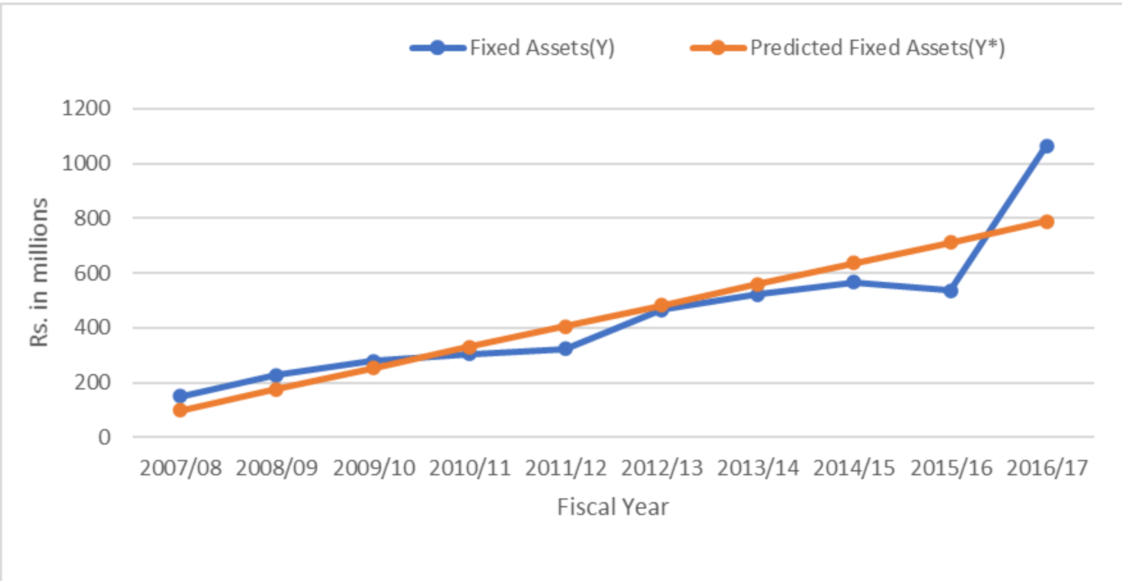

Figure 4.5 Fixed Assets and its Predicted Values

Table 4.9 shows the actual value of fixed assets and its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of fixed assets and its trend value is negative during fiscal year 2010/11 to 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 and 2016/17. The negative difference is very large in FY 2015/16. The positive difference is very large in FY 2016/17. Table illustrates that the difference of actual fixed assets and its trend value are negative throughout post- merger period remarkably positive in FY 2016/17 which shows unsatisfactory performance post-merger period till FY 2015/16 then dramatically improved performance in FY 2016/17.

Figure 4.5 shows the actual and predicted value of fixed assets. The curve of actual fixed assets shows an upward trend. The curve of actual fixed assets is lower than the curve of trend value in post-merger period till FY 2015/16 then higher in FY 2016/17. The curve of actual loans and advances is higher than the curve of trend value initially during 2007/08 and 2008/09 while lower in all remaining FY of pre-merger period.

6) Total Assets

Table 4.10

Actual and Predicted Total Expenditure of NIC Asia

Fiscal Year	Total Assets(Y)	Predicted Total Assets(Y*)
2007/08	11590	277
2008/09	16382	9748
2009/10	18721	19219
2010/11	20627	28690
2011/12	23010	38162
2012/13	46535	47633
2013/14	51500	57104
2014/15	60519	66575
2015/16	80457	76046
2016/17	99266	85518

