# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the study

Merger is combination of two or more than two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Maintaining the identity of one of the corporations and acquisition is the process of acquiring the assets in the course of the merger. And another word merger is the combination of two or more entities by purchase acquisition whereby the identity of one of the entities remain while the others beings dissolved. The reason behind the merger transactions are basically gaining market share, competitive advantage, increasing revenues and risk and product diversifications. (Gaughan, (2002), De. Pamphills, (2003).

An acquisition occurs when one company takes a controlling ownership interest in another form, a Legal subsidiary of another firm, or selected assets of another firm such as a manufacturing facility. (De. Pamphilis, 2003).

Merger and acquisitions (M&A) are a recurring phenomenon in global Scenario. Merger and acquisition activities are found in all sectors over the world including banking sector is influenced by various factors such as profitability, liquidity, financial standard, operational and managerial efficiency, market share, shareholders' value, leverage, earning per share. The most dominant reason for M&A to take place is the synergy that can be created by the combination of business activities which will lead to better, faster and low cost performance. Essentially, a business that has complementary strengths and weaknesses. (Renaud, 2016)

The history of Merger and acquisitions began long before early 1900's.This period of time covers six main waves of M&A for the past 100 years and these are those of the early 1900's, 1960's, 1980's, 1990's and 2000's. In the past decades, M&A activities have increased rapidly and come to a light since 2000 when Asian the market started following the trend of U.S and Europe to cope with the downturn of economic and financial markets that began in 2000. Emerging countries such as India, China, South Korea and some ASEAN nations entered into the M&A activity as new major players in global market. Besides, cross-border M&A become an instrument to purpose a business growth in global markets. (Chand 2009)

The most of the researcher investigates the impact of merger and acquisition on two basis first on accounting method and second on the share price of data. While the accounting performance measures are very difficult to compare. Moreover, the difficulty arises in attempting to ascertain a valid combined performance measure for bidder and target as target either ceases to exist or remain an independent subsidiary of the bidder. In both cases financial reporting of holding, combine firm or target will be different (Powell and Stark 2005). However, whether a no of researcher conducted on accounting data to measure the impact of operating performance in long and short run argues that any benefit arising from acquisition will eventually be appear in company's accounting performance or records (Tuch & O' Sullivan, 2007).

Operating performance studies attempt to identify the source of gains from mergers and to determine whether the expected gains at announcement are ever actually realized. If merger truly create value for shareholders, the gains should eventually show up in the firms' cash flows. These studies generally focus on accounting measures of profitability, such as return on assets and operating margins (Andrade, Mitchell, & Stafford 2001).

Since April 2011, when Nepal Rastra Bank (NRB) introduced the merger Bylaws were introduced, there were 198 class 'A', 'B' and 'C' financial institutions in existence. The number has come down to 176, inclouding five development banks that have come into existence since then.

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brings several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and, at the verge of a collapse. “Merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them” (The Himalayan Times 2013).

The Nepal Rastra Bank, as the main principle body of all the BFIs was becoming concerned with the unfortunate state of the BFIs. The central Bank planned to improve the health of the financial sector by introducing the merger Bylaw 2011 grounded on the company Act 2063 article 177, BAFIA 2063 article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. Otherwise, many BFIs may have to die (Gautam2012).

The researcher will highlight the merger impacts on the performance of company liquidity, profitability, market prospect and their shareholders. It will be of significant importance for company and other firms in the institutions to recognize the importance of merger and acquisitions and impacts on company’s performance and synergies achieved through them. This research will also be helpful to managers and executives as it will provide them an in-depth analysis of the relationship between merger and performance level. This study would particularly be helpful to following stakeholders: Corporate stockholders and managers, investors, government, brokers, investments banks, business partners, creditors, customers and the public in general.

Mergers and acquisitions (M&A) are being increasingly used the world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale etc. Merger is the combination of two or more entities through a purchase acquisition or pooling of interests, it is different from consolidation as there is no new entity is created from merger. The motives behind mergers acquisitions are economy of scale, economy of scope, increase market share and revenues, taxation, synergy, geographical and other diversification. Due to these reasons banks merged with one another or targeted by acquiring bank.

Decisions on merger and acquisition deals require a serious focus and attention need to be paid when companies make acquisition because it might affect the financial performance of the bidder firm. Where such merger and acquisitions take place, the acquiring company may not always be in profitable positions; it impacts the liquidity, profitability, operational and managerial efficiency status of the acquirer companies. Companies should pursue M&A's only if it creates values. Merger and acquisition becomes fruitful if synergies arise in the terms of operational, financial synergy and managerial synergy.

The primary reason cited for M&A's is to achieve synergy, commonly described as the "2+2" =5 effect (cartwright & cooper , 1993;webwe, 1996) by integrating two or more business units in a combination that will increase competitive advantage (Porter, 1985). Regrettably, M&A, appear to be only financially and strategically appealing on paper (Ashkenas, Demonaco, & Francis, 1998; Cartwright & cooper, 1992; Clemente, 2001; Schraeder, 2001). The evidence suggests that M&A do not live up to their potential and in some cases perform even less than market average (Cho, 2002). Historically, merger failures were only discussed with financial and strategic explanations. Recently there has been growing acceptance among researchers that the human dynamics or the human resource issues after and following the actual merger or acquisition of two or more organizations are significant determinants of merger success or failure (Buono & Bowditch, 1989; Cartwright & Cooper, 1993a; Marks & Mirvis, 1992; Schraeder, 2001).

Mergers and acquisitions decisions are critical to the success of corporations and their managers. Many corporations find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. For others, separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, M&A create synergies, gain economies of scale, expand operations and cut costs. Investors may expect mergers to deliver enhanced market power. It is no secret that plenty of mergers do not work. In theory, M&A is great, but in practice, things can go awry. Various empirical results have revealed that many of mergers were disappointed, where the motivations that drive mergers can be flawed and efficiencies from economics of scale may prove elusive. (Stephen N.M).

## 1.2 Statement of the problem

Merger and acquisition was new thing to the Banking and financial institutions (BFI)s of Nepal when the Nepal Bank, Supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011, it is something in which Nepal Rastra Bank has been preparing for years (Gyanwali, 2013). However, Many had doubts that the BFIs would go for merger immediately as there were no separate acts and law for merger implementation. The objectives of the merger by-laws is to strengthen the BFIs position and performance by reducing the number of institutions. The merger bylaws have a provision that can pressurize all BFIs to go for an immediate merger in the form of consolidation. (Nepal Share Bazar 2013).

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

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1080's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brings impact of merger and acquisitions on financial performance of institutions such as: profitability, liquidity, leverage, operational and managerial efficiency, market share, shareholders' value, earning per share and financial standard. Shareholders and managers of banks turn to mergers and acquisitions in the hope of improving financial performance in their banks but studies on this subject have produced mixed results. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a merger. The study has been also focusing the impact of merger and acquisitions on financial performance. Here the study will be mainly focused on following issues:

1. What is the impact of merger and acquisitions on shareholder's value?
2. What is the impact of merger and acquisition on profitability ratio?
3. What is the impact of merger and acquisition on Leverage ratio?
4. What is the impact of merger and acquisition on financial performance?

## 1.3 Purpose of the Study

The basic objective of the study will be to analyze the impact of merger and acquisitions to determine the financial performance in merger banks in Nepal. The present study in an attempt to check the financial performance of merger and acquisitions deals with respect to some selected banks in Nepal by considering the following objectives:

1. To examine the impact of the merger and acquisitions on the shareholders' value?
2. To examine the impact of merger and acquisitions on profitability of financial institutions?
3. To identify the impact of merger and acquisition on leverage ratio?
4. To examine the impact of merger and acquisition on financial performance?

## 1.4 Significance of the study

The study is directed towards merger and its impact on financial performance in Nepalese banking and tries to examining the impact of profitability, liquidity, shareholder's value, and leverage ratio on financial institution after merger of BFIs. Hence, this study is relevant to the banking sector of Nepalese it provides the authority insight and basis for enforcing financial policy after merger and regulations. The society is also expected to benefit from the output of this research study since this serves as on information base which adds up to the existing body of knowledge and data on banking and financial institution.

The study would have significance to a numbers of stakeholders. The study would be of value to investors and knowledge on the Understanding of the impact of merger and acquisitions in analyzing banking performance. It would also benefit other firms in competitive institution. The study would further provide more insight into the relationship between merger and acquisitions and performance of financial institution which would be of value to academicians and researchers in the same field. This study provides development for academics and practical implication for banking and financial sectors. The result is expected to inform BFIs about their employee response to the variety of factors which involve in financial performance after merger. BFIs may take clues from this and improve their financial policy practice for performance after merger. In the recent years financial institutions of Nepal have been characterized by a low volume of turnover, high interest rate in lending, high interest rate spread, inefficient management, lack of project financing practice, inadequate working fund and unhealthy competition. Some financial institutions such as the Gorkha Development Bank, Nepal Share market, Capital Merchant and finance were caught with a weak supervision and miss corporate governance. Moreover, the state-owned financial institutions such as the Rastriya Banijya Bank and the Agriculture Development Bank are market with excessive operating expenses and low operating profit. There are many reasons why companies decide to participate in M&A deals. The primary reason is the determination to grow. There are two growth options: internal or organic growth (e.g. hiring additional salespeople, developing new products, expanding geographically, which in fact is a very time and strength consuming options); and inorganic growth (e.g. acquisition of or merger with another firm, often done to gain access to a new product line, customer segment, or geography) or by external means (e.g. franchising, licensing, joint ventures, strategic alliances, and the appointment of overseas distributors, which are available to growing companies as an alternative to mergers and acquisitions as a growth engine).

### 1.5 Limitation of the study

This study is for the academic purpose so that it contains its limitations because it should be limited due to various constraints. This study also has its some limitation under which the study will go forward.

1. This study is based on the secondary data.
2. This study is based on only focus on literature on merger and acquisition practice and topic.
3. This study is focused on the policy adopted by Nepal Rastra Bank (NRB) for merger and Acquisition (M&A) and the output come on the Bank and financial sector from the strategy.
4. Study is focused on impact of merger and acquisition on financial performance in banking sector.
5. The period of study considered is seven fiscal year.

### 1.6 Chapter Plan

The entire research work will have been divided into five chapters. The work starts with chapters 1 is the Introduction chapter ;deals with background and introduction of the subject matter which is under consideration for the empirical research .It will contain the researcher's justification choosing the research title among the voluminous area of research in Nepal followed by the statement of problem and the research question which shall be tested and answered during the research period .The key objective and limitation of the study is followed by outline of the study in the chapter. The second chapter is based on literature review. It includes the review of empirical studies which have been concerned with impact of merger and acquisition on financial performance. Similarly, chapter 3 is the Research Methodology. It will have the key part of the study because it contains the details of the research method to be followed in the research work. The research framework nature and source of data, secondary data development for financial performance collecting data, the tools and techniques and method which have been used in the study will have been discussed in this part. Chapter 4 will have been presentation and analysis of data. Chapter 5 will present the summary, conclusion and recommendation, followed by reference.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Review of Previous Works

### 2.1.1 Review of Articles in the Journal

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.

Joash & Niangiru (2015) in their research study, “The Effect of mergers and Acquisitions on Financial Performance of Bank (A Survey of Commercial Banks in Kenya)”. Mergers and acquisitions perform a vital role in corporate finance in enabling firms achieve varied objectives and financial strategies. In Kenya, banks have been merging with the goal of improving their financial performance. Studies done on mergers and acquisitions have not conclusively established whether or not banks benefit from mergers. Most studies have observed that mergers did not lead to an improvement in financial performance as indicated by their profitability and earnings ratios. This study examined the banks that have merged or acquired in Kenya for the period between 2000 and 2014. The aim of the study was to analyze whether the merger had any effect on the banks' performance. The study was guided by the following specific objectives; to determine the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of the mergers and acquisitions on profitability. The study was a census of which all the 14 banks that have merged or acquired others in the period from 2000 to date were investigated. Data was collected by use of questionnaires with both open and closed ended questions. The collected data was analyzed using SPSS where the co-efficient of correlation obtained was used to determine the nature of the relationship between the independent and dependent variables. The study found out that the mergers and acquisitions raised the shareholders' value of the merged/acquiring banks in Kenya. The study further revealed that the main reason why most banks merged or acquired was to raise their profitability. The researcher recommended that through feasibility studies should be carried out before the merger/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.

Tajalli & Amir (2014). Made a study on the "An Analysis of Impact of Merger and Acquisition of Financial Performance of Banks: A case of Pakistan". This study is testing the impact of merger and acquisition of banks and provides insights about their role after merger on banks profitability. In this paper six financial ratios are used for analysis these ratios are profit after tax, return on asset, return on equity, debt to equity ratio, deposit to equity ratio and EPS. Ten banks are selected as sample for analysis which gets into merger from 2007-10. 3 year pre-merger and 3 year post-merger data points are taken for all the 10 cases and their averages are compared. In SPSS paired sample T-test is applied for analysis and findings shows that only at 5% level of significance only ROE is affected by the merger and acquisition and other ratios, have no impact from strategy.

Bhutta Rashid Mushtaq, Saad Muhammad, Tariq Tamoor Ali, vol.13,2015. "Impact of Merger or Acquisition on Financial Performance of Firm: A Case Study of Pakistan Telecommunication Limited (PTCL). The study depicts pre and post event effect of merger and acquisition on the service industry in Pakistan. The study is divided into two parts. In the first part, regression model is used to analyze the impact of financial position ratios and profitability ratios on the bankruptcy score. In the next part, this study analyzes the trend of study with data ranging from year 2003 to 2009. The findings of the study has shown a positive significant impact of financial position and profitability ratios on the firm bankruptcy score. The findings from the second part show that the bankruptcy score is affected negatively, by using financial ratios, after the acquisition. Also in the long term, financial position of the firm remains unaffected. The data range shows a stable trend of financial position over the period of time. The findings of the study suggest the decline in performance of PTCL during the observed time period.

Goyal Dr.K.A. and Joshi Vijay, Issue2, Vol. (March-2012). “Merger and Acquisition in Banking Industry: A Case Study of ICICI Bank Ltd.”. To keep the head high in globalized economy one has to overpower these challenges and issues to become a success story. We consider a case of ICICI Bank Ltd., the largest private sector bank in India, which has acquired nine financial firms to make the steps of the ladder of success. Therefore, the aim of this article is to study the growth of ICICI Bank Ltd. Through mergers, acquisitions, and amalgamation. This article is divided into four parts. The first part includes introduction and conceptual framework of mergers and acquisition. The second part discusses the historical background of ICICI Bank Ltd. And followed by review of literature. The third part discusses all the mergers, acquisition, and amalgamations in detail. Finally, the article concludes that a firm must devise a strategy in three phases i.e. Pre-merger phase, acquisition phase and post-merger phase. The article will be helpful for policy makers, strategy makers, HR people, bankers, researchers, and scholars.

Njogo, Ayanwale and Nwankwo (2016). In their reasarch study .” Impact of mergers and Acquisitions on the performance of Deposit money banks in Nigeria”. Business combination through mergers and acquisitions has become a global phenomenon to achieve economies of scale and higher productivity. The need for financial institutions to merger becomes even more imperative in the face of the onslaught of greater competition arising from globalization. This study evaluated the impact of mergers and acquisitions which started in 2005 on the performance of deposit money banks in Nigeria using a sample of ten (10) banks. This research made use of secondary data, obtained from the bank’s annual reports and statement of accounts covering a period of 2001-2010. Using nine (9) variables; Return on Assets, Return on Equity, Net profit Margin, Asset Utilization, Equity Multiplier, Earning 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 is significant difference in the performance of Deposit Money Banks in the pre and post- mergers periods using the ROA, ROE and LR as yards tick but shows no significant impacts in the performance 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.

Kanahalli & Jayaram (2014) in their research study, “Effect of merger and Acquisitions o financial performance: A study Tata group”, attempted to determine the success of merger and its impact on post-merger financial performance of acquirer companies in the Indian by selecting Tata two groups companies. Study dependent on secondary data as financial statements collected from various articles, books, magazines & money control websites. To evaluate the collected data financial ratios, paired “t” test used in the study that revealed no significant difference between financial performance of companies before & after merger.

Daddikar & Shaikh (2014) in their article, “Impact of merger and acquisitions on Surviving Firm’s Financial Performance: A case study of Jet Airways Ltd”. Examined the impact of merger and acquisitions on financial profitability during the post-merger period. To perform the study Jet Airways Ltd selected as the sample, of which financial data collected from investment websites, NSE & BSE websites & various journals. Study used different financial ratios such as Profitability ratios, Liquid ratios, financial standards to compare pre & post-merger situations and statistical tools such as paired “t’ test employed to determine the results that exhibit that there is no significant difference on financial efficiency or performance after merger. The study found no relevant improvement in the return on investment and net profit margin of acquiring company.

Khan (2011) studied the effect of merger and acquisitions on financial performance of Indian banks. A sample size of 35 Indian banks undergone merger and acquisitions since post liberalization period. For evaluation the study secondary data collected from Bombay Stock Exchange sites, National Stock Exchange sites and from published annual reports. Study applied financial parameters in terms of Gross Profit margin ratio, Return on equity, Debt- Equity Ratio to analyze the pre-post financial performance as well as Statistical tool as Independent t test to assess the significance difference two situations. The results suggested merger and acquisitions have positive impact on operating performance of acquiring Indian banks, also found that shareholders value increased or benefited by the strategy M & A.