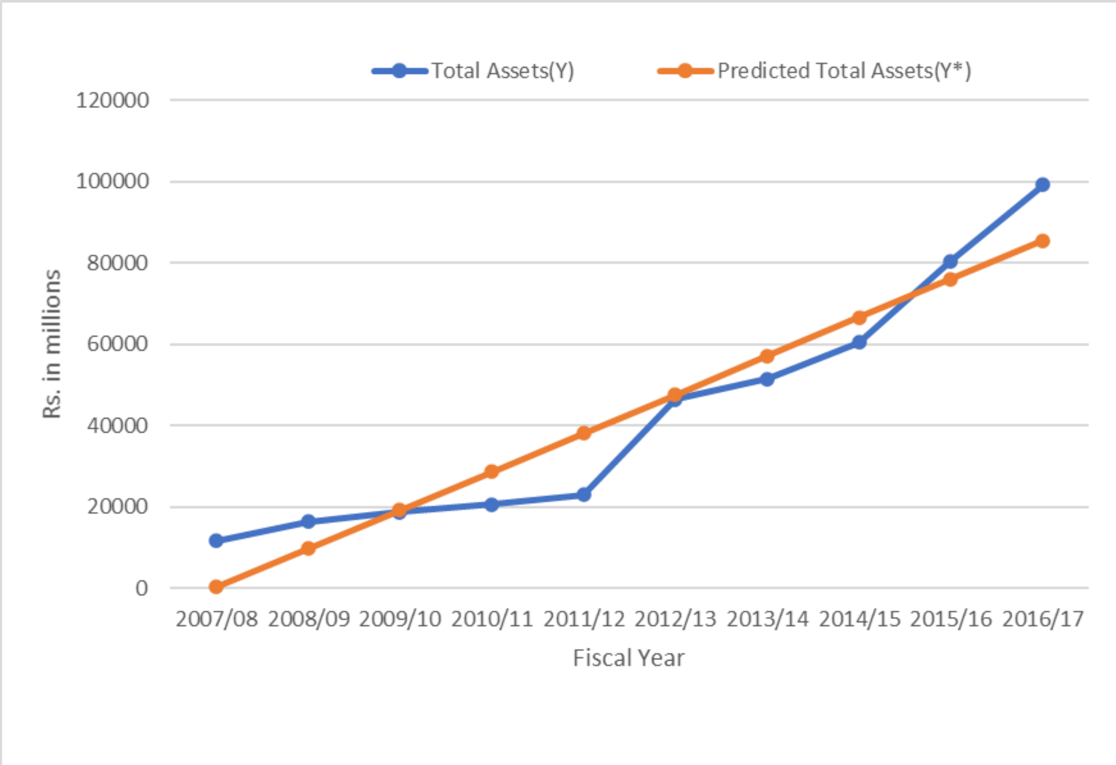

Figure 4.6 Total Assets and its Predicted Values

Table 4.10 exhibits the actual value of total assets and its predicted values of NIC Asia pre-merger and post-merger period of study i.e from FY 2007/08 to 2016/17. The table reveals that the difference of total assets and its trend value is negative during fiscal year 2010/11 to 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 and 2016/17. The negative difference is very large in FY 2015/16. The positive difference is very large in FY 2016/17. Table 4.10 illustrates that the difference of actual total assets and its trend value are negative throughout post- merger period remarkably positive in FY 2016/17 which shows unsatisfactory performance post-merger period till FY 2015/16 then dramatically improved performance in FY 2016/17.

Figure 4.6 shows the actual and predicted value of fixed assets of NIC Asia from FY 2007/08 to 2016/17. The curve of actual fixed assets shows an upward trend. The curve of actual fixed assets is lower than the curve of trend value in post-merger period till FY 2015/16 then higher in FY 2016/17. The curve of actual loans and advances is higher than the curve of trend value initially during 2007/08 and 2008/09 while lower in all remaining FY of pre-merger period.

7) Interest Expenses

Table 4.11

Actual and Predicted Interest Expenses of NIC Asia

Fiscal Year	Interest Expenses(Y)	Predicted Interest Expenses(Y*)
2007/08	380	186
2008/09	638	535
2009/10	978	885
2010/11	1378	1234
2011/12	1519	1583
2012/13	1420	1932
2013/14	2197	2281
2014/15	2340	2630
2015/16	2444	2980
2016/17	4357	3329

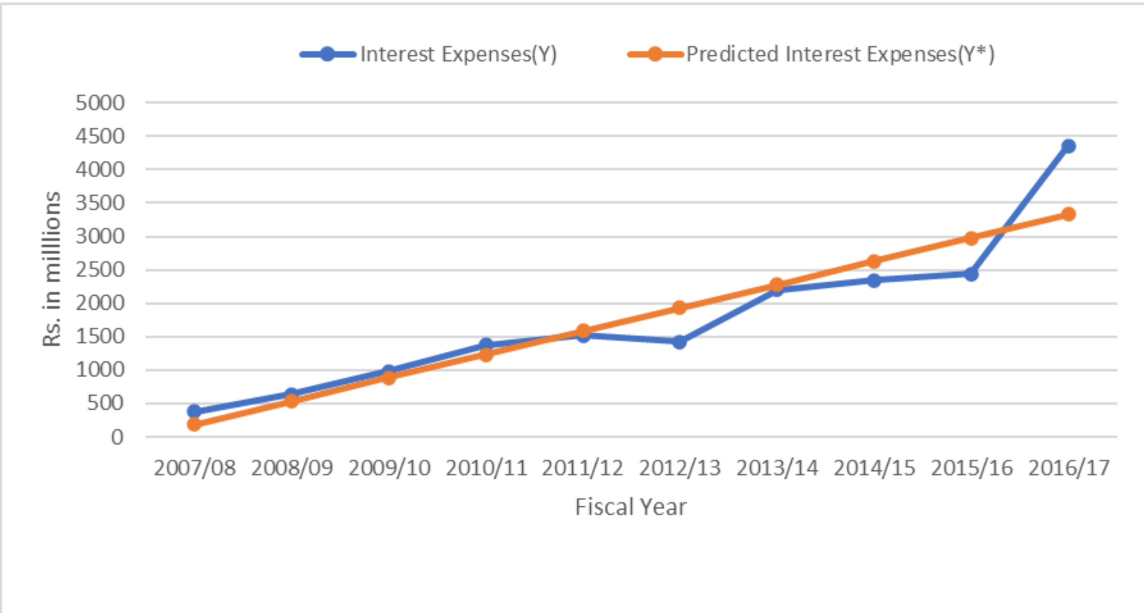

Figure 4.7 Interest Expenses and its Predicted Values

Table 4.11 displays the actual value of interest expenses and its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of interest expenses and its trend value is negative during fiscal year 2011/12to 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 ,2010/11 and 2016/17. The negative difference is very large in FY 2015/16. The positive difference is very large in FY 2016/17. Table 4.11 illustrates that the difference of actual interest expenses and its trend value are negative throughout post- merger period which shows better performance except in FY 2016/17 which shows unsatisfactory performance post-merger period.

Figure 4.7 shows the actual and predicted value of interest expenses. The curve of actual interest expenses shows a fluctuating trend. The curve of actual interest expenses is lower than the curve of trend value in post-merger period till FY 2015/16 then higher in FY 2016/17.

8) Interest Income

Table 4.12

Actual and Predicted Interest Income of NIC Asia

Fiscal Year	Interest Income(Y)	Predicted Interest Income(Y*)
2007/08	684	327
2008/09	1050	913
2009/10	1642	1500
2010/11	2167	2086
2011/12	2269	2672
2012/13	2663	3258
2013/14	3995	3845
2014/15	3918	4431
2015/16	4402	5017
2016/17	6909	5604

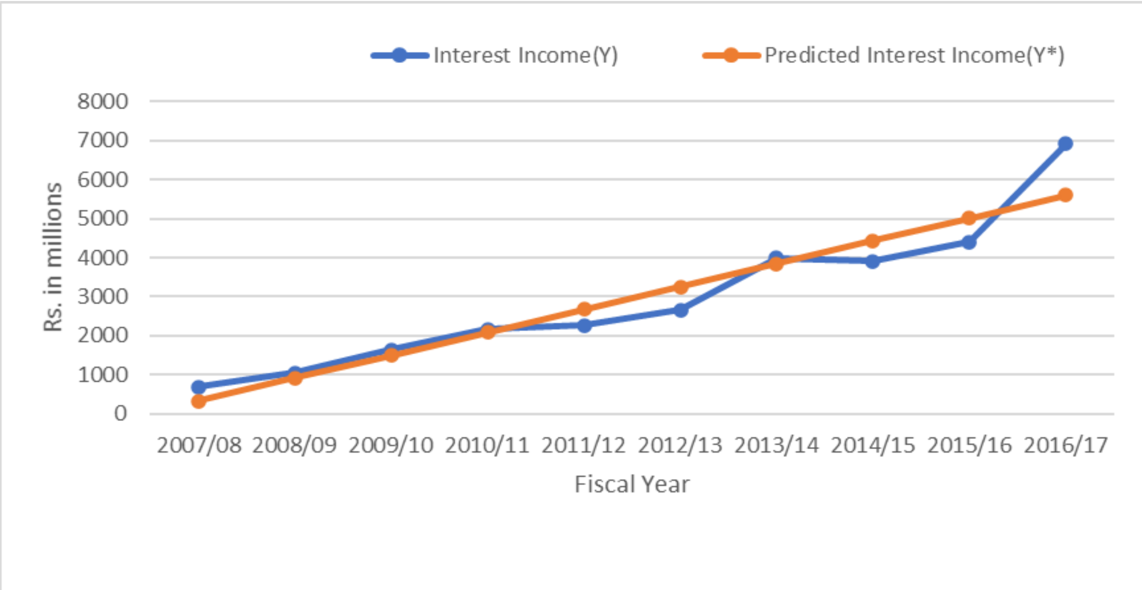

Figure 4.8 Interest Income and its Predicted Values

Table 4.11 shows the actual value of interest expenses and its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of interest expenses and its trend value is negative during fiscal year 2011/12, 2012/13, 2014/15 and 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 ,2010/11, 2013/14 and 2016/17. The negative difference is very large in FY 2015/16. The positive difference is very large in FY 2016/17. Table 4.12 illustrates that the performance of interest income and its trend value are negative throughout post- merger period which shows degraded performance except in FY 2013/14 and 2016/17 which shows satisfactory performance post-merger period.

Figure 4.8 shows the actual and predicted value of interest income. The curve of actual interest income shows a fluctuating trend. The curve of actual interest expenses is lower than the curve of trend value throughout post-merger period except in 2013/14 and FY 2016/17.

9) Total Expenditure

Table 4.13

Actual and Predicted Total Expenditure of NIC Asia

Fiscal Year	Total Expenditure(Y)	Predicted Total Expenditure(Y*)
2007/08	117	-53
2008/09	177	93
2009/10	256	238
2010/11	315	383
2011/12	372	528
2012/13	467	674
2013/14	764	819
2014/15	874	964
2015/16	1053	1110
2016/17	1595	1255

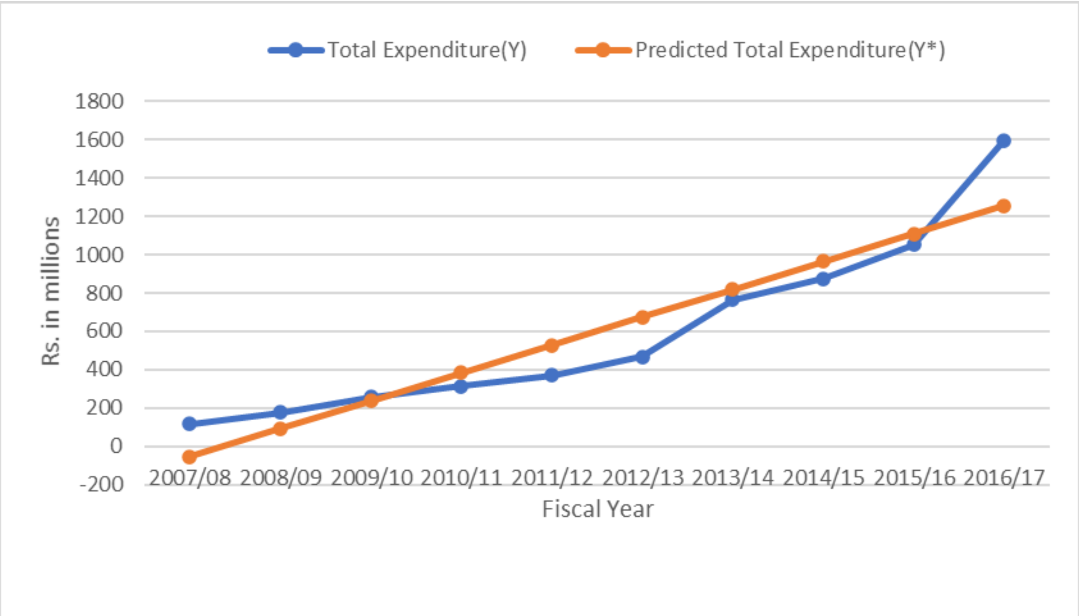

Figure 4.9 Total Expenditure and its Predicted Values

Table 4.13 exhibits the actual value of total expenditure and its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of total expenditure and its trend value is negative during fiscal year 2010/11 to 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 and 2016/17. The negative difference is very large in FY 2012/13. The positive difference is very large in FY 2016/17. The difference of actual total expenditure and its trend value are negative throughout post- merger period which shows better performance except in FY 2016/17.