Maditinos, Theriou & Demetriades (2009) investigated the merger and acquisitions effect on financial performance of two IONIKI-LAIKI and PISTEOS banks. To perform the study secondary data collected from various sources as investment sites, stock exchange sites from period 1990-2003. Research study conducted in two parts, on one hand effects of merger in short period and other in long run. Collected data was result stated merged bank (Alpha Bank) not only obtained improved profitability but also achieve better competitive position in average industry.

Verma & Sharma (2014) reviewed the impact of merger on financial performance of Indian telecom sectors involved in M&A during 2001-2008. A Sample size of 59 companies under gone merger and acquisitions deals from 2001-02 to 2007-08 have been selected. Secondary data extracted for six years from CMIE data base PROWESS. The study used regression model and various financial ratios to analyze the data that depicted the acquirer firms have leverage synergies but eventually lead to decrease the Return on shareholder’s funds after merger and acquisitions. Overall financial performance insignificantly improved in post-merger period.

Moctar & Chen (2015) evaluated the impact of merger and acquisitions on financial performance of commercials banks in West Africa. In their case study sample size two groups of banks selected that experienced merger and acquisitions in Economic community of West African states. Secondary data was collected through annual financial statement reviews of selected banks. To analyze the data, financial ratios as liquid ratio, Return on Equity (ROE), Return on Investment (ROI), investment valuations ratios used in the study that concluded negative impact of (M&A) on the financial performance. Further, study revealed that financial improvement could not be achieved in short-term, that seen in long term period.

Agrawal & Singh (2015) conducted a case study on effect of merger on financial performance of Kingfisher Airlines; objective of the study was to analyze the pre 7 post-merger of financial performance of KFA (Kingfisher Airlines). Study used accounting ratios in terms of profitability, liquidity, earning per share, leverage to evaluate the data. With statistical technique as paired t test used to conclude the result which found no improvement and benefit in acquiring firm (KFA) after merger, as well no significant result shown in return on equity and earning per share.

J.K Raju, Manjunath B.R and Hema Dhakal, August 2015-Vol.4 Issue 8.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. Therefore, this paper presents the reasons for opting merger activities among BFIs and also focuses on the post-merger impact to the employees, customers and shareholders of the merged bank. The research method used in this paper was descriptive research, which implies the results based on the survey and the analysis. The impact on employees and customers were analysed through questionnaires whereas the impact on shareholders were observed through analysis of financial data of merged bank in 2 years of pre and post-merger phase. The results showed that employees were satisfied with work, wages, working conditions etc. but they were intensely impacted in the HR issues like cultural clash, positions issues, socialization, favouritism 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 postmerger phase hence increasing the shareholder’s wealth. The challenges were observed in swap ratio, formation of BOD, structure of management team, HR issues, IT issues etc. Therefore, M&A was a must in Nepalese market for changing the poor performing BFIs into strong and credible institutions. The BFIs should consider the socio-cultural factors along with procedural and physical factors for merger. They should also involve with expert or investment banks for full-fledged merger advisory service to avoid the delay and cumbersome process of merger observed in Nepal.

Azhagaiah & Satish (2011). Evaluated the impact of corporate restructuring on financial results of Indian manufacturing firms' undergone merger and acquisitions from 2004-2010. The study selected 12 manufacturing firms across India, a short run analysis of two period i.e. three years before and after three years the performance of acquiring firms. Authors used accounting ratios (liquid ratio, working capital ratio, operating ratio) as well as statistical tool parametric t test used to attain the study's objectives. Study revealed that a significant increase in liquidity, profitability, financial position found. Further inferred that efficiency performance of acquirer firms also improved after merger. Liargovas (2011) examined the Greek Bank post-merger financial performance of 1996-2008. To conduct the study, secondary data collected from Database of Athens Stock Exchange, daily bulletin, published annual financial reports. Financial ratios, statistical tools as ordinary least regression analysis, t test applied in the study. Researcher found that there was no significant.

Abbas & Hunjra (2014) [12] conducted a research study on the impact of merger and acquisitions on financial performance of banks in Pakistan. Study made on selected 10 banks gone under merger and acquisitions strategy. To achieve the objectives secondary data collected from Financial Statement Analysis from period 2006-2011. Accounting ratios and paired t test used in the study to analyze the data. Authors found in the study that there is insignificant difference between pre and post-merger financial performance.

### 2.1.2 Review of Previous Thesis

Mailanya Paul Muiti (2013). "Effect of merger and acquisition on the financial performance of oil companies in Kenya" .The study was carried out with an objective of establishing the effect of merger and acquisition on the financial performance of oil companies in Kenya. The research design adopted was causal research design. The study focused on the mergers and acquisitions that have occurred between year 2003 and 2013 within the industry. The population of this study was the oil companies in

Kenya that have merged between 2003 and 2013. Secondary data was used from the financial statements of the companies involved in the merger/acquisition process. A comparison was made between three years pre-merger/acquisition and three years' post-merger/acquisition period using the financial ratios. Analysis of the data acquired was performed through use of the SPSS software (version 16).

Regression analysis was conducted to establish the relationship between financial performance and the independent variables that is the liquidity, solvency, debt to equity ratio, profitability and efficiency of the merged/acquired oil companies in Kenya. The study findings indicate that the goodness of fit model was adequate reported by r squared of 0.553 which means that 55.3% of the variation in financial performance is explained by changes in liquidity, solvency, profitability and efficiency. The correlation coefficient of 74.4% means that the dependent variables have a strong correlation the independent variable. Analysis of the ANOVA results showed that there is a significant joint relationship between financial performance and liquidity, solvency, profitability and efficiency of p-value 0.003 at 5% level of significance. The study concludes that there is decrease of financial performance of oil companies in Kenya following a merger or acquisition process.

The study recommends that the management should not only undertake mergers and acquisitions in order to improve operation and sustain failing businesses but also improve their competitiveness and financial standing. Management should come up with a sound strategy towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced. Management should put into consideration the degree of transferability and marketability of assets invested in so that these assets can provide liquidity to the firm with ease.

Mboroto Stephen Njuguna 2012. "The effect of merger and acquisitions on the financial performance of petroleum firms in Kenya". The objective of this research project is to establish the effect of mergers and acquisitions on the financial performance of petroleum firms in Kenya. This is by conducting an industry analysis of the petroleum sector in Kenya. The study is limited to a sample of pair companies listed on the Kenyan market that merged/acquired between the years 2002-2012. Data were collected from the NSE Annual Statement of Accounts and Financial Reports of the firms. Comparisons are made between the mean of 3-years premerger/acquisition and 3- years post-merger and acquisition financial ratios, while the year of merging/acquisition is exempted. Using financial ratio analysis and paired "t" test, the study reveals that mergers/acquisitions have insignificant effect on the overall financial performance of petroleum firms in Kenya. Also, there is improvement in the firms‟ performance after the merging/acquisition takes place. It recommends that merging and acquisition should not be used to keep failing business alive but to increase competitiveness and financial standing and management should also instill discipline upon itself so that the continued existence of the firm is not jeopardized.

The analysis and results show that petroleum firms performed better in the post-merger/acquisition era as compared to the pre-merger/acquisition era. This is supported by the fact that merging/acquisition had a significant impact on the ROA, which is the overall standard measure of financial performance due to the statistical significance it has on ROA as well as total asset ratio. On the other hand, merger/acquisition was seen to have an insignificant positive effect on the liquidity and solvency of the petroleum firms. This suggests that there was a significant improvement on the financial performance as reflected by the significant increase in ROA. It is therefore recommended that management should not only undertake mergers and acquisitions in order to improve operation and sustain failing businesses but also improve their competitiveness and financial standing. Management should come up with a sound strategy towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced.

### 2.1.3 Major Provisions of Merger Bylaws 2011

According to the New Business Age (2013), the major provisions of Merger Bylaws laid by the NRB are:-

1. A, B, C, class financial institutions can merge with each other but the D class financial institutions can merge only with another same class financial institution.
2. BFIs that want to merge should delegate separate merger committees from their annual general meetings and sign a memorandum of understanding (MOU).
3. The due process including a MOU should be endorsed with an action plan before applying to the Nepal Rastra Bank for a Letter of Intent (LOI). The NRB should hold a meeting within 15 days of receiving the LOI application.
4. The NRB has a right to grant whether to approve the LOI or not after meeting discussion and detailed study of the concerned financial institution.
5. After receiving a LOI from the central bank a due diligence audit should be completed within six months.
6. The detailed evaluation comprising assets, liabilities and transactions of the concerned institutions should be submitted to the NRB.
7. An agreement copy of the final decision regarding name, address and share ratio of concerned the BFIs should be submitted to the NRB.
8. An action plan of the concerned financial institution including date of operation after merger is completed should be submitted to the NRB.

### 2.1.4 List of Merged BFIs

When the Nepal Rastra Bank first introduced the Merger Bylaw 2011, the law had failed to create immediate effects on the BFIs (Singh 2013). However, over the past two years the merger activity had gained acceleration in the Nepali financial sector. According to the Bank Supervision Report of Nepal Rastra Bank (2012, 1-3), the Nepalese financial sector has witnesses 43 different sets of consolidations among the BFIs which are shown in the table below:

**Table: 2.1 list of Merged BFIs (Nepal Rastra Bank 2016)**

| S. no. | M &A | Merger BFIS | | Institution name and class after merger | Integrated Transaction |
|---|---|---|---|---|---|
| 1 | M | Laxmi Bank Limited (A) | HISEF Finance Limited ( C) | Laxmi Bank Limited (A) | 4/11/2061 |
| 2 | M | Nepal Bangladesh Bank Limited (A) | Nepal Bangladesh Finance Limited (C) | Nepal Bangladesh Bank Limited(A) | 6/1/2064 |
| 3 | M | Narayani Finance Limited (C) | National Finance Limited (C) | Narayani national Finance limited (C) | 7/15/2067 |
| 4 | M | Nepal Bangladesh Bank Limited (A)* | Nepal Srilanka Marchent Finance limited (C) | Nepal Bangladesh Bank Limited (A)* | 10/9/2067 |
| 5 | M | Himchuli Bikas Bank limited (B) | Birgunj Finance limited (C) | H&B Development Bank limited (B) | 3/1/2068 |
| 6 | M | Kasthamandap Development Bank Limited (B) | Shikhar Finance limited (C) | Kasthamandap Development bank limited (B) | 1/1/2069 |
| 7 | M | Infrastructure Development Bank limited (B) | Swastik Merchant Finance limited (C) | Infrastructure Development Bank Limited (B) | 3/26/2069 |
| 8 | M | Business Development Bank Limited (B) | Universal Finance limited (C) | Business Universal Development Bank limited (B) | 12/22/2068 |
| 9 | M | Annapurna Bikas Bank limited (B) | Suryadarshan finance limited (C) | Supreme Development Bank limited (B) | 3/29/2069 |
| 10 | M | Machhapuchhre Bank limited (A) | Standard finance limited (C) | Machhapuchhre Bank limited (A) | 3/25/2069 |

| | | | | | |
|---|---|---|---|---|---|
| 11 | M | Global Bank limited (A) | Lord Buddha finance limited (C)<br>IME Finance limited (C) | Global IME Bank limited (A) | 3/25/2069 |
| 12 | M | Pasupati Development Bank limited (B) | Uddham Bikas Bank limited (B) | Axis Development Bank limited (B) | 3/29/2069 |
| 13 | M | Vibor Bikas Bank limited (B) | Banjuranta finance limited (C) | Vibor Bikas Bank limited (B) | 5/17/2069 |
| 14 | M | Butwal finance limited (C) | Alpic Everest finance limited (C)<br>CMB finance limited (C) | Synergy finance limited (C) | 8/21/2069 |
| 15 | M | Shine Development Bank limited (B) | Resunga Bikas Bank limited (B-1) | Shine Resunga Development Bank limited (B-10) | 12/4/2069 |
| 16 | M | Predential finance limited (C) | Gorkha finance limited (C) | Predential finance company limited (C) | 12/5/2069 |
| 17 | M | NIC Bank Limited (A) | Bank of Asia limited (A) | NIC Asia Bank limited (A) | 3/16/2070 |
| 18 | M | Diyalo Bikas Bank limited (B) | Professional Bikas Bank limited (B) | Professional Diyalo Bikas Bank Limited (B) | 3/16/2070 |
| 19 | M | Araniko Development Bank limited (D) | Surya Development Bank (C) | Araniko Development Bank Limited (B) | 3/30/2070 |
| 20 | M | Royal Merchant Banking and finance (C) | Rara Bikas Bank limited (C)<br>Api finance limited (C) | Apex Development Bank (B) | 3/31/2070 |
| 21 | M | Global IME Bank limited (A)* | Social Development Bank limited (B)<br>Gulami Bikas Bank | Global IME Bank limited (A)* | 3/30/2070 |

| | | | | | |
|---|---|---|---|---|---|
| | | | limited ( B-1) | | |
| 22 | M | Prabhu finance limited (C) | Sambridhi Bikas Bank limited (B)<br>Baibav finance limited (C) | Prabhu Bikash Bank limited (B) | 3/30/2070 |
| 23 | M | Manakamana development Bank limited (B) | Yeti finance limited (C)<br>Valley finance limited (C) | Yet Development bank limited (B) | 3/31/2070 |
| 24 | M | Global IME Bank limited (A)* | Commerz & Trust Bank limited (A) | Global IME bank limited (A**) | 12/26/2070 |
| 25 | M | Reliable finance limited (C) | Subhalaxmi finance limited (C)<br>Nepal consumer development Bank limited (B) | Reliable Development Bank limited (B) | 1/3/2071 |
| 26 | M | Reliance finance limited (C) | Lotus investment finance limited (C) | Reliance lotus finance limited (C) | 1/25/2071 |
| 27 | M | Siddhartha finance limited (C) | Imperial finance limited (C) | Siddhartha finance limited (C) | 1/19/2071 |
| 28 | M | Civil Bank limited (A) | Axis Development Bank limited (B)<br>Civil Merchant Bittiya Santha limited (C) | Civil Bank limited (A) | 1/1/2071 |
| 29 | M | Biratlaxmi Bikas bank limited (B-3) | Khandbari Development bank limited (B-1) | Biratlaxmi Development Bank limited (B-10) | 2/3/2071 |
| 30 | M | Shangrilla Development Bank limited (B) | Bageshwori Bikas bank limited (B-10) | Sangrilla Development Bank limited (B) | 3/29/2071 |
| 31 | M | Lumbini Bank limited (A) | Navadurga finance company limited (C) | Lumbini Bank limited (A) | 3/15/2071 |
| 32 | M | Purwanchal | Madhyamnchal | Nepal Grameen | 4/30/2071 |

| | | | | | |
|---|---|---|---|---|---|
| | | Grameen Bikas bank limited (D) | Grameen Bikas Bank limited (D)<br>Pachimanchal Grameen Bikas Bank limited (D)<br>Madhyapachimanchal Grameen Bikas Bank limited (D)<br>Sudurpachimanchal Grameen Bikas Bank limited (D) | Bikas Bank Limited (D) | |
| 33 | M | Kist Bank limited (A) | Prabhu Bikas bank limited (B)*<br>Gaurishankar Development Bank limited (C)<br>Zenith finance limited (C) | Prabhu Bank limited (A) | 5/30/2071 |
| 34 | M | Citizen's Bank international limited (A) | Nepal Housing & Merchant finance limited (C)<br>Peoples' finance limited (C) | Citizens' Bank international limited (A) | 1/25/2072 |
| 35 | M | Triveni Bikas Bank limited (B-10) | Public Development Bank limited (B-3)<br>Bright Development Bank limited (B-3) | Triveni Bikas Bank limited (A) | 2/18/2072 |
| 36 | M | NDEP Development Bank limited (B) | Rising Development bank limited (B-3) | NDEP Development Bank limited (B) | 3/25/2072 |
| 37 | M | Biswo Bikas bank limited (B-10) | Fewa finance limited (C) | Fewa Bikas Bank limited (B) | 3/28/2072 |
| 38 | M | Garima Bikas Bank limited (B-10) | Nilgiri Bikas Bank limited (B-3) | Garima Bikas bank limited (B) | 3/29/2072 |
| 39 | A | Muktinath | Civic Development | Muktinath Bikas | 3/30/2072 |

| | | | | | |
|---|---|---|---|---|---|
| | | Bikas Bank limited (B-10) | Bank limited (B-1) | bank limited (B) | |
| 40 | M | Sagarmatha Merchant & finance co. limited (C) | Palate finance limited (C) | Sagarmatha finance limited (C) | 3/31/2072 |
| 41 | M | NMB Bank limited (A) | Pathibhara Bikas Bank limited (B-3) | NMB Bank limited (A) | 7/1/2072 |
| | | | Bhrikuti Bikas Bank limited (B-10) | | |
| | | | Clean Energy Development Bank limited (B) | | |
| | | | Prudential finance Co. limited (C) | | |
| 42 | M | Prabhu Bank limited (A)* | Grand Bank Nepal limited (A) | Prabhu Bank limited (A)* | 10/29/2072 |
| 43 | M | City Development bank limited (B-10) | Om finance limited (C) | Om Development Bank limited (B) | 12/22/2072 |
| 44 | M | Gorkha Bikas Bank (Nepal) limited (B) | Kathmandu finance limited (C) | Gorkha finance limited (C) | 1/3/2073 |
| 45 | M | Mega Bank Nepal limited (A) | Pachimanchal Development Bank limited (B-10) | Mega bank Nepal limited (A) | 1/3/2073 |
| 46 | M | Kailas Bikas bank limited (B) | Metro Development Bank limited (B-3) | Kailas Bikas Bank limited (B) | 2/17/2073 |
| | | | Nepal Express finance limited (C) | | |
| 47 | M | Siddhartha Development Bank limited (B) | Ekata Bikas Bank limited (B-10) | Siddhartha Development Bank limited (C) | 2/28/2073 |
| | | | Nepal Awas finance limited (C) | | |
| 48 | M | Shine Resunga Development Bank limited | Ghodhuli Bikas Bank Limited (B-1) | Shine Resunga Development bank limited (B-10)* | 2/29/2073 |

| | | | | | |
|---|---|---|---|---|---|
| | | (B-10) | | | |
| 49 | M | Kamana Bikas Bank limited (B-10) | Kaski finance limited (C) | Kamana Bikas bank limited (B) | 3/6/2073 |
| 50 | M | Siddhartha Bank limited (A) | Business universal Development Bank limited (B)* | Siddhartha Bank limited (A) | 3/7/2073 |
| 51 | A | Sunrise Bank limited (A) | Narayani National fianance limited (C)* | Sunrise Bank limited (A) | 3/30/2073 |
| 52 | M | Bank of Kathmandu limited (A) | Lumbini bank limited (A)* | Bank of Kathmandu Lumbini Bank limited (A) | 3/30/2073 |
| 53 | A | Citizens Bank International limited (A)* | Primier finance limited (C) | Citizens Bank International limited (B) | 4/2/2073 |
| 54 | M | Jyoti Bikas Bank limited (B) | Jhimruk Bikas Bank limited (B-1) | Jyoti Bikas Bank limited (B) | 4/28/2073 |
| 55 | M | Malika Bikas Bank limited (B-10) | Mahalaxmi finance limited (C)<br>Siddhartha finance limited (C)* | Mahalaxmi Bikas Bank limited (B) | 5/19/2073 |
| 56 | M | Vibor Bikas Bank limited (B)* | Society Development Bank limited (B)* | Vibor Society Bikas Bank limited (B)* | 5/17/2073 |
| 57 | M | Garima Bikas Bank limited (B)* | Subekshya Bikas Bank limited (B-3) | Garima Bikas Bank limited (B)* | 6/4/2073 |
| 58 | M | Civil Bank limited (A)* | Inter. Leas. & Finance Company Limited (C) | Civil Bank limited (A) | 7/1/2073 |