Figure 4.3.9 shows the actual and predicted value of total expenditure. The curve of actual total expenditure shows an upward trend. The curve of actual total expenditure is lower than the curve of trend value in post-merger period till FY 2015/16 then higher in FY 2016/17.

10) Total Income

Table 4.14

Actual and Predicted Total Income of NIC Asia

Fiscal Year	Total Income(Y)	Predicted Total Income(Y*)
2007/08	390	140
2008/09	575	457
2009/10	850	774
2010/11	992	1092
2011/12	947	1409
2012/13	1534	1726
2013/14	2239	2044
2014/15	2102	2361
2015/16	2613	2678
2016/17	3447	2996

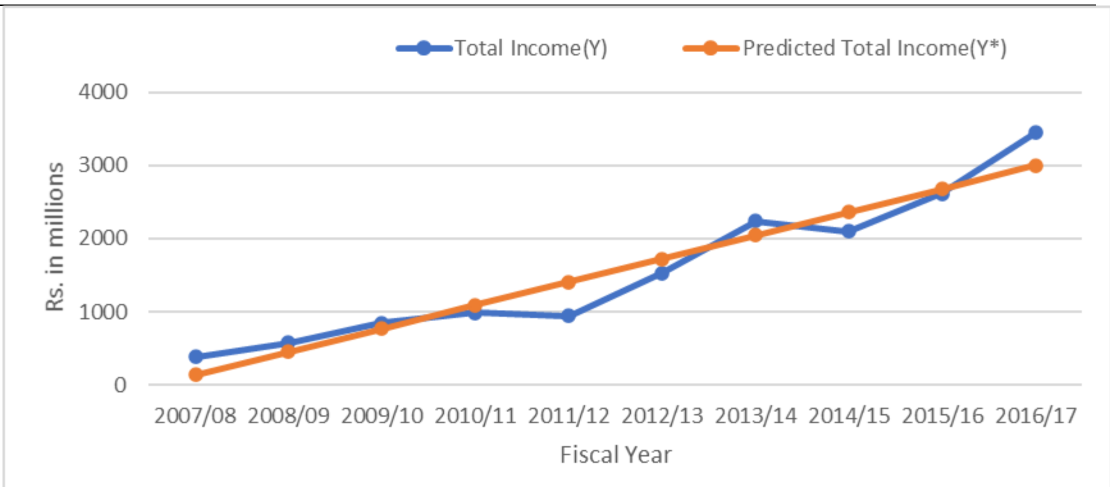

Figure 4.10 Total Income and its Predicted Values

Table 4.14 displays the actual value of total income and its predicted values of NIC Asia pre-merger and post-merger period of study. The table reveals that the difference of total income and its trend value is negative during fiscal year 2010/11, 2011/12, 2012/13, 2014/15 and 2015/16 while these are positive during 2007/08, 2008/09, 2009/10 ,2010/11, 2013/14 and 2016/17. The negative difference is very large in FY 2011/12. The positive difference is very large in FY 2016/17. Table 4.14 depicts that the performance of total income has not improved after merger.

Figure 4.10 shows the actual and predicted value of total income. The curve of actual total income shows a fluctuating trend. The curve of actual total income is lower than the curve of trend value throughout post-merger period except in 2013/14 and FY 2016/17.

11) **Net Profit**

Table 4.15

Actual and Predicted Net Profit of NIC Asia

Fiscal Year	Net Profit(Y)	Predicted Net Profit(Y*)
2007/08	164	49
2008/09	232	175
2009/10	369	301
2010/11	400	427
2011/12	319	554
2012/13	642	680
2013/14	832	806
2014/15	680	932
2015/16	1067	1059
2016/17	1476	1185

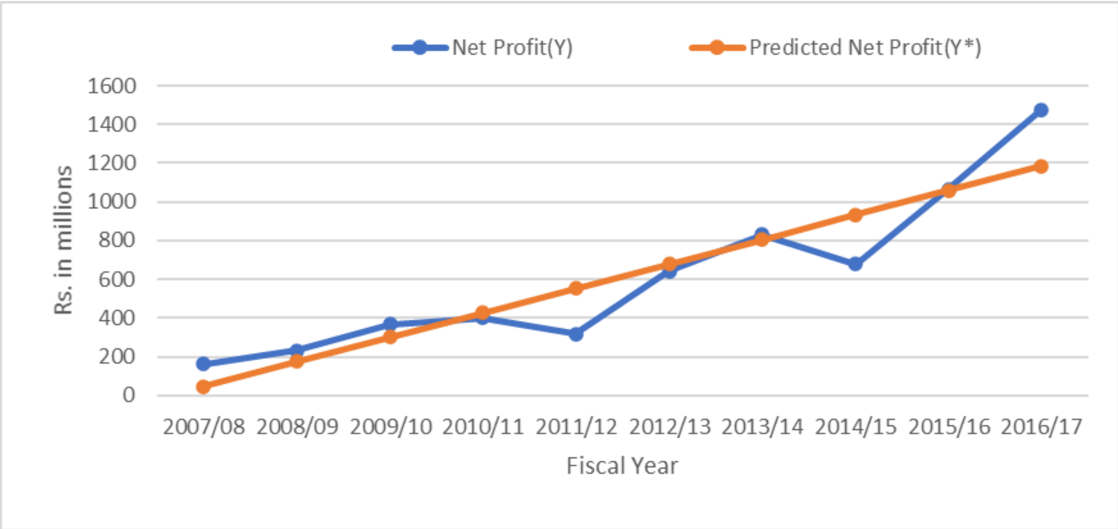

Figure 4.11 Net Profit and its Predicted Values

Table 4.15 presents the actual value of net profit its predicted values of NIC Asia pre-merger and post-merger period of study. The table presents that the difference of net profit and its trend value is negative during fiscal year 2010/11, 2011/12, 2012/13 and 2014/15 while these are positive during 2007/08, 2008/09, 2009/10, 2013/14 and 2016/17. The negative difference is very large in FY 2014/15. The positive difference is very large in FY 2016/17. Table 4.15 shows that the performance of net profit has not improved after merger.

Figure 4.11 shows the actual and predicted value of net profit. The curve of actual net profit shows a fluctuating trend. The curve of actual net profit is higher than the curve of trend value throughout post-merger period except in FY 2012/13 and FY 2014/15.

12) Non Performing Assets

Table 4.16

Actual and Predicted Net Profit of NIC Asia

Fiscal Year	Actual NPA(Y)	Predicted NPA(Y*)
2007/08	18	38
2008/09	31	49
2009/10	22	60
2010/11	23	71
2011/12	101	82
2012/13	212	93
2013/14	253	104
2014/15	180	115
2015/16	62	126
2016/17	26	137

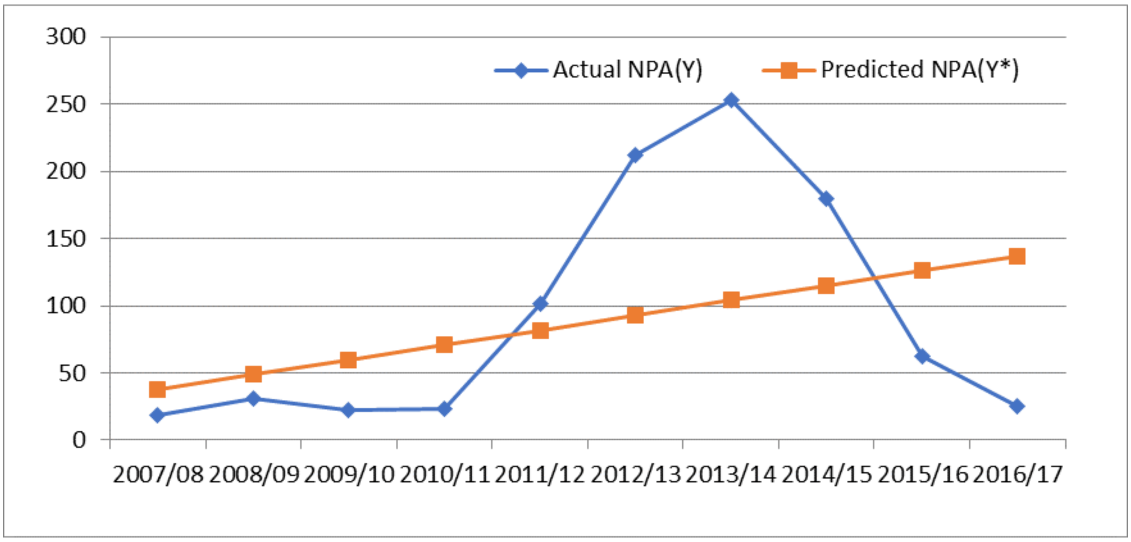

Figure 4.12 Non Performing Assets and its Predicted Values

Table 4.16 presents the actual value of non performing assets and its predicted values of NIC Asia pre-merger and post-merger period of study. The table presents that the difference of non performing assets and its trend value is negative during fiscal year 2007/08, 2008/09, 2009/10, 2010/11, 2015/16 and 2016/17 while these are positive during 2011/12, 2012/13, 2013/14, and 2016/17. The negative difference is very large in FY 2014/15. The positive difference is very large in FY 2013/14. Table 4.16 shows that the performance of non performing assets has not improved after merger.

Figure 4.12 shows the actual and predicted value of non performing assets. The curve of actual non performing assets shows a fluctuating trend. The curve of actual non performing assets is higher than the curve of trend value throughout post-merger period except in FY 2015/16 and FY 2016/17.

4.4 Major Findings

The study confirmed mixed results on impact of merger on financial performance in financial institutions of Nepal.

- The post-merger increases in average of all variable have shown improvement which reveals that merger was successful during study period data analyzed.
- Merger leads BFIs to efficient use of synergized resources and strategic realignment provides more market power.
- This study analyzed a paired t-test at level of 95% confidence level found that there was significant difference between pre-merger and post-merger capital, deposits, investment, loan and advances, fixed assets, interest income, total income, interest expenses, total expenditure, net profit and total assets of the bank. There is no significant difference between pre-merger and post-merger NPA of the bank. The null hypothesis is rejected in all variables except NPA.
- From data analyzed above from viewpoint of regression's beta coefficient depicts that all financial variable's except NPA increased in post-merger period which reveals positive impact of merger on financial performance.
- The result of regression equation has been found effective after merger of NIC and BoAN from the view of capital, deposit, investment, loans and advances, interest expenses and total expenditure whereas from the views of net profit, total income, interest income, total assets, fixed assets and NPA outcome of regression equation is found ineffective.

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter presents a summary of the results on the impact of mergers and acquisition on financial performance in financial institution of Nepal.

5.1 Summary

The objective of the study was to determine the impact of mergers on the financial performance of financial institutions in Nepal. All class bank and financial institution licensed by NRB is chosen as population for the study. Sample bank was NIC Asia Bank Limited. The study is completely based on secondary data collected from annual report from websites of sample bank i.e NIC Asia Bank Limited. Limited financial variables such as capital, deposits, investment, loans & advances, fixed assets, interest income, interest expenses, total income, total expenditure, net profit, total assets and non performing assets has been taken for study. Similarly, statistical tools mean, standard deviation, t-test and regression analysis has been applied for the study.