*Source: NRB, Bank & Financial Institution Regulation Department, 207*

### 2.1.5 History of Merger and acquisition

M&A has been around since the late 1800's driven by prevailing business growth

**Table: 2. 2 Wave of merger in global context**

| Waves | Period | Facet |
|---|---|---|
| Frist Wave | 1893-1904 | Horizontal mergers |
| Second Wave | 1919-1929 | Vertical mergers |
| Third Wave | 1955-1970 | Diversified conglomerate mergers |
| Fourth Wave | 1974-1989 | Co-generic mergers, hostile takeovers, corporate raiders |
| Fifth Wave | 1993-2000 | Cross border, mega merger |
| Sixth Wave | 2003-2008 | Globalization, Private equity, shareholder activism |
| Seventh Wave | 2009- to till the date | The rise of the BRICS |

*Source: York University, 2014*

The first waves was one of major horizontal mergers, creating the principal steel, telephone, oil, mining, railroad and other giants of the manufacturing and transportation industries in the united states (US). The wave ended due to the start of World War I.

The second wave saw further consolidation in the principal industries formed by the first wave. This second wave saw the rise of major automobile Manufactures such as ford and FIAT. The 1929 crash and great depression ended this era.

The third wave was one of expansion and diversification, where US corporate management is obsessed with entering new markets. These conglomerates then experienced a crash in their share prices during the early 1970's which consequently ended this era.

The fourth wave was an era of highly leveraged takeovers. Large investment banks facilitated a number of "holtile takeovers' on behalf of their corporate raiding clients.

This era ended with the ‘collapse of banks’ capital structures, due to aggressive lending activity to fund these types of transactions.

The fifth wave was the era of the ‘mega deal’. This era emphasized appetite for larger economies of scale and created multinational conglomerates of unprecedented sizes, under the assumption that competitive advantage was achieved through size. From a upward to US$3.3 trillion worldwide in 2000. Six of the 10 largest deals in M&A history took place from 1998 to 2001, this era ended with the bursting of the millennium bubble and the great scandals of companies like Enron and world com.

The six Wave saw the introduction of globalization as established corporate companies emphasized the need to create a multi-national reach. Private equity boomed as shareholders looked to spread ownership of their companies between themselves, day-to-day management and institutional investors.

The seventh wave from 2008 to till the date, M&A activity sank to its lowest levels since 2004, due to the economic downturn. South Africa’s recent acceptance into the cite league of the world’s best remerging economics was received with both praise and criticism. There are various opinions that Africa as a continent is better placed for membership to the BRICS (Brazil, Russia, India, and China) versus South Africa as a single country. However, the inclusion of South Africa, or Africa as a whole, is expected to boost incoming investment and supercharge the M&A sector in Africa.

## 2.2 Conceptual Review.

The conceptual framework for this study focuses on understanding financial performance due to impact of merger and acquisition. After mergers due to the profitability, shareholders value, liquidity, leverage impact of financial institution of Nepal. It identifies the relationship between the merger and acquisition and relationship between research variables (questioner or hypothesis) based on a review of relevant literature related to impact of merger and acquisition on financial performance. More, specially, the conceptual framework contained, independent variables, dependent variables and intervening variables. Independent variables were the variables which affect others variables to change and the researcher had control over them. The variables included shareholders value, profitability, liquidity, Leverage, market prospect ratios, operational and managerial efficiency and market share. The dependent variable showed the effect of manipulating the independent variables. From the framework, the dependent variable was financial performance.

**Independent Variable** **Dependent Variable**

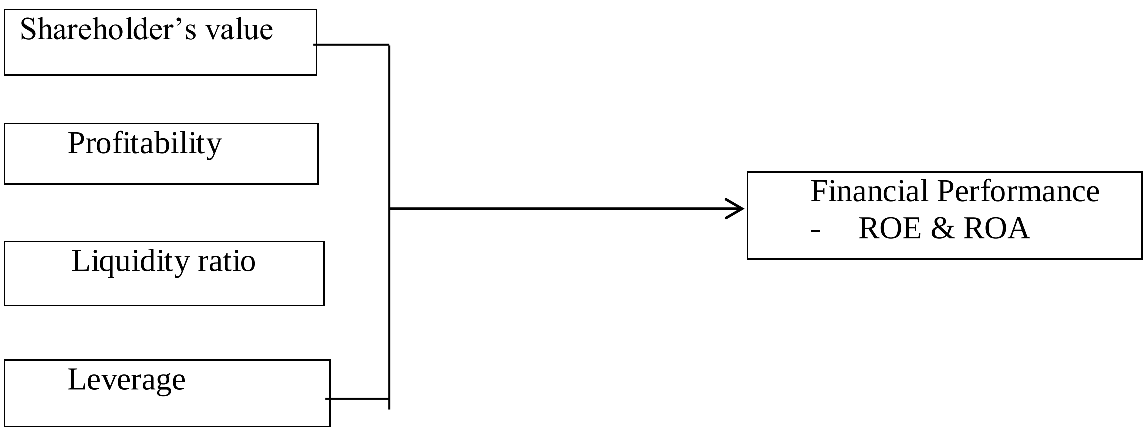



Figure: 2.1 Conceptual Framework

Source: Author, 2014

Figure shows the theoretical framework of study by depicting the impact of merger and acquisitions of banks performance. This framework indicates liquidity, profitability, leverage and shareholder’s value Independent variable and firms financial ‘performance as dependent variable. The objectives of this study is the investigate whether the performance of financial institutions is significantly impact by merger. Therefore, we formulate the following hypotheses.

H1: Merger has a significant effect on liquidity ratios of financial institution in Nepal.

H2: Mergers has a significant effect on profitability ratios of financial institution in Nepal.

H3: Mergers has a significant effect on financial leverage ratios of financial institution in Nepal.

H4: Mergers has a significant effect on shareholder’s value of financial institution in Nepal.

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors (Sherman ─Hart 2006, 1). According to Ross−Westfield−Jordan (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”.

A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross et.al 2003a,). In practice, a merger between company A + company B= company A.

Bowman and Singh (1999) classified mergers and acquisitions activities into three categories namely portfolio mergers and acquisitions, financial mergers and acquisitions and organizational mergers and acquisitions. Portfolio mergers and acquisitions: it entails significant changes in the asset mix of a firm or the lines of business which a firm operates, including liquidation, divestitures, asset sales and spin-offs. Financial mergers and acquisitions: It includes changes in the capital structure of a firm, including leverage buyouts, leveraged recapitalization and debt equity swaps. A common way for financial mergers and acquisitions is increasing equity through issuing of new shares. Organizational mergers and acquisitions: It involves significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification revising compensation, reforming corporate governance and downsizing employment. Other categories commonly accepted include;

Horizontal Merger

This is a merger between companies in the same industry and shares the same product lines and markets. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and potential gains in market share are much greater for merging firms in such an industry. For instance; The ICEA LION Group was formed as a result of a merger between Insurance Company of East Africa Limited (ICEA) and Lion of Kenya Insurance Company Limited (LOK). The two companies are well known Insurance and financial services market in Kenya and Eastern Africa region. Horizontal M&A has grown rapidly over recent years due to global restructuring of many industries in response to technological charge and in addition, M&A could also be classified as “friendly” or ‘hostile’ ( Chunlai, then and Findlay, 2003). When M&A transaction is undertaken in a friendly manner, the board of the target company agrees to the transactions. On the contrary, a hostile deal s one that pits the offer against the wishes of the target, since the board of the target refuses the offer. The merger has resulted in the creation of one of the largest insurance groups in the region. Also a merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. This would increase the market share as well as reduce costs.

**Vertical Merger**

A merger between two companies producing different goods or services for one specific finished product. “A vertical merger is a merger between companies operating at different levels of the supply chain. Addressing competitive concerns, the European commission following its approach in the Horizontal merger Guidelines now distinguishes between coordinated and non-coordinated effects” (Chunlai, then and Findlay, 2003). The latter can arise in foreclosure or when accessing commercially sensitive information. Coordinate their behavior or if it makes stable or more effective. The adoption of the previously unused terms “coordinated effects” and “non- coordinated effects” for non- horizontal practice, harmonized the analysis of Horizontal mergers, rather than indicating a change in the commission’s enforcement practice, harmonized the analysis of horizontal and non-horizontal mergers.

**Conglomerate Merger**

This is a merger between firms that have no common business areas. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions. An example of a conglomerate merger is Citigroup's acquisition of Travelers Insurance. While both were in the financial services industry, they had different product lines. Although there are many advantages organization may not always seek the right ones. For example, cost reduction, although often sought, is a major motivator (NCNB, 1998). The type of strategic benefits non- profits should seek include improvements in the quality and efficiency of existing and new relationship with funders, development of new skills such as programmatic expertise, entry into new geographic markets and the ability to make the best use of resources.( The Bridgespan Grou…, 2009).

"An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares" (Firer-Ross-Westerfield-Jordan 2004,). Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another. (Ross et.al 2003b, 843-845; Firer-Ross-Westerfield-Jordan 2004. In practice, an acquisition between company A+ company B= company A.

**Types of acquisition:**

i. Stock Acquisition: The acquirer buys the target's stock of from the selling shareholders. In a stock purchase, all of the assets and liabilities of the seller are sold upon transfer of the seller's stock to the acquirer. As such, no tedious valuation of the seller's individual assets and liabilities is required and the transaction is mechanically simple. The acquirer does not receive a stepped-up tax basis in the acquired net assets but, rather, a carryover basis. Any goodwill created in a stock acquisition is not tax- deductible (Asset and Stock Deals, retrieved 2016).

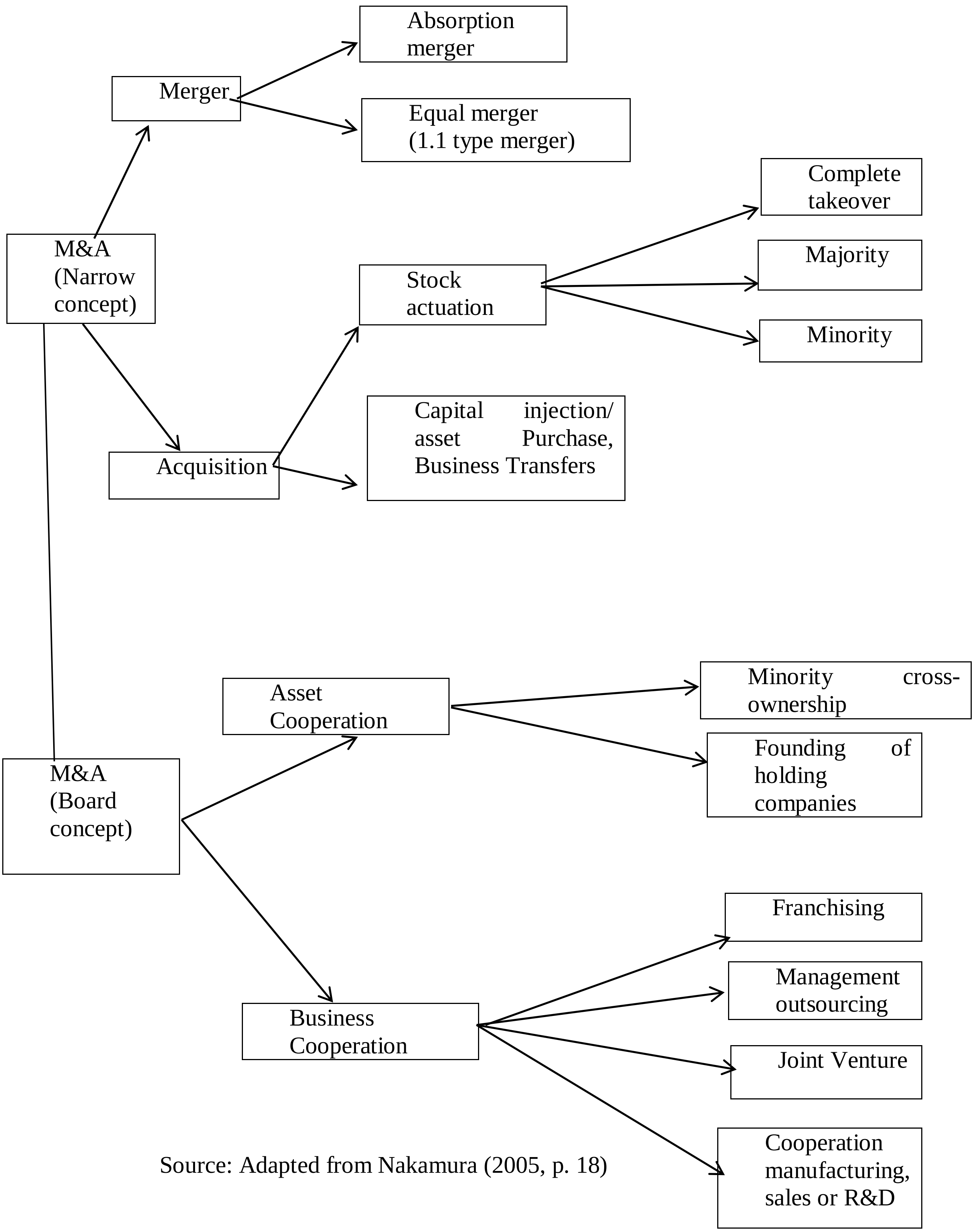
ii. Asset Acquisition: The acquirer buys some or all of the target's assets/liabilities directly from the seller. If all assets are acquired, the target is liquidated. The acquirer can choose ("cherry pick") which specific assets and liabilities it wants to purchase, avoiding unwanted assets and liabilities for which it does not want to assume responsibility. The asset purchase agreement between the buyer and seller will list or describe and assign values to each asset (or liability) to be acquired, including every asset from office supplies to goodwill (Asset and Stock Deals, retrieved 2016).

Takeovers can be friendly or hostile. As per Hanks (retrieved 2016), a friendly acquisition occurs when the acquiring company gives information to the target company's Board of Directors that it plans to purchase a controlling interest. The proposed buyout is then voted upon by the Board of Directors. The votes would decide whether the proposal should be accepted or not. If they voted in favor of proposal, then the acquiring company then takes control of the target company's operations. However, the acquiring company may or may not choose to keep the target company's board of directors in place. A hostile acquisition happens when the target company's board of directors do not vote in favor of the stock sale to the acquiring company. Agents of the acquiring company then will try to buy the target company's stock from other available sources, gain a controlling interest and force out the board members who voted against the acquisition. When this happens, the acquiring company will aggressively go after shares of the target firm, while the target's board of directors prepares to fight for survival (Hanks, retrieved 2016). Though merger and acquisition term is used interchangeably, there are some differences between them. S.S (2015) has indicated following as the types of differences between merger and acquisition: (Baniya Dinesh)

Mergers & acquisitions (M&A), in the broad sense, may imply a number of different transactions ranging from the purchase and sales of undertakings, concentration between undertakings, alliances, cooperation and joint ventures to the formation of companies, corporate succession/ ensuring the independence of businesses, management buy-out and buy-in, change of legal form, initial public offerings and even restructuring (Picot, 2002, p.15). However, Nakamura (2005) explains that using a broad definition of M&A could lead to confusion and misunderstanding as it entails everything from pure mergers to strategic alliance. Therefore, this thesis adopts the definition of M&A in a narrower sense as clarified below.