As a result, the regression equation has been found effective from the point of view of capital, deposit, investment, loans and advances, interest expenses and total expenditure. This reflects that there is a positive impact of merger on these variables. In the case of net profit, total income, interest income, total assets, fixed assets and NPA, the result of regression equation has been found ineffective. This result indicates that there has been a negative impact of merger of NIC Asia on these variables. In order to ensure the significance of change in mean values before and after merger, "t" test has been used. As a result, the null hypothesis is rejected in terms of capital, deposit, investment, loans and advances, interest expenses, fixed assets, interest income, total income total expenses, net profit and total assets which means there is a significant difference in terms of these variables before and after the merger. In terms of NPA, the null hypothesis is accepted which means that there is no significant differences in these variables before and after the merger. Likewise, beta coefficient was analyzed. It can be seen that the beta for capital, deposit, total expenditure, investment, fixed assets, net profit, total income, interest income, loans and advances and total asset has increased, which means that the rate of increase in these variables have increased after merger. Similarly, the beta for NPA has decreased, which means that the rate of increase of these variables has decreased after the merger. Beta coefficient increase show improved financial performance for variables in post-merger period. Beta coefficient decrease in NPA post-merger show that post-merger financial performance of NIC Asia has improved. Merger proved to be fruitful for NIC Asia. Therefore, from an overall outlook, the researcher can summarize that there is mixed result on financial performance of NIC Asia after its merger.

5.2 Conclusion

Studies done on mergers and acquisitions have not conclusively established whether or not banks benefit from mergers. Though most of the literatures on mergers and acquisitions have revealed that M&A's have a positive impact on the financials of the merged entity, some of the studies have also observed that mergers did not lead to an improvement in financial performance as indicated by their profitability and earnings ratios. Like in this research work which is based on NIC merge with BOAN, the results have not been favorable, these are at best mixed. The outcome of the research obtained has indicated that there is a positive impact of merger of NIC Asia on some variables such as- capital, deposit, investment, loans and advances, interest expenses and total expenditure from viewpoint of regression equation. On contrary, in the case of net profit, total income, interest income, total assets, fixed assets and NPA, the result indicates that there has been a negative impact of merger of NIC Asia on these variables. Beta coefficient result showed positive impact of merger in all variables showing successful merger of NIC Asia. Further, though the descriptive data analysis depicts that the situation of NIC Asia after the merger has improved as all average of variables have increased by more than 150% up to 295%. T test rejected null hypothesis in all studied variable except NPA showing that there is significant difference between pre and post merger financial performance. Therefore, the researcher arrived at the conclusion that merger or large size is just a facilitator, but no guarantee for improved profitability.

With increased financial institutions stability and ability to lend, the financial institutions in turn make higher profits. The study also concludes that merging/acquisitions on its own cannot achieve strong, efficient and competitive banking systems because performance is dependent on several factors. It explained mergers/acquisition need to be supplemented by other measures such as enhancing the expertise and professionalism of the banking personnel and bringing about more effective corporate governance to further increase the resilience and competitiveness of the banking institutions in the context of the challenges of a globalized and liberalized environment.

5.3 Recommendations

This study concentrated on the impact of mergers and acquisition on the financial performance of financial institutions in Nepal. This study therefore recommends that another study be done to establish the impact of bank expansion on the financial performance of Nepalese financial institutions. Further studies should also be carried out for a longer period to determine whether there is significant impact of mergers on bank performance. More variables both the quantitative and qualitative should be included in the studies to come up with a more comprehensive conclusion.

- Further, merger can be expected to yield positive impact when the bidder BFIs is commercial banks, which are relatively larger in size. These larger institutions have the capacity to provide the financial stability and backup to the merging institution and produce synergy effect after the merger supporting the evidence.
- Further researcher can analyze data in place of actual values so as to make the research more robust and make more generalized to the findings of the study.
- Further researcher can use different tools and techniques of researcher so as to ratify the study of the results, Researcher also can apply the same methods in the different population that is in manufacturing and public sector so that the study findings can be tested in different sector so as to generalize the findings in all performed areas of business.
- The study strategic and financial results are closely linked, and the performance in one area can impact the other. A high level of profitability performance may result from an effective strategy, but good financial results let you pursue strategies that require substantial investments.

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IMPACT OF MERGER ON PROFITABILITY PERFORMANCE OF FINANCIAL INSTITUTIONS IN NEPAL

(A STUDY ON PRE AND POST MERGER OF NIC AND BANK OF ASIA)

A THESIS PROPOSAL

Submitted by

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TU Regd no.: 7-2-199-101-2012

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Submitted to

Head of Research Department

Peoples Campus

Chhetrapati, Kathmandu

In partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS)

Kathmandu

January 2020

1.1 Introduction of study

Merger refers to combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. Greenwood et al. (1994) define, “A merger involves a blend of two companies, rather than mere legal enjoinment or absorption of one firm into another". 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 (Ross, Westerfield, & Jordan, 2003). The primary reason for corporations to conduct M & A activities is for achieving synergy by combining two companies to increase their competitive advantage (Porter, 1985).

Mergers and Acquisitions (M&As) are most widely used strategy by firms to strengthen and maintain their position in the market place. M&As are considered as a relatively fast and efficient way to expand into new markets and incorporate new technologies. Still, we can find many evidences that their success is by no means assured. On the contrary, a majority of M&As fall short of their stated aims and objectives. Some failure can be explained and justified by financial and market factors. On the contrary a considerable number can be traced, which has neglected those factors, which are related to human resources issues and activities.

M & As has become a key part of many corporate business strategies. M & As is a very important strategy for companies which want to expand their market share or size (Fairfield Sonn, Ogilvie, &DelVecchio, 2002).The reasons for mergers globally is that the merger will have lower fixed cost relative to its assets; it will have less need for liquidity; and it will be able to lower its equity ratio without increasing the danger of insolvency (Meir, 2008).