In addition, the model developed by Nakamura (2005) is employed to provide clear understanding about the definition of M&A in a narrow concept, as shown in Figure:

**Figure No 2.2: The definition of merger & acquisition**




Source: Adapted from Nakamura (2005, p. 18)

Mergers are commonly referred to as either ‘merger by absorption’ or ‘merger by establishment’ (Chunlai Chen and Findlay, 2003, Nakamura, 2005). Merger by absorption is the situation in which one company buys all stocks of one or more companies (i.e., absorbing) and the absorbed companies cease to exist whereas merger by establishment refers to the case where two or more firms are merged into a newly created one and the combining firms in the merger are dissolved (Chunlai Chen and Findlay, 2003). According to Nakamura (2005) merger by absorption could be considered as a de facto acquisition. Besides, the term ‘consolidation’ could be used to imply a merger by establishment (Gaughan, 2002).

In the view of M&A transactions from the perspective of the value chain, M&A can be classified as horizontal, vertical or conglomerate (Gaughan, 2002, Chunlai Chen and Findlay, 2003). In horizontal M&A, the acquiring and the target companies are competing firms in the same industry. According to Chunlai Chen and Findlay (2003), horizontal M&A has grown rapidly over recent years due to global restructuring of many industries in response to technological change and liberalization. This trend is observed in such industries as pharmaceuticals, automobile and petroleum. The merger of US$76 billion transaction value between the two giant pharmaceutical companies, Glaxo and SmithKline Beecham, is a good example for M&A under this category (MANDA, 2007). As Jan Leschly, the former CEO of SmithKline Beecham, said, the aim of the two parties was R&D synergies to drive revenues since in this particular industry new technologies result in enormous opportunities for revenue creation (Carey, 2000 in Harvard Business Review, 2001). Vertical M&A are combinations of firms in client-supplier or buyer-seller relationships. The firms involved seek to reduce uncertainty and transaction costs by upstream and downstream linkages in the value chain and to benefit from economies of scope (Chunlai Chen and Findlay, 2003). Lastly, a company may attempt to diversify risks and attain economies of scope by engaging in conglomerate M&A transactions where involving companies operate in unrelated businesses. An example of conglomerate M&A is Philip Morris, a tobacco company, which acquired General Foods in 1985 for US$5.6 billion (Gaughan, 2002).

In addition, M&A could also be classified as ‘friendly’ or ‘hostile’ (Chunlai Chen and Findlay, 2003). When an M&A transaction is undertaken in a friendly manner, the board of the target company agrees to the transaction. On the contrary, a hostile deal is one that pits the offer against the wishes of the target, since the board of the target refuses the offer.

Last but not least, M&A transactions could be either domestic or cross-border with regards to where the companies involved base and operate. A cross-border M&A transaction involves two firms located in different economies, or two firms operating within one economy but belonging to two different countries (Chunlai Chen and Findlay, 2003). Accordingly, in domestic M&A transactions, the firms involved originate from one country and operate in that economy-country. The classification of M&A could then be summarized in the table below:

**Table 2.3: Classification of merger & acquisition transactions**

| M&A Classification in terms | | |
|---|---|---|
| Value chain | Relationship | Economic area |
| Horizontal M&A | Friendly M&A | Domestic M&A |
| Vertical M&A | Hostile M&A | Cross-border M&A |
| Conglomerate M&A | | |

Source: Thapa K. Rana S.B (2011)

There have been many studies regarding various factors that lead to the activity of merger and acquisition in banking sector. There are various factors affecting merger and acquisition activities and decision that have been derived from the theories described above. However, is very hard to find previous quantitative analysis of such factors. In the studies conducted by Smirnova (2014), he has drafted a model in which internal and external motives of merger and acquisitions in banking sector are explained.

Internal motives:

1. To increase shareholder’s equity
2. To increase research and development capability

3. To increase number of clients
4. To innovate products and services
5. To strengthen position in market

External motives:

1. Economic: To give response to changing market or economic conditions in bank's environment
2. Legal and political: To get support from government, to obtain tax benefits, getting forced by government
3. Technological : To obtain superior technology and new knowledge
4. Competitive: To achieve strategic advantages through synergies, to improve product and service quality and quantitySource: Motives of merger and acquisition as obtained from smirnova(2014).

The Nepal Rastra Bank had identified three conditions based on which it can force the BFIs to for immediate merger. As per the first condition, the BFIs operated and owned by the same business family, relatives, and groups will be considered to amalgamate. The central bank will order to those BFIs to merge if they are owned by the same family, relatives and groups. The Merger Bylaws policy by the central bank also states that it can persuade the BFIs to merge if they are operated by a single family group. Similarly, as per the second condition, the central bank will force such BFIs to go for a merger if there is a shortfall of capital. As per NRB banking and financial institution regulations,- commercial banks are required to maintain a minimum capital adequacy ratio (CAR) of 10 percent and development banks a CAR of 11 percent. A CAR is required to determine the capacity of the bank in meeting time liabilities and other risks such as the credit risk and the operational risk. If the BFIs fail to maintain a CAR imposed by the NRB, it will force them to merge which will help to strengthen their capital and increase competitive performance. (Subedi 2012).

## 2.3 Research Gap

Merger and Acquisition is the important policy for banks and financial institutions to make Quantitative to Qualitative banks and financial institutions. Make the Major Provisions of merger 2068 that after bank and financial institution is goes on merging. In this merger provisions is not proper implemented by banks and financial institutions that after According to monetary policy 2072 increased 4 multiple of paidup capital in commercial banks. That after most of the banks and financial institutions are going on forcefully merging. In previous research study shows the policy of merging impact on BFIs. In this research study is shows on forcefully merged impact the BFIs. According to monetary policy 2072 that after A class banks are 28 and B class banks are 39 and C class banks are 28 and D class banks are 53. In total 148. In this 148 banks and financial institutions 58 banks and financial are merger and acquisitions.

This study was mainly used secondary data, on previous studies were not calculated leverage and other ratios. However, in this study were focused. The previous study has used both method primary & secondary data. This study differential the sample size and methodology as compare to previous thesis.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. The aim of the study is to find out the relationship between the event of merger and acquisitions and impact of this strategy on the financial performance of banks. So it is a causal Comparative research design. Being a causal research, it determined whether the change in the company's profitability is caused by business combination, on the other hand, as a comparative research, the study seeks to know the relationship of merger and acquisitions to the banks financial performance.

The findings of this research were based on secondary data. The data has been collected from audited published annual financial statement and investment sites for the period covering from certain period.

## 3.2 Population and Sample

According to NRB report alltogether 58 merger and acquisition transactions were occurred on Nepalese Banks and financial institution up-to 2073/7/1.Among the 58 transactions only 4 of them were gone on acquisition and the rest all 54 of them gone through merger process that had taken place in the banking industry in Nepal. Six sample banks they are Global IME Bank limited, NIC Asia Bank limited, Machhapuchhre Bank limited, Sangrilla Development Bank limited, NMB bank limited, & Siddhartha Bank limited.

This study is based on Causal Comparative research design. The research design that is used to show the causes of the problem is known as causal comparative research design. It observes the position of causes that impact on certain works. It explains the relationship of two variables after the study of the problems. It is also known as Ex-post facto research design.

NIC Asia Bank limited was formed after merging NIC Bank ltd. And Bank of Asia Nepal Ltd. in 2070/03/16. NIC Asia Bank's merger is the first merger between two 'A' class commercial banks in the history of Nepal. Global IME Bank ltd. was formed after the merger process with different BFIs. Firstly, Global Bank Ltd. and two financial entities namely IME Finance ltd. and Lord Buddha Finance Ltd. merged in 2069/03/25 and became Global IME Bank Ltd. Then this Global IME Bank Ltd. and two other Development Banks social development Bank ltd. and Gulmi bikas bank ltd. merged in 2070/03/30 and became Global IME bank ltd. finally, again this Global IME bank ltd. and Commerze and Trust Bank ltd. were merged in 2070/12/26 and became Global IME bank ltd.Machhapuchhre bank limited is merged with Standard finance limited in 2069/03/25. Sangrilla Development Bank Ltd. was formed after the merger process between two financial entities namely sangrilla development bank ltd. and Bageshori Development Bank ltd. these two banks were merged on B. S. 2071/03/29. The financial position of these three BFIs before merged and after merged are analyzed in this research.NMB bank limited is merged with Pathibhara bikas bank limited, Bhrikuti bikas bank limited, Clean Energy development bank limited & Prudential financial company limited in 2072/01/07. Siddhartha Bank limited is merged with Business universal Development bank limited in 2073/03/07. The six financial institutions are selected for study impact on performance of after merged define as the sample population.

For the purpose of data collection is non-probability sampling method is used. The finding of such sampling cannot be generalized because samples are selected with specific purpose or separating the area in advance.

### 3.3 Data Collection & processing procedure

The study depend on secondary data was collected through annual financial statement reviews of selected banks. To analyze the data, financial ratios as liquidity ratio, leverage ratio, profitability ratio and investment valuations ratios used in the study that concluded impact of merger and acquisition on the financial performance. The study was made on secondary data collected from various sources as news report, various articles, books, audited published annual financial statement and investment sites, magazines & money control websites.

Books' annual report: the annual reports will be collected from the respective banks financial performance the respective banks annual report. Text books: the books related to the research topic will be referred for secondary data. Internet: As internet is the huge source of secondary data, many websites and data related to the topic will be experienced to evaluate the collected data financial ratios used in the study.

### 3.4 Data analysis tools and techniques

This selection reflects how analyze have been carried out in chapter four. It is procedures in analyzing data in order to understand the results and generalize the findings. Pre and post-merger average ratios are determined of each company selected in the sample size. Using by financial tools like Profitability, liquidity, leverage, position of each firm is separately analyzed in prior and post-merger of six banking industry.

For presentation of data, several graphical tool such as tables would use. Through the excel calculate the liquidity ratio, profit margin, leverage ratio, Earning per share, price Earning ratio, Return on Equity (ROE), Return on Assets(ROA),& Market Value Per share (MVPS) are used to see the position of financial performance in financial institutions in Nepal.

# CHAPTER IV
# RESULTS

## 4.1 Impact of M&A on Shareholders' Value

The impact of merger and acquisition on shareholders' value is the research work compare and analyze the pre and post-merger financial performance of six sample banks. The sample Banks are Global IME Bank limited, NIC ASIA bank limited, Machhapuchhre Bank limited, Sangrilla Dev. Bank limited, NMB Bank limited and Siddhartha Bank limited. The Shareholders' value are such as Earning per share (EPS), Market Value per share (MVPS) and Price Earning (P/E) Ratio calculate the by using formula are as below.

### 4.1.1 Earning per share (EPS)

$$EPS = \frac{\text{Net profit available to equity shareholders}}{\text{Number of ordinary share outstanding}}$$

The Earning per share (EPS) of three sample banks are as listed below in table.

**Table: 4.1**

**Impact of M&A on Earning per Share(EPS) of three sample banks.**

| Fiscal year | Name of Banks & EPS | | |
|---|---|---|---|
| | Global IME Bank ltd. | NIC Asia Bank ltd. | Machhapuchhre Bank ltd. |
| 2066/067 | 4.95 | 13.86 | 4.96 |
| 2067/068 | 14.06 | 10.49 | 0.55 |
| 2068/069 | 11.79 | 8.63 | 1.54 |
| 2069/070 | 16.15 | 47.41 | 5.98 |
| 2070/071 | 19.57 | 35.98 | 18.34 |
| 2071/072 | 15.58 | 25.59 | 22.2 |
| 2072/073 | 19.33 | 28.31 | 25.04 |

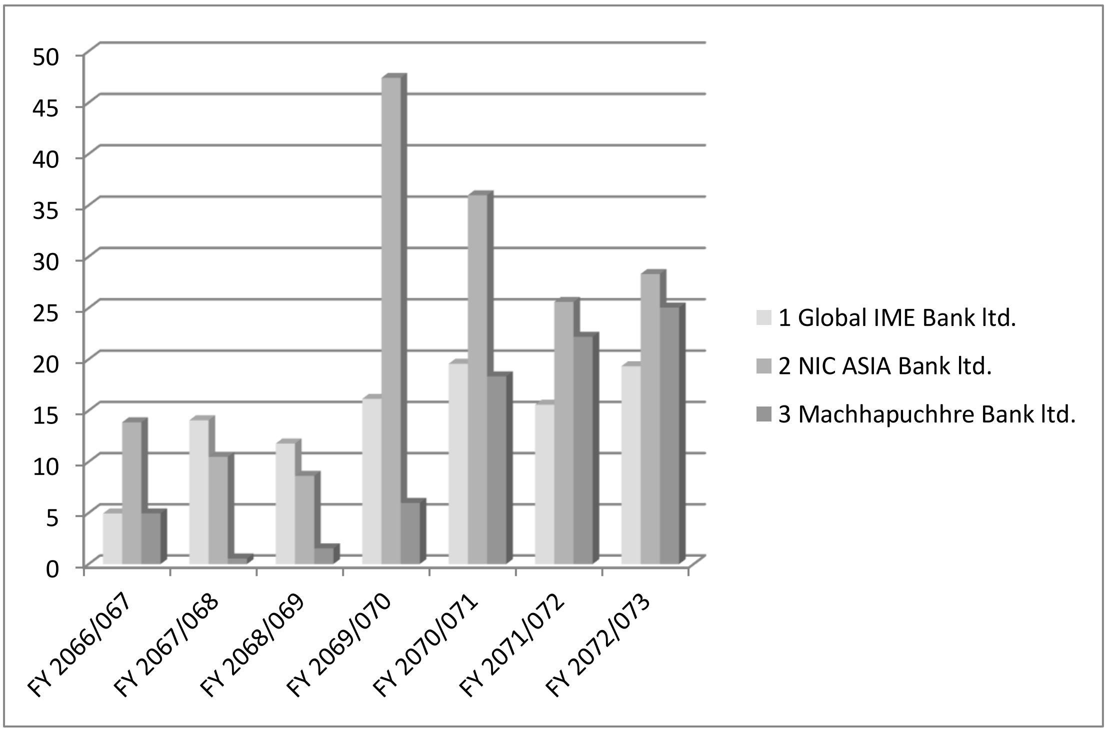
*Source: Annual Report of three sample banks*

The Earning per share measure the profit earn to equity stakeholders on per share basis. It is calculated by dividing the net profit by number of outstanding share. However, EPS does not show how much to be paid to the shareholder's as a divided nor how much of the net profit will be allocated as a retain earnings. It gives an overall figure of net earning belong to the ordinary shareholders on per share basis. (khan-Jain)

The above information is presented in the figure below.

**Figure: 4.1**

**Impact of M&A on Earning per share of three sample banks.**




*Source: Annual report of three sample Banks.*

The EPS of Global IME bank limited is decreasing trend after merger. Before merger Global IME Bank limited is increasing trend of growth. The highest EPS of Global IME Bank limited is Rs. 19.57 in fiscal year 2070/071 and the Lowest EPS is Rs. 4.95 in fiscal year 2066/067. The average EPS of Global IME bank limited is Rs.14.49. The EPS of NIC ASIA bank limited is decreasing trend before merger and highly increase in merged year. Thereafter NIC ASIA Bank ltd is going on increasing trend in this final year. The highest EPS of NIC ASIA Bank limited is Rs. 47.41 in merged year. And the lowest EPS is Rs. 8.63 in fiscal year 2068/069. The average EPS of NIC ASIA Bank limited is Rs. 24.32. The EPS of Machhapuchhre bank ltd is also increasing trend in after merger rather than before merger. And there after Machhapuchhre Bank ltd. is started to increase. The highest EPS of Machhapuchhre Bank limited is Rs.25.04 in fiscal year 2072/073 and the lowest EPS is Rs.0.55 in 2067/068. And the average EPS of Machhapuchhre Bank limited is Rs. 11.23.

### 4.1.1Earning Per Share (EPS)

$$EPS = \frac{\text{Net profit Available to equity sharholders}}{\text{Number of ordinary share outstanding}}$$

The Earning per share of three sample banks over the fiscal 2066/067- 2072/072 year is shown in the below table in Rupee.

**Table: 4.2**

**Impact of M&A on EPS of three sample Banks.**

| **Fiscal year** | **Name of Banks & EPS** | | |
|---|---|---|---|
| | **Sangrilla Dev. Bank ltd.** | **NMB Bank ltd.** | **Siddhartha Bank ltd.** |
| 2066/067 | 27.89 | 10.65 | 21.99 |
| 2067/068 | 43.6 | 11.08 | 19.82 |
| 2068/069 | 35.68 | 2.61 | 20.41 |
| 2069/070 | 33.92 | 18.02 | 29.8 |
| 2070/071 | 11.57 | 20.5 | 38.63 |
| 2071/072 | 24.19 | 25.05 | 37.77 |
| 2072/073 | 22.06 | 27.78 | 41.53 |

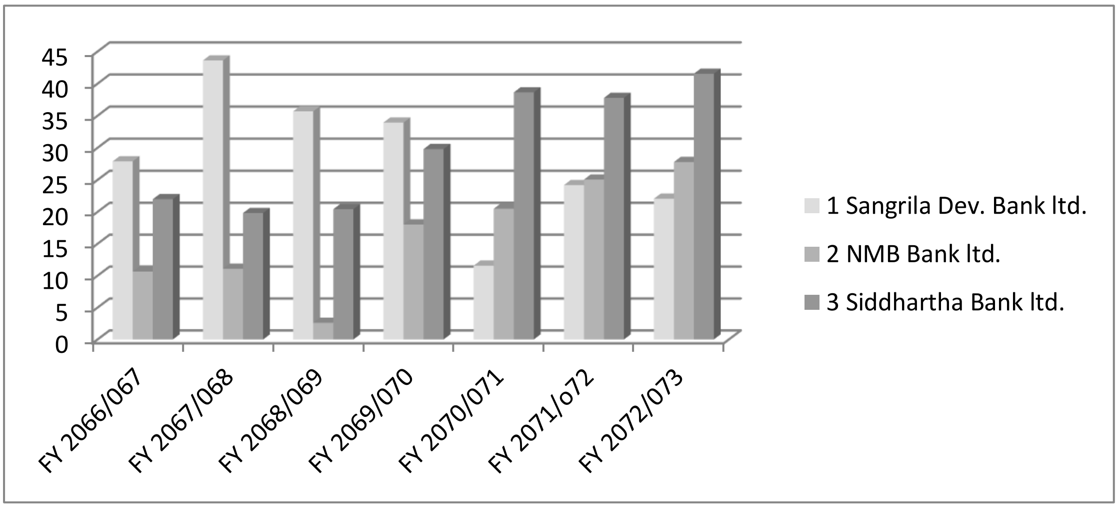
*Source: Annual report of three sample banks*

The table shows that the EPS of three sample banks. In comparison to three banks the higher the EPS is Sangrila Dev. Bank limited there is 43.6 in fiscal year 2066/067. And lower the EPS is Rs. 2.61 in fiscal year 2068/069. The overall EPS is increasing trend.

The Above information presented in the figure below.

**Figure: 4.2**

**Impact of M&A on Earning per share (EPS) on three sample bank ltd.**




*Source: Annual report of three sample Banks.*

The figure shows that EPS of sangrila Dev. Bank limited is increase in the before merger but when the time of merged EPS going on decreasing trend. The highest EPS is Sangrilla Dev. Bank limited is Rs. 43.6 in fiscal year 2067/068 and the lowest EPS is Rs. 11.57 in fiscal year 2070/071. The Average EPS of Sangrilla dev. Bank limited is Rs.28.42. The highest EPS of NMB bank limited is 27.78 in fiscal year 2072/073 and lowest EPS is Rs. 2.61 in fiscal year 2068/069. And the average EPS of NMB Bank limited is Rs.16.53. The highest EPS of Siddhartha bank limited is Rs. 41.53 in fiscal year 2072/073 and lowest EPS is Rs. 19.82in fiscal year 2067/68.The NMB bank limited is the increasing trend of after merger. The Siddhartha bank limited is also increasing trend of before merger and after merger there is on impact of M&A on Siddhartha bank limited. And the average EPS of Siddhartha Bank limited is Rs. 29.99.

### 4.1.2 Market Value per share (MVPS)

The price of the share at the secondary market is known as the market value per share. In other words the closing price on Ashadh last of each fiscal year at Nepal stock

Exchange (NEPSE), the only secondary market in Nepal for listed companies is called market Value per share (MVPS). The three sampled banks shown in MVPS in rupees.

**Table: 4.3**

**Impact of M&A on MVPS of three sample banks.**

| **Fiscal year** | **Name of banks & MVPS in Rs.** | | |
|---|---|---|---|
| | **Global IME Bank ltd.** | **NIC Asia Bank ltd.** | **Machhapuchhre Bank ltd.** |
| 2066/067 | 260 | 270 | 282 |
| 2067/068 | 209 | 192 | 133 |
| 2068/069 | 160 | 228 | 107 |
| 2069/070 | 432 | 554 | 203 |
| 2070/071 | 640 | 970 | 576 |
| 2071/072 | 479 | 617 | 564 |
| 2072/073 | 515 | 798 | 680 |

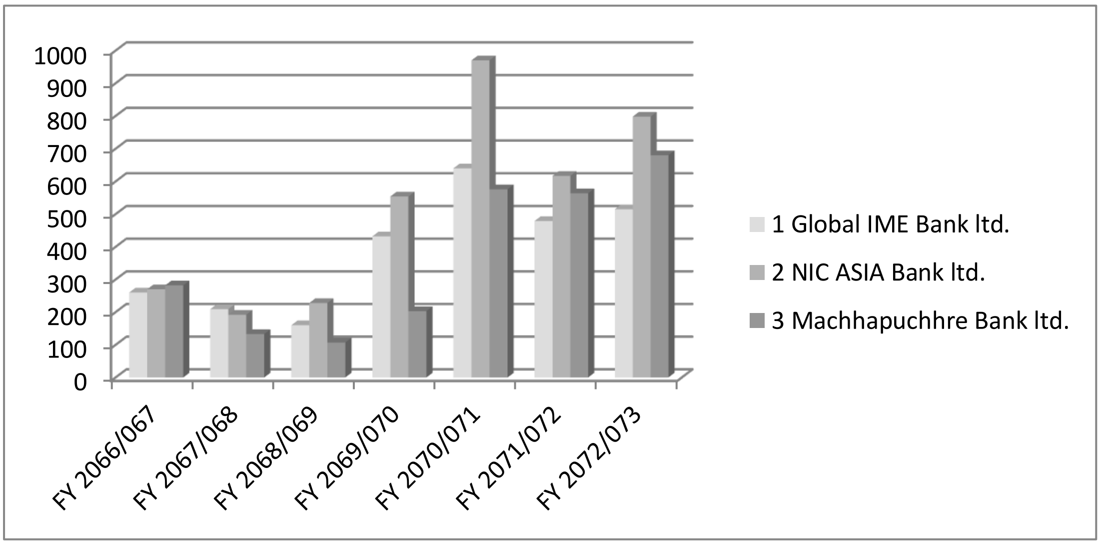
*Source: Annual report of three sample banks*

The table shows that six sample banks market value per share. In the overall three banks has highest MVPS of NIC ASIA Bank limited is Rs. 970 in fiscal year 2070/071 the lowest MVPS of Machhapuchhre Bank limited is Rs. 107 in fiscal year 2068/069. All three banks MVPS is increasing trend in before merger & after merger. The NIC ASIA bank limited has higher the MVPS in after merger time in Rupee 798 in fiscal year 2072/073. All three banks has performance is good.

The above information presented below in figure.

**Figure: 4.3**

**Impact of M&A on MVPS of three sample banks.**




*Source: Annual report of three sample banks.*

The figure shows that MVPS of Global IME bank limited is increasing trend of after merger. It is the positive impact of the merger on Global IME bank limited. The highest MVPS of Global IME Bank limited is Rs.640 in fiscal year 2070/071 lowest MVPS is Rs. 160 in fiscal year 2068/069.The Average MVPS of Global IME bank limited is Rs. 385. NIC ASIA bank limited has also increasing trend of the after merger. When the time of before merger the bank has MVPS is decreasing. The highest MVPS of NIC ASIA bank limited is Rs. 970 in 2070/071 and lowest MVPS is 192 in 2067/068. And the average MVPS of NIC ASIA bank limited is Rs.518. The In the case of Machhapuchhre bank limited is also Market Value per share is increasing trend of after merger. The highest MVPS of Machhapucchre bank limited is Rs.680 in 2072/073 and lowest MVPS is Rs.107 in 2068/069. And average is Rs. 363.57.

### 4.1.2 Market value per share (MVPS)

The MVPS of three sample banks over the fiscal 2066/067-2072/073 year is shown in table in rupees. Market Value measure the shareholder' value in financial performance.

**Table: 4.4**

**Impact of M&A on MVPS of three sample Banks.**

| Fiscal year | Name of banks & MVPS in Rs. | | |
|---|---|---|---|
| | Sangrila Dev. Bank ltd. | NMB Bank ltd. | Siddhartha Bank ltd. |
| 2066/067 | 495 | 295 | 444 |
| 2067/068 | 316 | 195 | 270 |
| 2068/069 | 232 | 180 | 345 |
| 2069/070 | 147 | 252 | 300 |
| 2070/071 | 147 | 515 | 810 |
| 2071/072 | 314 | 507 | 678 |
| 2072/073 | 425 | 810 | 869 |

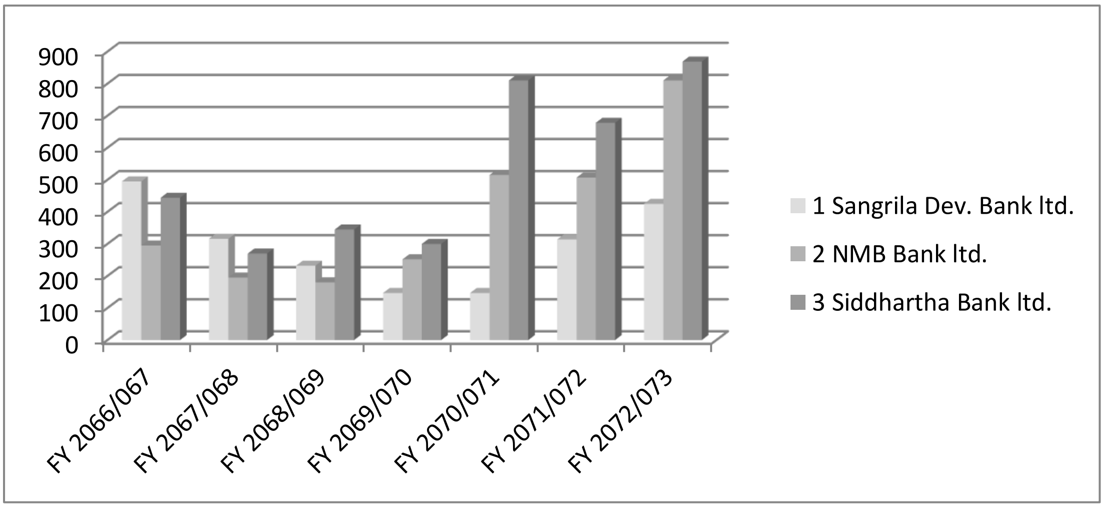
*Source: Annual report of three sample banks*

The table shows that the three banks MVPS. The Siddhartha bank has the higher than other banks MVPS there is 869 in merged time fiscal year 2072/073. The lowest MVPS is the Sangrilla Dev. Bank ltd is Rs 147 in fiscal year 2069/070 and 071. All three banks MVPS is increasing trend.

The above information is presented figure in below.

**Figure: 4.4**

**Impact of M&A on MVPS of three sample Banks.**




*Source: Annual report of three sample banks.*

The MVPS of sangrila Dev. Bank limited is U shaped increased. It means that the MVPS is before merger starting the increase and at the time of merged the MVPS is decreased. That after the sangrila Dev. Bank ltd is merged. Thereafter MVPS is going on increasing trend at yet. The highest MVPS of Sangrilla Dev. Bank limited is Rs.495 in fiscal year 2066/06 and the lowest is Rs. 147 in fiscal year 2069/070/071. The average MVPS is Rs. 296.57. The MVPS of NMB Bank limited is positive impact of merger. After the merger MVPS is increasing trend. The highest MVPS of NMB bank limited is Rs. 810 in fiscal year 2072/073 and lowest is Rs. 195 in fiscal year in 1067/067. The average MVPS is Rs. 393.43. In the case of Siddhartha bank limited the market value per share is increasing trend. The highest MVPS is Rs. 869 in fiscal year 2072/073 and lowest is Rs. 270 in fiscal year 2067/068. The average MVPS is Rs. 530.86.

### 4.1.3 Price Earning ratio (P/E)

It is the ratio between Market value per share (MVPS) and Earning per share (EPS). Its ratio is calculated by using formula.

$$Price\ Earning\ Ratio\ = \frac{\text{Market Value Per share (MVPS)}}{\text{Earning per share (EPS)}}$$

The P/E ratio of three sampled banks over the fiscal 2066/067-2072/073 year are presented in the table below.

**Table: 4.5**

**Impact of M&A on P/E Ratio of three sample banks**

| Fiscal year | Name of banks $ P/E Ratio | | |
|---|---|---|---|
| | Global IME Bank ltd. | NIC Asia Bank ltd. | Machhapuchhre Bank ltd. |
| 2066/067 | 52.47 | 19.48 | 56.9 |
| 2067/068 | 14.86 | 18.3 | 242.54 |
| 2068/069 | 13.57 | 26.42 | 69.41 |
| 2069/070 | 26.74 | 11.69 | 33.96 |
| 2070/071 | 32.7 | 26.96 | 31.4 |
| 2071/072 | 30.74 | 24.11 | 25.4 |
| 2072/073 | 26.64 | 28.19 | 27.15 |

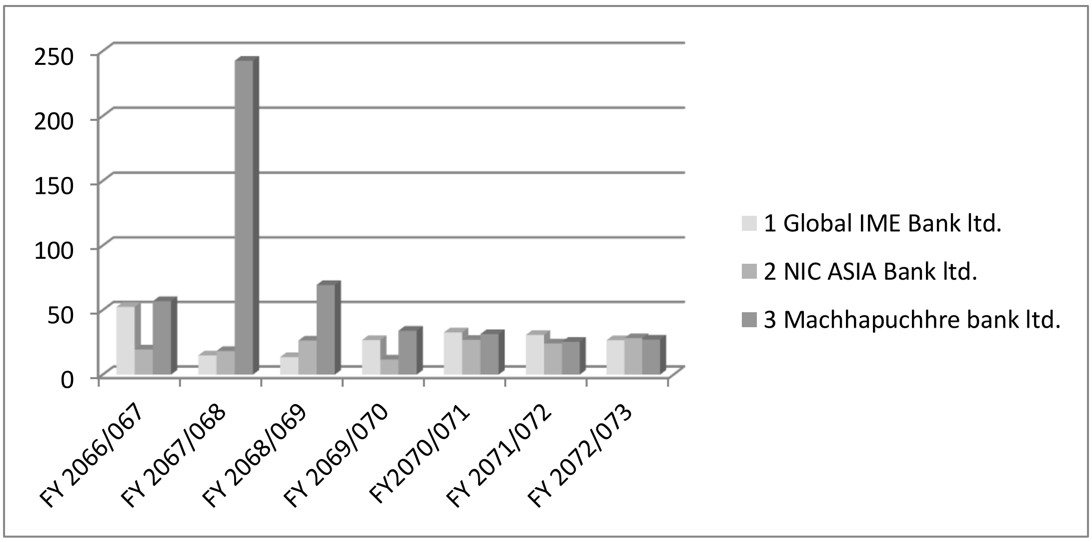
*Source: Annual report of three sample Banks.*

The table shows that the Machhapuchhre bank limited P/E ratio is higher than other banks there is Rupee 242.54. The lowest P/E ratio is Rs. 11.69 in NIC Asia bank limited. All three banks have randomly increase and decrease.

Above the information presented the figure in below.

**Figure: 4.5**

**Impact of P/E ratio on three sample banks.**




*Source: Annual report of three sample Banks.*

From the above figure shows that the P/E ratio of Global IME bank limited is constant growth both before and after merger. The highest P/E ratio is 52.47 in fiscal year 2066/067 and the lowest P/E ratio is 13.57 in the fiscal year 2068/069. The average P/E ratio is 28.25. The highest P/E ratio of NIC Asia bank limited is 28.19 in fiscal year 2072/073 and lowest is the 11.69 in fiscal year 2069/070. The NIC ASIA bank limited is also constant growth. The average P/E ratio of NIC ASIA bank limited is Rs. 22.16. The Machhapuchhre bank limited is highly increased in FY 2067/068 that is 242.54 and the lowest is 25.4in fiscal year 2071/072 and thereafter same as constant growth. And the average ratio is Rs. 69.54.

C, b) Price Earning ratio (P/E)

It is the ratio between Market value per share (MVPS) and Earning per share (EPS). Its ratio is calculated by using formula.

$$Price\ Earning\ Ratio = \frac{\text{Market Value Per Share (MVPS)}}{\text{Earning per share (EPS)}}$$

The P/E ratio of three sampled banks over the fiscal 2066/067-2072/073 year are presented in the table below.