Banks have different reasons as to why they engage in mergers.The merger in context of bank are initiated for varied reasons such as for cost cutting through economies of scale, gaining access to a new market, strengthening a company’s marketing position, global expansion, gaining a talented work force, acquiring new knowledge and expertise, gaining a new computer base and pursuing new technologies. Bank mergers and acquisitions may enable banking firms to benefit from new business opportunities that have been created by changes in the regulatory and technological environment. Besides improvement in cost and profit efficiency; mergers and acquisitions could also lead banks to earn higher profits through the banks market in leveraging loans and deposit interest rates(Sufian, 2004). The merger may therefore serve as a disciplinary device for the bank management to improve the performance of the bank or as a means of implementing unpleasant business measure.

A note of caution however, encouraging or forcing banks to merge in times of severe banking crisis as a measure to reduce bank failure risk, would not only possibly create a weaker bank, but could also worsen the banking sector crisis. As shown by Shih (2003), merging a weaker bank into a healthier bank in many cases would result in a bank even more likely to fail than both the predecessors' bank. On the other hand, he found that mergers between relatively healthy banks would create banks that are less likely to fail.

Nepal Industrial and Commercial (NIC) Bank and Bank of Asia Nepal (BoAN), two commercial banks, for the first time in Nepali banking history merged into NIC Asia Bank Limited. The merger has made NIC Asia, one of the top five banks of the country in terms of capital size and branch network.

1.2 Statement of Problem

BFIs in Nepal adopted merger strategy very lately; though it has more than 120 years long history internationally. Previously, NRB adopted the liberal licensing policy as the consequence there was a tremendous growth in numbers of BFIs and now the overcrowding is hurting the financial sector. 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. The objective of the merger by-laws was to strengthen the BFIs position and performance by reducing the number of institutions.

Thus the study will try to identify following queries regarding mergers of NIC and Bank of Asia:

- What is the impact of merger in the profitability performance of NIC Asia Bank Ltd?
- What are the pre and post profitability performance?

- What is the current market situation and what is it likely to be in future for NIC Asia Bank Ltd?

1.3 Research objective

The primary objective of this study is to analyze the impact of mergers on the different financial indicators of NIC Asia Bank Ltd and also to analyze its impact on welfare of NIC Asia Bank Ltd stakeholders including customers, employees, investors and government.

The other purpose of this study can be listed as follow:

- To analyze the profitability pre and post merger NIC Asia Bank Ltd
- To study the impact of merger on profitability for NIC Asia Bank Ltd.
- To know the current market situation of NIC Asia Bank Ltd

2. Review of Literature

Abbas and et.al.(2014) made a study on “Financial performance of banks in Pakistan after Merger and Acquisition.” The objective of the study was to evaluate the financial performance of banks in Pakistan after M&A. The financial and accounting data for 10 banks was taken from the Financial Statement Analysis. Profitability & Efficiency, Leverage, and Liquidity ratios were used to measure the financial performance, where pre and post ratio analysis was done. Results of the study showed decrease in profitability, efficiency, liquidity, and leverage ratio(s) in most of the banks after merger and acquisition.

Said and Bouri(2013) made a study on “Efficiency of French Bank mergers and acquisitions”. The objective of this paper was to study the impact of mergers and acquisitions on merged French banks. They used the DEA model under intermediation approach, input orientation and variable scale yield. The empirical findings showed that the overall efficiency of merged French banks on average improved by 17.82%.

Beccalli and Frantz (2012) investigated the effects of M&A on the performance of banks and explored the sources of merger-induced changes in performance. They used a sample of 714 deals involving European Union (EU) acquirers and targets throughout the world from 1991 to 2005. Their results show that M&A slightly deteriorate performance measured by return on equity, cash flow return, and profit efficiency and improve performance measured by cost efficiency. They attributed these changes in performance directly to M&As' operations and argued that the changes would not have occurred in the absence of M&A.

Juma and et.al.(2012) made a study on "Impact of bank mergers on shareholders wealth". The main objective of this study was to comprehend the impacts that previous bank mergers have had on the shareholders' wealth. They adopted descriptive survey and correlation design in which the success of mergers was measured using annual accounts and the study was based in Kenya. The study computed the return on assets (ROA), return on equity (ROE) and the efficiency ratio (EFF) as indicators of shareholder value. The results of the commercial banks were analyzed for a five-year period (2006-2010).The study reveals that mergers significantly influence shareholder value with banks that have undertaken merger creating more value than those that have not. In addition, banks that have undertaken M&As have been determined to have posted better results than the overall banking sector performance. The findings assert that the organizational factors such as relative sizes of merging partners, method of financing M&As and the number of bidders in M&As have the potential to influence the realization of a M&As success.

Mishra, Gordon and Peterson (2005) study examined the contribution of the acquired banks in only the non-conglomerate types of mergers (i.e., banks with banks). Basically, scholars tend to identify the motives for mergers between the firms but this paper had attempted to identify the components of risk in bank mergers in US. The sample consist of consists of 14 acquiring banks and their targets for this period. The weekly returns data for the banks are obtained from the Center for Research in Security Prices (CRSP), and the market value data for weights (w) are obtained from the COMPUSTAT database. Following Joehnk and Nielson (1974) and Prakash (1999), this paper estimates the various measures of risk using Sharpe's single index market model. Thirteen out of the 14 banks show a decline in total risk after the merger. Of these 13 banks, eight show a statistically significant decline. Only one of the 14 shows an increase after the merger. They found overwhelmingly statistically significant evidence that non conglomerate types of mergers definitely reduce the total as well as the unsystematic risk while having no statistically significant effect on systematic risk. The paper had provided convincing evidence that there is reduction in total risk after the merger.

3. Theoretical Framework

The theoretical framework is developed so that it serves as foundation on which the entire research is based.