**Table: 4.6**

**Impact of M&A of Price Earning ratio three sample banks**.

| **Fiscal year** | **Name of banks $ P/E Ratio** | | |
|---|---|---|---|
| | **Sangrilla Dev. Bank ltd.** | **NMB Bank ltd.** | **Siddhartha Bank ltd.** |
| 2066/067 | 17.75 | 27.71 | 20.19 |
| 2067/068 | 7.25 | 17.61 | 13.62 |
| 2068/069 | 6.5 | 68.93 | 16.91 |
| 2069/070 | 4.33 | 13.98 | 10.07 |
| 2070/071 | 12.7 | 25.13 | 20.97 |
| 2071/072 | 12.98 | 20.24 | 17.95 |
| 2072/073 | 19.27 | 29.15 | 20.93 |

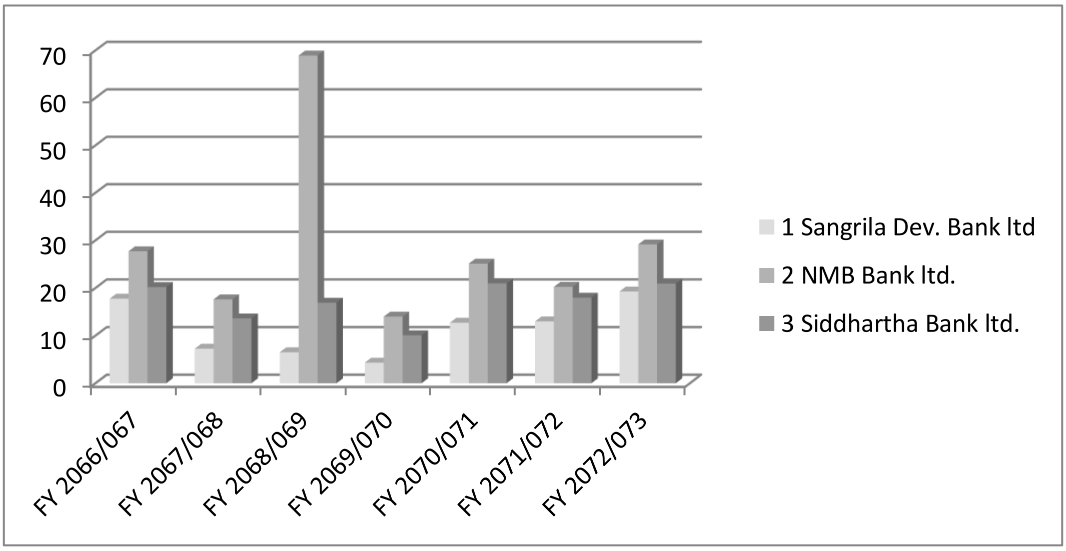
*Source: Annual report of three sample banks*

The table shows that all three banks P/E ratio. All banks has P/E ratio is increasing trend. The highest P/E ratio is the bank of NMB bank limited is 68.93 in fiscal year 2068/069 and the lowest ratio is 4.33 ratio of Sangrilla Dev. Bank limited in fiscal year 2069/070.

The above information presented in the figure below

**Figure: 4.6**

**Impact of M&A of pricing Earning ratio of three sample banks.**




*Source: Annual report of three sample banks*

The P/E ratio of sangrilla dev. Bank limited is increasing trend after merger. The average P/E ratio of Sangrilla Dev. Bank limited is 11.54. The NMB bank limited P/E ratio is increasing trend. The FY of 2068/069 P/E ratio is highly increased. The average P/E ratio is 28.96. The P/E ratio of Siddhartha bank limited is continued increasing growth. The average P/E ratio is 17.23.

## 4.2 Impact of M&A on Profitability Ratio

The impact of merger and acquisition on profitability ratio in bank and financial institutions analyze the pre and post-merger financial performance of six sample banks. The profitability ratio analyze the profit margin and liquidity ratio, where calculated the by using formula are as follows.

### 4.2.1 Impact of M&A on profitability ratio on Global IME bank limited.

$$Profit\ Margin(PM) = \frac{\text{Net Profit After tax}}{\text{Operatin Income}}$$

a) Liquidity Ratio

Liquidity ratio is directly given in annual report .Liquidity is another factor that determines the level of a company's financial performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to (Dang, 2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011).

**Table: 4.7**

**Impact of M&A on Profitability ratio of Global IME bank limited**

| **Fiscal year** | **Liquidity ratio** | **Profit Margin Ratio** |
|---|---|---|
| 2066/067 | 30 | 10.92 |
| 2067/068 | 27.23 | 26.19 |
| 2068/069 | 34.13 | 28.97 |
| 2069/070 | 32.25 | 24.4 |
| 2070/071 | 31.11 | 41.05 |
| 2071/072 | 30.12 | 30.32 |
| 2072/073 | 35.14 | 35.03 |

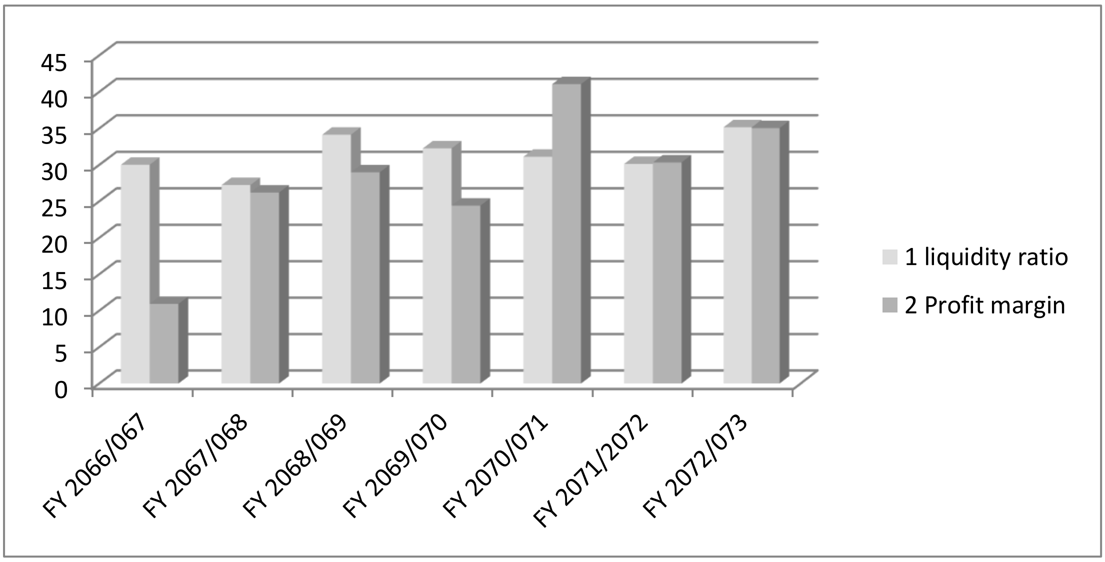
*Source: Annual report of Global IME bank limited*

The table shows that only Global IME bank limited profit margin and liquidity ratio. In fiscal year 2070/071 the profit margin ratio is higher than other fiscal year. In that time the profit margin ratio is 41.05. In the overall fiscal year the profit margin is increasing trend. In the case of liquidity ratio 2067/068 is minimum of liquidity ratio. The liquidity ratio is minimize the better for the bank.

Above the information is presented in figure below.

**Figure: 4.7**

**Impact of M&A on Profitability Ratio of Global IME bank limited**




*Source: Annual report of Global IME bank limited.*

The figure shows that profitability ratio of Global IME bank limited is increasing trend. When the time of Global IME Bank limited merge with IME finance & Lord Buddha Finance limited in 2069 the ratio of profitability is going on increasing trend. The highest liquidity Ratio is 35.14 in fiscal year 2072/073 and lowest is 27.23 in fiscal year 2067/068 and the highest profit margin is 41.05 in fiscal year 2070/073 and the lowest is 10.92 in fiscal year 2066/067. And the average liquidity ratio is 31.43 and average profitability ratio is 28.13%.

### 4.2.2 Impact of M&A on profitability of NIC ASIA bank limited.

The profitability ratio is calculated by using formula are below.

$$Profit\ Margin\ (PM) = \frac{\text{Net profit After tax}}{\text{Operating Income}}$$

Liquidity Ratio is directly given in annual report

**Table: 4.8**

**Impact of M&A on profitability ratio of NIC ASIA bank limited**

| Fiscal year | Liquidity ratio | Profit Margin Ratio |
|---|---|---|
| 2066/067 | 7.54 | 46.76 |
| 2067/068 | 5.77 | 28.75 |
| 2068/069 | 13.84 | 23.64 |
| 2069/070 | 29.27 | 41.87 |
| 2070/071 | 28.68 | 37.14 |
| 2071/072 | 28.91 | 32.36 |
| 2072/073 | 23.79 | 40.83 |

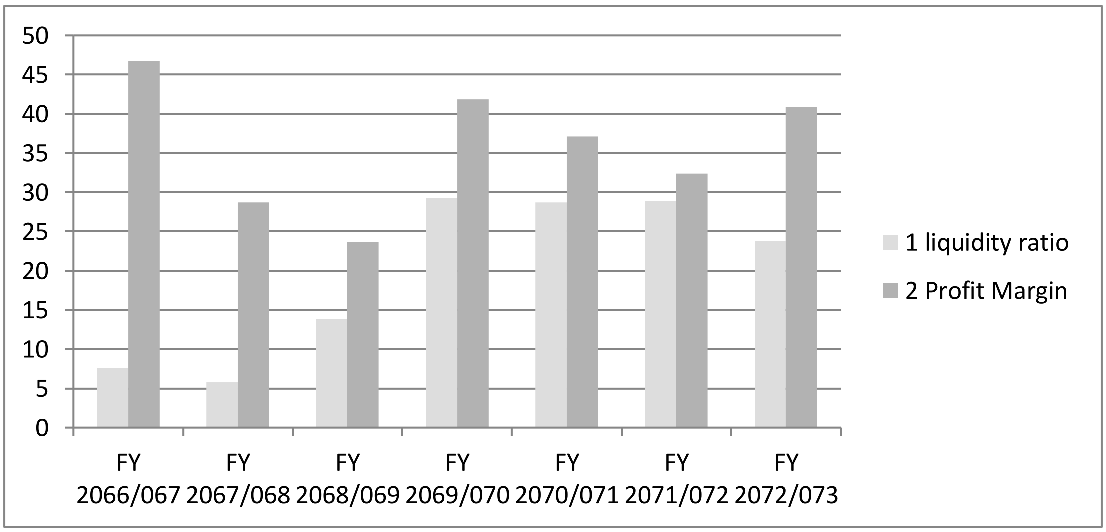
*Source: Annual report of NIC ASIA bank limited*

The table shows that the profitability ratio and liquidity ratio of NIC Asia Bank limited. The bank has higher the profit margin ratio is 46.76. And the lowest is 5.77 in fiscal year 2067/068.

Above information presented in figure below;

**Figure: 4.8**

**Impact of M&A on profitability ratio of NIC ASIA bank limited**




*Source: Annual Report of NIC ASIA bank limited*

From the figure shows that profit margin ratio of NIC ASIA bank limited is increasing trend. The NIC Bank limited is merged with Bank of ASIA in 2070. The highest profit Margin ratio is 46.76% in fiscal year 2066/067 and the lowest is 23.64% in fiscal year is 2068/069. And the lowest liquidity ratio is 5.77 in fiscal year 2067/068. After the merged the bank liquidity ratio and profit margin ratio is highly increased. The average liquidity ratio is 19.69 and the average profit margin ratio is 35.91%.

### 4.2.3 Impact of M&A on profitability ratio on Machhapuchhre Bank limited.

The profitability ratio is calculated by using formula are below.

$$Profit\ Margin\ (PM) = \frac{\text{Net profit After tax}}{\text{Operating Income}}$$

Liquidity Ratio is directly given in annual report

**Table: 4.9**

**Impact of M&A on profitability ratio of Machhapuchhre bank limited**

| Fiscal year | **Liquidity ratio** | **Profit Margin Ratio** |
|---|---|---|
| 2066/067 | 5.89 | 10.52 |
| 2067/068 | 10.85 | 1.32 |
| 2068/069 | 15.04 | 6.476 |
| 2069/070 | 11.07 | 12.49 |
| 2070/071 | 9.24 | 32.26 |
| 2071/072 | 11.02 | 36.127 |
| 2072/073 | 6.84 | 39.165 |

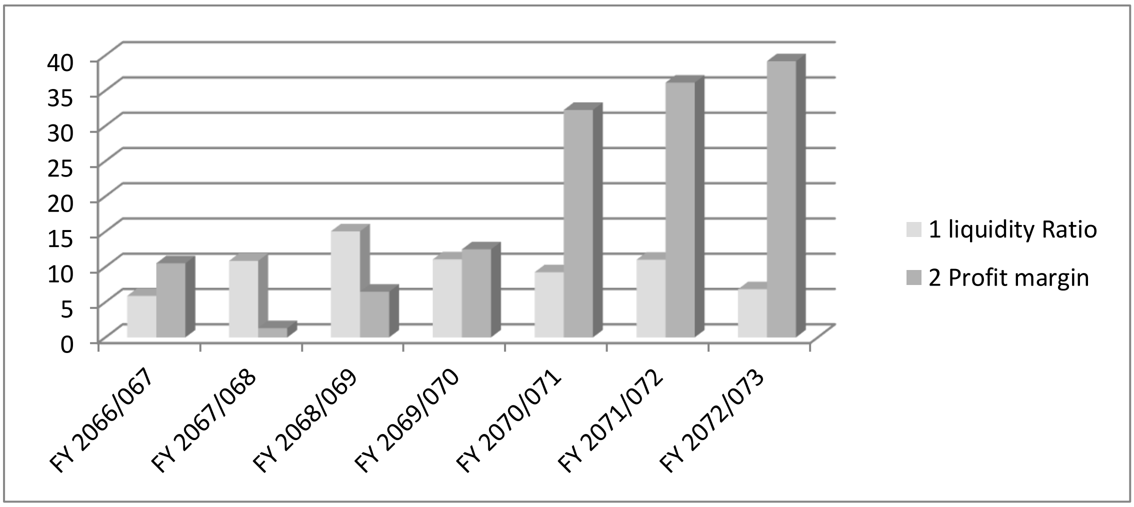
*Source: Annual report of Machhapuchhre Bank limited*

The table shows that the profitability ratio of Machhapuchhre Bank limited is 39.17% in fiscal year 2072/073 and the lowest is 1.32% in fiscal year 2067/068. The lowest liquidity is 5.89.

Above the information presented below the figure.

**Figure: 4.9**

**Impact of M&A on Profitability ratio of Machhapuchhre bank limited**




*Source: Annual report of Machhapuchhre bank limited.*

The figure shows that the profit margin ratio of Machhapuchhre bank limited is increasing the after merger. When the time of merged the profit margin ratio is some increase that after highly increased. The highest profit margin ratio is 39.17% in fiscal year 2072/073 and the lowest is 1.32% in fiscal year 2067/068. The liquidity ratio is the lowest in fiscal year 2066/067 in 5.89. The average liquidity ratio is 9.99 and profit margin ratio is 19.77%.

### 4.2.4 Impact of M&A on Profitability ratio of Sangrila Dev. Bank limited.

The profitability ratio is calculated by using formula are below.

$$Profit\ Margin\ (PM)\ = \frac{\text{Net profit After tax}}{\text{Operating Income}}$$

Liquidity ratio is directly given in Annual report.

**Table: 4.10**

**Impact of M&A on profitability ratio of Sangrila Dev. Bank limited**

| Fiscal year | **Liquidity ratio** | **Profit Margin Ratio** |
|---|---|---|
| 2066/067 | 18 | 18.17 |
| 2067/068 | 31 | 26.04 |
| 2068/069 | 37 | 30.39 |
| 2069/070 | 32 | 38.82 |
| 2070/071 | 32.83 | 42.13 |
| 2071/072 | 31.24 | 36.39 |
| 2072/073 | 25.75 | 38.41 |

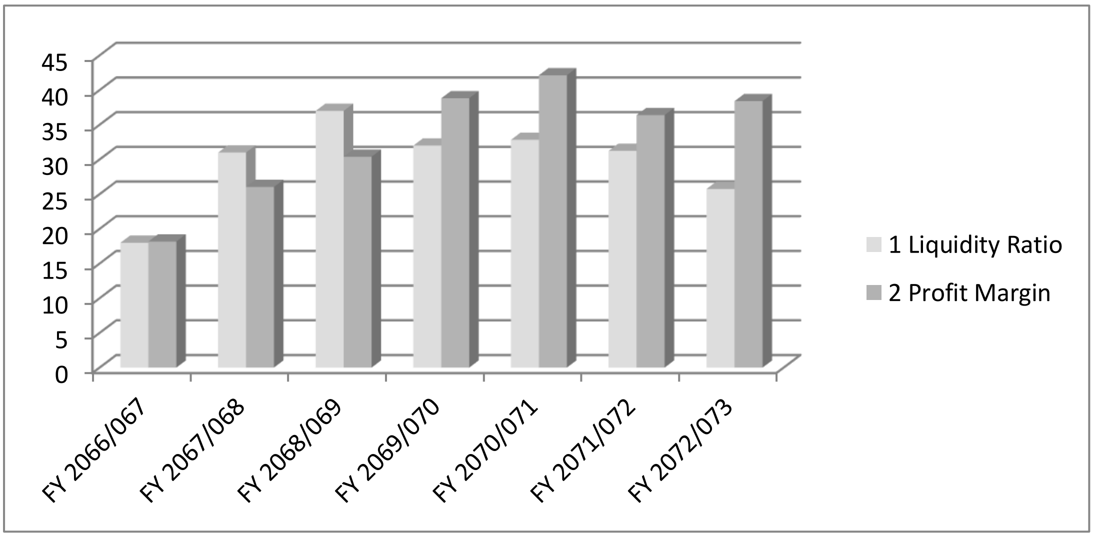
*Source: annual report of Sangrila Dev. Bank limited.*

The table shows that the profitability ratio of Sangrila development bank limited. The highest profitability is 42.13% and lowest Liquidity ratio is 18. In 2070/071 the bank has higher profitability ratio.

The above the information presented below the figure.

**Figure: 4.10**

**Impact of M&A on profitability ratio of Sangrila Dev. Bank limited**




*Source: Annual report of Sangrila Dev. Bank limited*

The profitability ratio of Sangrila Dev. Bank limited is increasing trend. Above figure shows that liquidity ratio of this bank is negative performance or reducing the leverage ratio when the after merger. Before the merger liquidity ratio is increasing. The profit margin is going on increasing trend. The average liquidity ratio is 29.69 and profit margin ratio is 32.91%.

### 4.2.5 Impact of M&A on profitability ratio of NMB Bank limited.

The profitability ratio is calculated by using formula are below.

$$Profit\ Margin\ (PM) = \frac{\text{Net profit After tax}}{\text{Operating Income}}$$

Liquidity ratio is directly given in annual report

**Table: 4. 11**

**Impact of M&A on profitability ratio of NMB bank limited**.

| Fiscal year | **Liquidity ratio** | **Profit Margin Ratio** |
|---|---|---|
| 2066/067 | 6.02 | 35.84 |
| 2067/068 | 6.85 | 38.62 |
| 2068/069 | 18.91 | 8.83 |
| 2069/070 | 23.35 | 38.88 |
| 2070/071 | 13.72 | 38.46 |
| 2071/072 | 13.32 | 38.19 |
| 2072/073 | 10.81 | 43.06 |

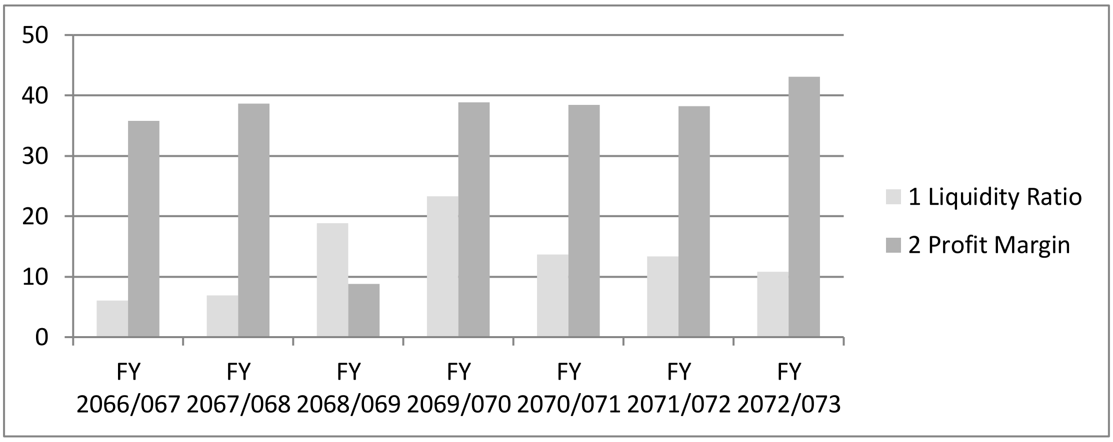
*Source: Annual report of NMB Bank limited*

The table shows that the profitability ratio of NMB bank limited. In 2072/073 the bank has higher profitability there is 43.06 the lowest Liquidity ratio is 6.02 in fiscal year 2066/067. Lowest liquidity ratio is the best for bank performance.

Above the data is presented in the figure below.

**Figure: 4. 11**

**Impact of M&A on Profitability ratio on NMB Bank limited**.




*Source: Annual report of NMB bank limited*

The figure shows that th profitability ratio of NMB bank limited is increasing trend. There is no difference between the before merger and after merger in profit margin ratio. The liquidity ratio is equally for the increase and decrease. The highest profit margin ratio is 43.06% in fiscal year 2072/073 and the lowest profit margin is the 8.83% in fiscal year 2068/069. The highest Liquidity ratio is the 23.35 in fiscal year 2069/070 and the lowest liquidity ratio is the 6.02 in fiscal year 2066/067. The average liquidity ratio is 13.28 and profit margin ratio is 34.55%.

### 4.2.6 Impact of M&A on profitability ratio on Siddhartha bank limited

The profitability ratio is calculated by using formula are below.

$$Profit\ margin\ (PM) = \frac{\text{Net profit After tax}}{\text{Operating Income}}$$

Liquidity ratio is directly given in annual report

**Table: 4. 12**

**Impact of M&A on profitability ratio of Siddhartha bank limited**

| Fiscal year | Liquidity ratio | Profit Margin Ratio |
|---|---|---|
| 2066/067 | 50.66 | 33.57 |
| 2067/068 | 5.61 | 33.34 |
| 2068/069 | 11.86 | 28.06 |
| 2069/070 | 9.6 | 30.02 |
| 2070/071 | 17.22 | 38 |
| 2071/072 | 8.63 | 38.17 |
| 2072/073 | 6 | 45.22 |

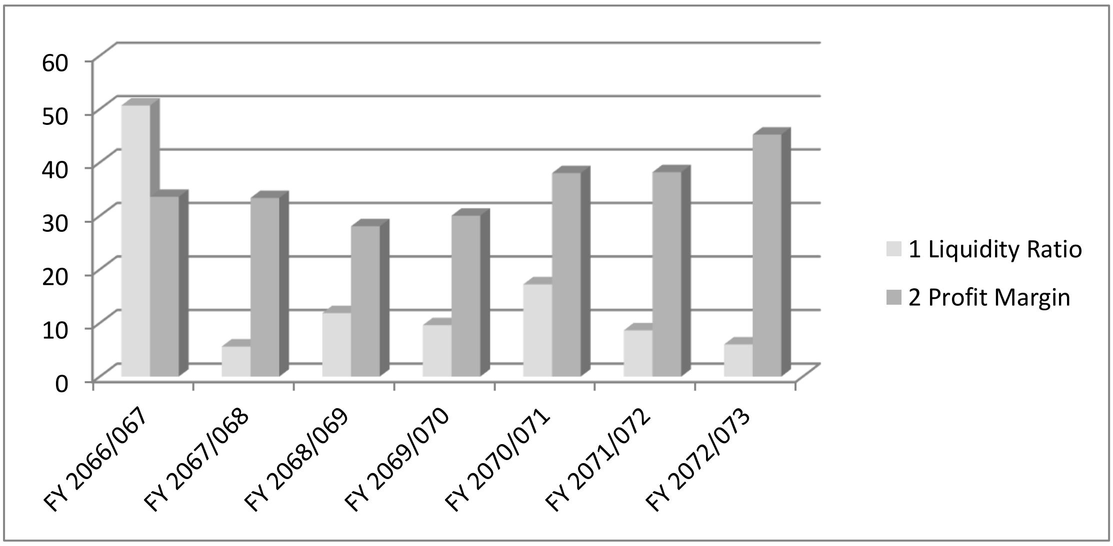
*Source: Annual report of Siddhartha bank limited.*

The table shows that the profitability ratio of Siddharha bank limited. In this banks has higher profitability ratio in 2072/073 there is 45.22% and the lowest profit margin ratio is 28.06% in fiscal year 2068/069.

Above the data presented in the below figure.

**Figure:4.12**

**Impact of M&A profitability ratio of Siddhartha bank limited**




*Source: Annual report of Siddhartha bank limited*

The figure shows the increasing trend of profit margin in Siddhartha bank limited. The liquidity ratio is decreasing trend in this bank. The highest profit margin ratio is 45.22% in fiscal year 2072/073 and the lowest profit margin ratio is 28.06% in fiscal year 2068/069. The highest liquidity ratio is 50.66 in fiscal year 2066/067 and lowest liquidity ratio is 5.61 in fiscal year 2067/068. The average liquidity ratio is 15.65 and profit margin ratio is 35.20%.

## 4.3 Impact of M&A on leverage ratio

The leverage ratio is represented the financial performance of bank and financial institution in Nepal. When the pre- merger and post-merger impact of leverage ratio of six sample banks. Leverage ratio is calculated by using formula.

$$Leverage\ ratio\ (LR) = \frac{\text{Core Capital (Tire 1)}}{\text{Total book value of Assets}}$$

If LR>5% = Well Capitalized
If LR>3% = Adequately capitalized
If LR>3<4% = Under capitalized
If LR>2<3% = Significantly under capitalized
If LR<2% = Critically under capitalized

### 4.3.1 Impact of M&A on leverage ratio of Global IME bank limited.

The leverage ratio of Global IME bank limited over the FY 2066/067-2072/07 are presented in the table below.

**Table: 4.13**
**Impact of M&A on Leverage ratio of Global IME bank limited**.

| Fiscal year | Leverage ratio |
|---|---|
| 2066/067 | 6.77 |
| 2067/068 | 7.32 |
| 2068/069 | 6.14 |
| 2069/070 | 6.27 |
| 2070/071 | 7.49 |
| 2071/072 | 7.82 |
| 2072/073 | 7.33 |

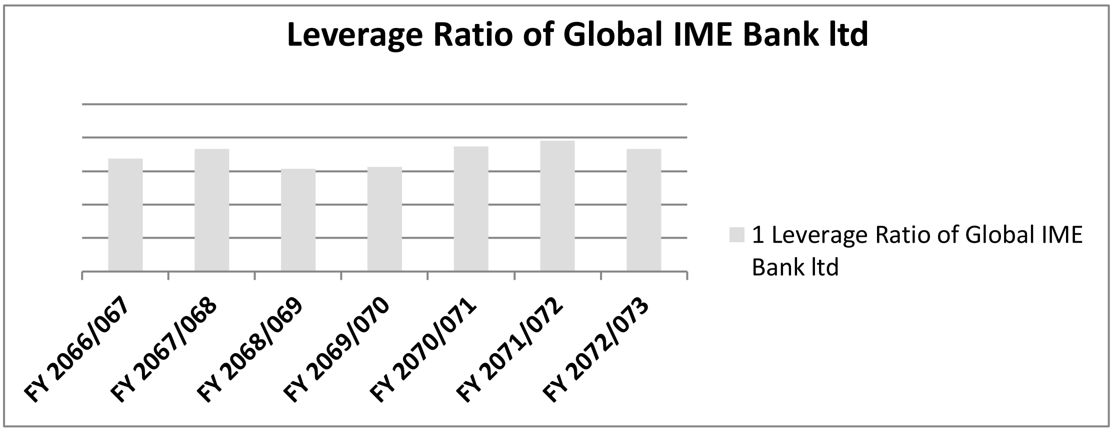
*Source: Annual report of Global IME bank limited.*

The table shows that the leverage ratio of Global IME bank limited is all are well capitalized. In 2071/072 the leverage ratio is well capitalized. All LR are is >5%.

The data presented below in figure

**Figure: 4.13**

**Impact of M&A on leverage ratio of Global IME bank limited.**




*Source: Annual report of Global IME bank limited.*

The figure shows that the Global IME bank limited leverage ratios are well capitalized. The highest LR is the 7.82 % in fiscal year 2071/072 and the lowest LR is the 6.14% in fiscal year 2068/069. And average leverage ratio is 7.02%.

### 4.3.2 Impact of M&A on leverage ratio of NIC ASIA bank limited.

**Table: 4.14**

**Impact of M&A on Leverage ratio of NIC ASIA bank limited**

| **Fiscal year** | **Leverage ratio** |
|---|---|
| 2066/067 | 6.81 |
| 2067/068 | 10.87 |
| 2068/069 | 10.58 |
| 2069/070 | 7.91 |
| 2070/071 | 8.4 |
| 2071/072 | 7.13 |
| 2072/073 | 7.59 |

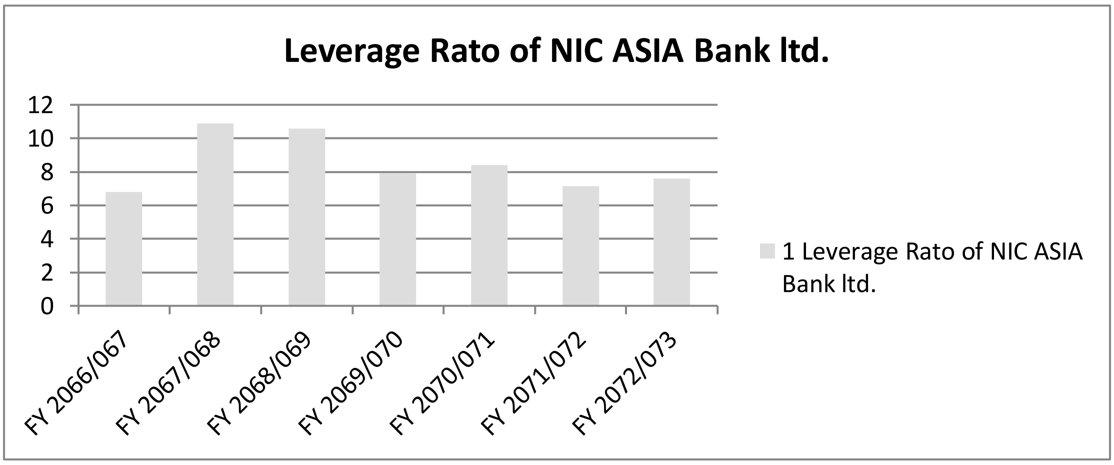
*Source: Annual report of NIC ASIA bank ltd.*

The table shows that the leverage ratio of NIC ASIA bank limited. The bank has all leverage ratios are well capitalized.

Above the data presented figure in below.

**Figure: 4.14**

**Impact of M&A on leverage ratio of NIC ASIA bank limited**




*Source: Annual report of NIC ASIA bank limited.*

The figure shows that the highest LR is the 10.87% in fiscal year 2067/068 and the lowest LR is the 6.81% in fiscal year 2066/067.The NIC ASIA bank limited leverage ratio is well capitalized. All LR are >5%. And the average Leverage ratio is 8.47%.

### 4.3.3. Impact of M&A on leverage ratio of Machhapuchhre bank limited.

**Table : 4.15**

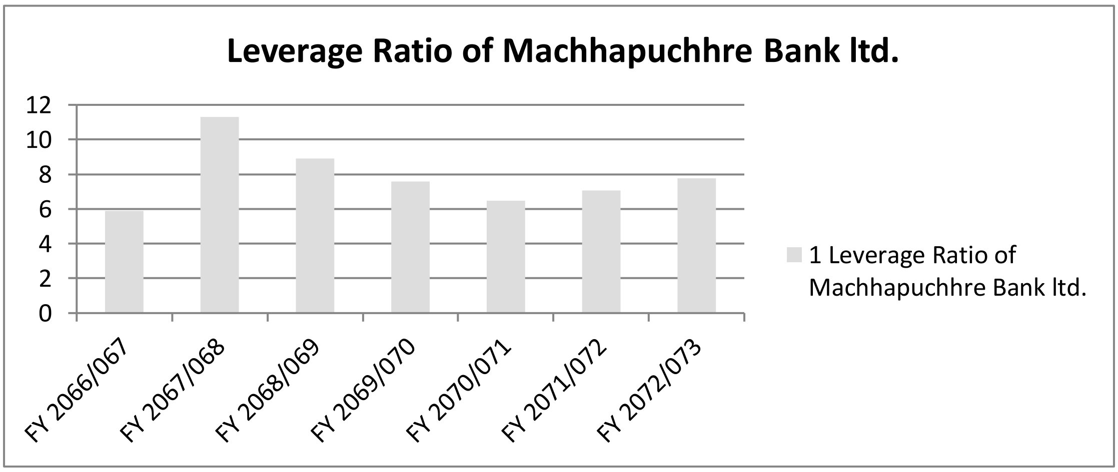
| **Fiscal year** | **Leverage ratio** |
|---|---|
| 2066/067 | 5.9 |
| 2067/068 | 11.29 |
| 2068/069 | 8.92 |
| 2069/070 | 7.59 |
| 2070/071 | 6.47 |
| 2071/072 | 7.08 |
| 2072/073 | 7.75 |

*Source: Annual report of Machhapuchhre bank limited*.

The table shows that the leverage ratio of Machhapuchhre bank limired. All leverage ratios are well capitalized.

Above the data presented figure in below.

**Figure: 4.15**




*Source: Annual report of Machhapuchhre Bank limited.*

The figure shows the better performance of the before merger and after merger. The leverage ratios are well capitalized. The highest LR is the 11.29% in fiscal year 2067/068 and the lowest LR is the 5.9% in fiscal year 2066/067. And the average Leverage ratio is 7.86%.

### 4.3.4 Impact of M&A on Leverage ratio of Sangrilla Dev. Bank limited.

**Table: 4. 16**

**Impact of M&A on leverage ratio of Sangrilla Dev. Bank limited**.

| Fiscal year | Leverage ratio |
|---|---|
| 2066/067 | 8.6 |
| 2067/068 | 15.51 |
| 2068/069 | 11.22 |
| 2069/070 | 9.98 |
| 2070/071 | 11.16 |
| 2071/072 | 11.12 |
| 2072/073 | 11.04 |

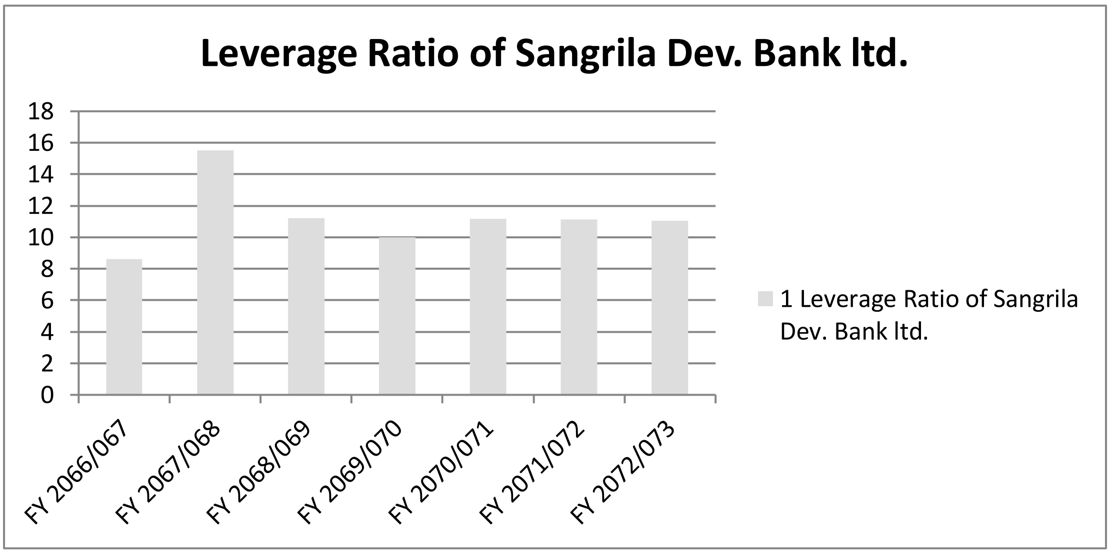
*Source: Annual report of Sangrila Dev. Bank limited.*

The table shows that the leverage ratio of sangrila dev. Bank limited.all leverage ratios are well capitalized.