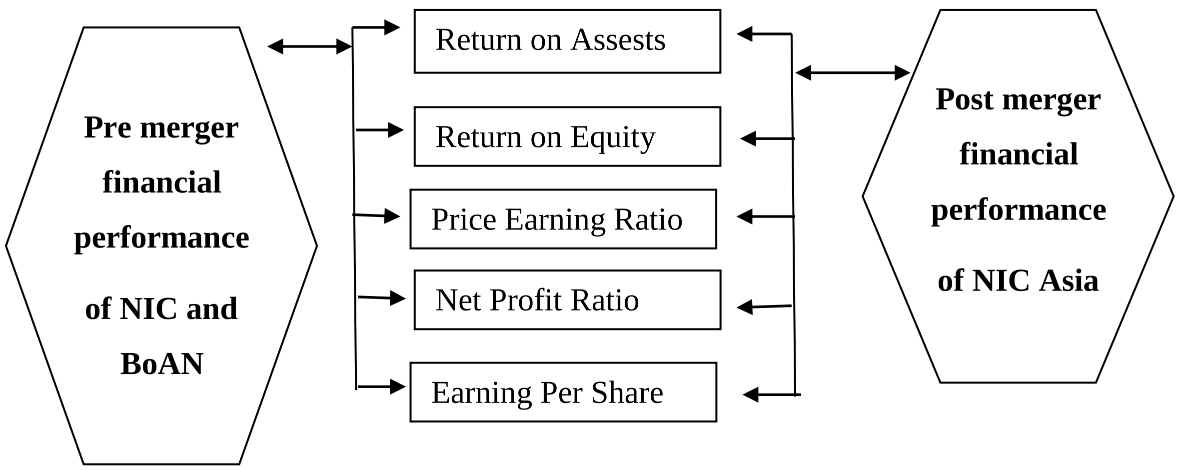


Figure 1-1: Theoretical Framework

4 Research Methodology

4.1 Research Design

The research design is the specification of methods and procedure for acquiring the information needed to structure of solve problems. The descriptive data analysis and the inferential data analysis are done in this chapter. For this purpose, descriptive and inferential analyses are used. Analysis was basically done on the basis of secondary data of pre and post merger years (2011to 2015) taken from the banks websites. This study tries to describe and analyze all these facts that have been collected for the purpose of the study.

4.2 Population and Sample Size

Population implies the whole or totality of observation that have been selected for the study. Population is also known as universe sample, which represents the total population attributes and characteristics. Sample size with purposive/ judgmental sampling will be done of Merger between NIC Bank and Bank of Asia being a first merger between two same class banks.

4.3 Nature and Source of Data

Data will be generally of secondary nature and will be collected through;

- gathered through website of respective banks,
- annual supervision report from NRB,
- NRB directives and Bank and Financial Statistics.

4.4 Definition of variables

Merger and acquisition deals increase the profitability of the merged firms. A merger may lead to an increase in output, e.g. because the merger significantly increases the efficiency of the combined firm or led to product improvements and demand shifts. Data analysis will be based on dependent variable such as return on assets and return on equity.

4.5 Method of Data Analysis

The research will both use descriptive and inferential analysis. Descriptive statistics includes statistical procedures that we use to describe the population we are studying while inferential statistics is concerned with making predictions or inferences about a population from observations and analyses of a sample. The steps followed for analysis of data will be as follows:

- Firstly, all the required data will be collected from financial statements of sample banks.
- Secondly, these data will be properly extracted, arranged and tabulated in Microsoft Excel program**.**

- Thirdly, with the use of the data collected from the process followed above, required variables for study will be computed with appropriate formulas.
- Financial tools such as ROE, ROA, EPS, will be analyzed.
- Then, the analysis such as regression and correlation along with descriptive will be done.
- Finally, these results and outputs will be explained thoroughly.

4.6 Limitations of the study

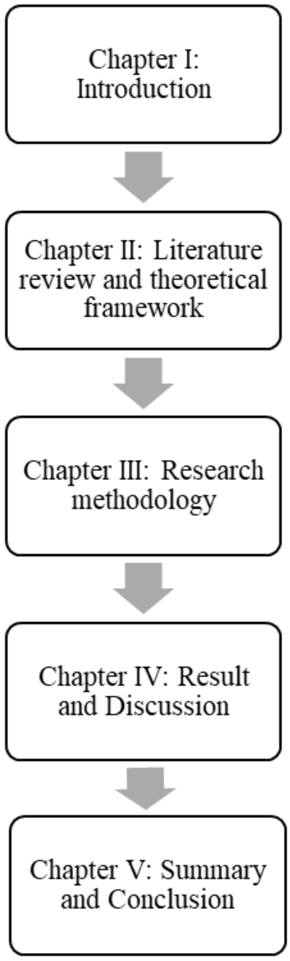
When analyzing the study, this research also couldn't be untouched from the boundaries of limitations. Some of these limitations may refer inadequate time, and lacking of the experience in research work. Besides these, some other limitations are discussed below.

Although we have seen various mergers till date, only 1 merged bank will be analyzed for the study.

- The study period covers only for the four Fiscal Years for the secondary data analysis.
- This study will also be based on secondary data like annual reports of the companies, journals, related materials from various websites and the outcomes may depend on reliability of data of such nature.
- Due to lack of experience in research work, there may be lack of detailed information required for research.

5. Organization of Study

The study is classified into five different chapters. The first chapter provides brief outline of the topic under study. The second chapter deals with the review of literature that includes review of related books, journals, articles, previous unpublished graduate research reports, conceptual framework and the research gap. The third chapter explains the research methodology used in the study. It includes research design, population and sampling, types and source of data, data collection procedure, method of analysis and analytical tools to use. The fourth chapter deals with presentation of the data collected through various sources and analysis of data as well as major findings of the study. The descriptive data analysis and the inferential data analysis are done in this chapter. The fifth chapter covers the summary of the study, findings and the main conclusion drawn from the study.



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