Above the data presented figure in below

**Figure: 4. 16**

**Impact of M&A on leverage ratio of Sangrilla dev. Bank limited.**




*Source: Annual report of Sangrila Dev. Bank limited*.

The Sangrila Dev. Bank limited bank has leverage ratios are well capitalized. The highest LR is the 15.51% in fiscal year 2067/068 and the lowest LR is the 8.6% in fiscal year 2066/067. And the average leverage ratio is 11.23%.

### 4.3.5 Impact of M&A on leverage ratio of NMB bank limited.

**Table: 4.17**

**Impact of M&A on leverage ratio of NMB bank limited.**

| Fiscal year | Leverage ratio |
|---|---|
| 2066/067 | 11.77 |
| 2067/068 | 12.16 |
| 2068/069 | 9.85 |
| 2069/070 | 6.93 |
| 2070/071 | 6.76 |
| 2071/072 | 5.73 |
| 2072/073 | 6.57 |

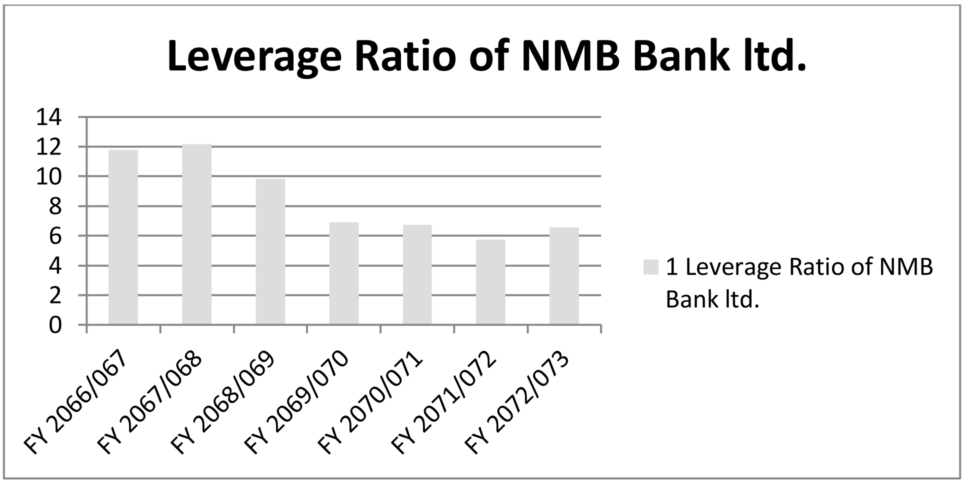
*Source: Annual report of NMB bank limited.*

The table shows that the leverage ratio of NMB bank limited. All fiscal year leverage ratios are well capitalized.

Above the data presented figure in below.

**Figure:4. 17**

**Impact of M&A on leverage ratio of NMB Bank limited.**




*Source: Annual report of NMB Bank limited.*

The leverage ratio of NMB bank limited is well capitalized. The highest LR is the 12.16% in fiscal year 2067/068 and the lowest LR is the 5.73% in fiscal year 2071/072. And average leverage ratio is 8.54%.

### 4.3.6 Impact of M&A on leverage ratio of Siddhartha bank limited.

**Table: 4.18**

**Impact of M&A on leverage ratio of Siddhartha Bank limited.**

| **Fiscal year** | **Leverage ratio** |
|---|---|
| 2066/067 | 6.02 |
| 2067/068 | 6.58 |
| 2068/069 | 5.89 |
| 2069/070 | 6.24 |
| 2070/071 | 5.91 |
| 2071/072 | 5.69 |
| 2072/073 | 6.75 |

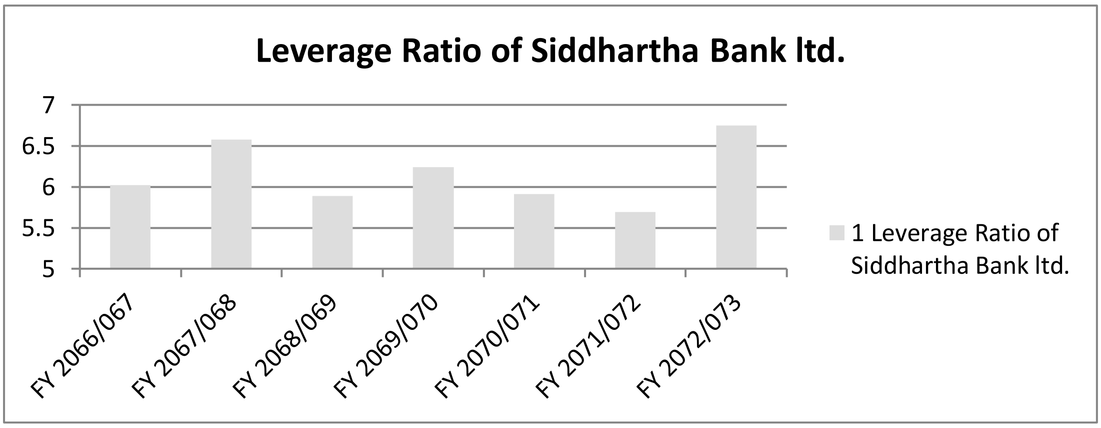
*Source: Annual report of Siddhartha Bank limited.*

The table shows that the leverage ratio of Siddhartha bank limited. All fiscal year leverage ratio is well capitalized.

Above the data presented figure in below.

**Figure: 4.18**

**Impact of M&A on leverage ratio of Siddhartha Bank limited.**




*Source: annual report of Siddhartha bank limited.*

The figure shows the leverage ratio of Siddhartha bank limited. The bank has well capitalized. The highest LR is the 6.75% in fiscal year 2072/073 and the lowest LR is the 5.69% in fiscal year 2071/072. And the leverage ratio is 6.15%.

## 4.4 Impact of M&A on financial performance

The performance of banks and financial institutions analyzing by using the ROA and ROE. Higher the ROA and ROE better performance for the bank. The six sample banks are using the financial performance of banks.

By using the formula.

$$ROA = \frac{\text{Net profit After taxes}}{\text{Total assets}}$$

The return on assets provides information on how efficiently a bank is being run, Because it indicates how much profit are generated on average by each of assets.

$$ROE = \frac{\text{Net profit after taxes}}{\text{Equity}}$$

The banks owners care about most is how much the bank is earning on their equity investment. Total equity is the sum of preferred stock, surplus and paid in capital, retained earning and other equity capital. There is direct relationship between the return on assets and return on equity which measure how well the owners are doing on their investment. The relationship determine by the equity multiplier. Higher the ROA and Higher the ROE is better performance of bank.

### 4.4.1 Impact of M&A on financial performance of Global IME bank limited.

**Table: 4.19**

**Financial Performance Global IME Bank ltd**

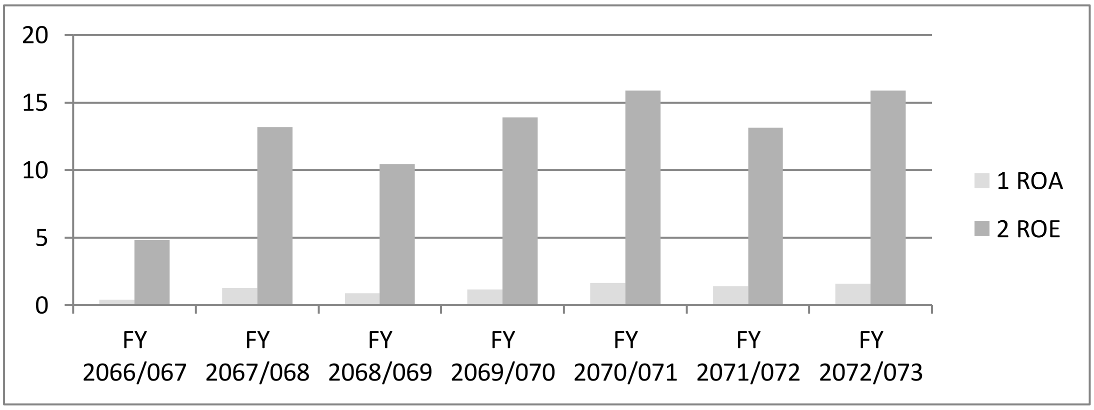
| Fiscal year | ROA | ROE |
|---|---|---|
| 2066/067 | 0.42 | 4.79 |
| 2067/068 | 1.28 | 13.17 |
| 2068/069 | 0.86 | 10.46 |
| 2069/070 | 1.15 | 13.9 |
| 2070/071 | 1.62 | 15.89 |
| 2071/072 | 1.39 | 13.12 |
| 2072/073 | 1.58 | 15.88 |

*Source: Annual report of Global IME bank limited*

The table shows that the financial performance of Global IME bank limited. All the financial performance are increasing trend.

**Figure: 4. 19**

**Financial performance of Global IME bank limited**.




*Source: annual report of Global IME bank limited.*

The Global IME bank limited has ROE is the highly increase rather than ROA. The highest ROA is the 1.62% in fiscal year 2070/071 and the lowest ROA is the 042% in fiscal year 2066/067.The bank has after the merge than after starting increase the financial performance. It’s impact  is positive. From the analyzed the bank in strong, it is most profitability and well capitalized. The highest ROE is the 15.89% in fiscal year 2070/071 and the lowest is the 4.79% in fiscal year 2066/067. The average ROA is 1.19% and average ROE is 12.46%.

### 4.4.2 Impact of M&A on financial performance of NIC ASIA bank limited.

**Table: 4.20**

**Impact of M&A on financial performance of NIC ASIA Bank ltd.**

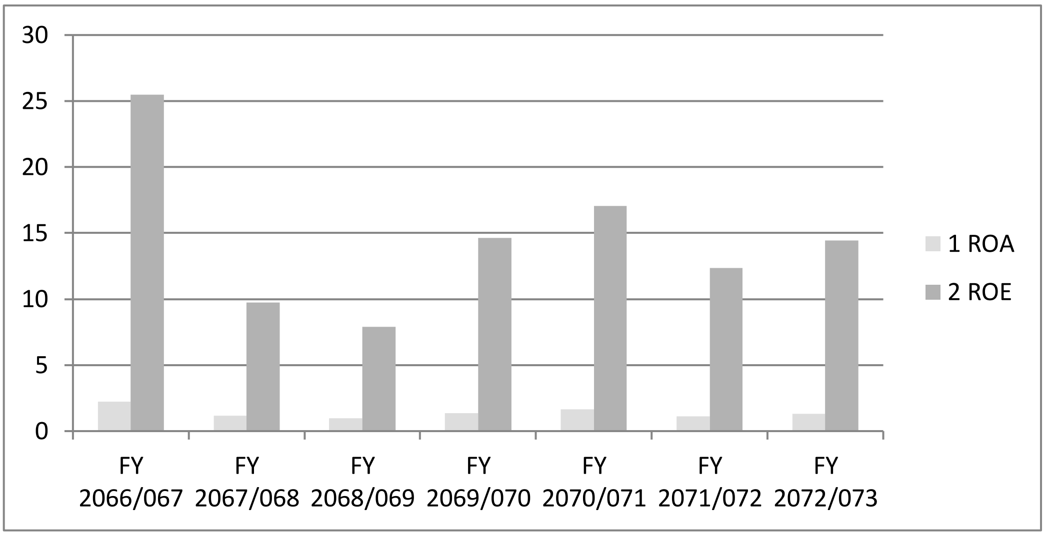
| Fiscal year | ROA | ROE |
|---|---|---|
| 2066/067 | 2.21 | 25.49 |
| 2067/068 | 1.18 | 9.74 |
| 2068/069 | 0.96 | 7.92 |
| 2069/070 | 1.34 | 14.63 |
| 2070/071 | 1.65 | 17.065 |
| 2071/072 | 1.12 | 12.37 |
| 2072/073 | 1.33 | 14.45 |

*Source: Annual report of NIC ASIA bank limited.*

The table shows that the financial performance of  NIC ASIA bank limited. All fiscal year performance are increasing trend. The highest Financial performance is the 17.065% in fiscal year 2070/071.

**Figure: 4. 20**

**Financial performance of NIC ASIA bank limited.**




*Source: Annual report of NIC ASIA bank limited.*

The ROE is better performer of this bank. It is very highly increased. After merger ROE is the going on increasing trend. The ROA is not impact before and after merger ROA is constant growth. The highest ROA is the 2.21% in fiscal year 2066/067 and the lowest is the 0.96 in fiscal year 2068/069. The highest ROE is the 17.065% in fiscal year 2070/071 and the lowest ROE is the 7.92% in fiscal year 2068/069. And the average ROA is 1.40% and average ROE is 14.52%.

### 4.4.3 Impact of M&A on financial performance of Machhapuchhre bank limited

**Table: 4.21**

**Financial performance of Machhapuchhre bank limited.**

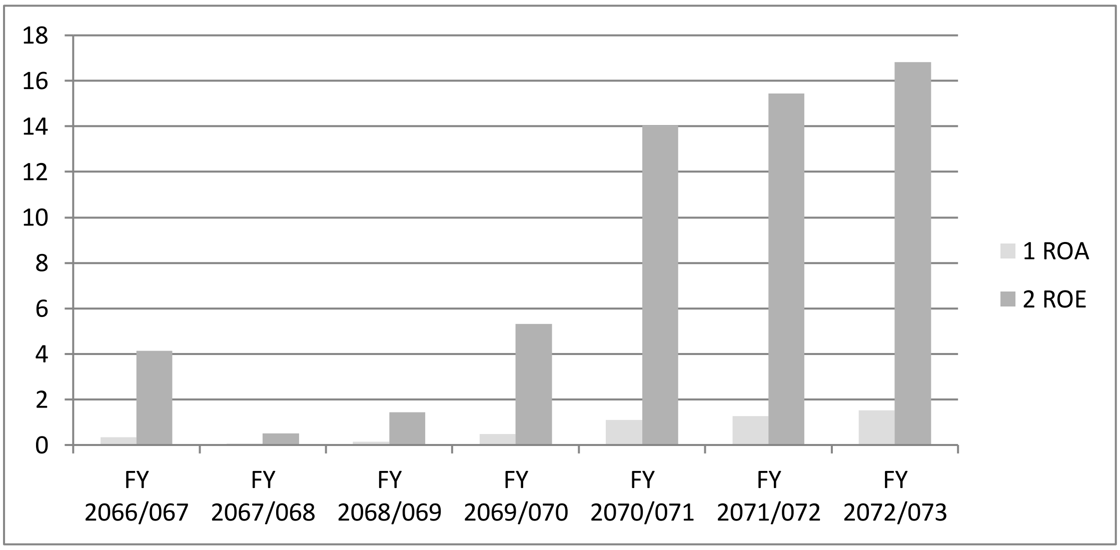
| Fiscal year | ROA | ROE |
|---|---|---|
| 2066/067 | 0.35 | 4.13 |
| 2067/068 | 0.053 | 0.5 |
| 2068/069 | 0.15 | 1.44 |
| 2069/070 | 0.49 | 5.31 |
| 2070/071 | 1.11 | 14.05 |
| 2071/072 | 1.26 | 15.44 |
| 2072/073 | 1.51 | 16.82 |

*Source: Annual report of Machhapuchhre Bank limited*.

The table shows the increasing trend of financial performance in Machhpuchhre bank limited. The higher finncial performance is the 16.82% in fiscal year 2072/073.

**Figure: 4.21**

**Financial performance of Machhapuchhre bank limited.**




*Source: Annual report of Machhapuchhre bank limited*.

The figure shows that the financial performance of Machhapuchhre bank limited. The highest ROA is the 1.51% in fiscal year 2072/073 and the lowest is the 0.053% in fiscal year 2067/068. The highest ROE is the 16.82% in fiscal year 2072/073 and the lowest is the 0.5% in fiscal year 2067/068.The financial performance of this bank is after merger that after growth of both ROA and ROE. Before the time of merger there is no performance of the banks .when the time or merged that after increasing trend of financial performance. And the average ROA is 0.70% and average ROE is 8.24%.

### 4.4.4 Impact of M&A on financial performance of Sangrilla Dev. Bank limited.

**Table: 4.22**

**Financial Performance of Sangrila Dev. Bank ltd.**

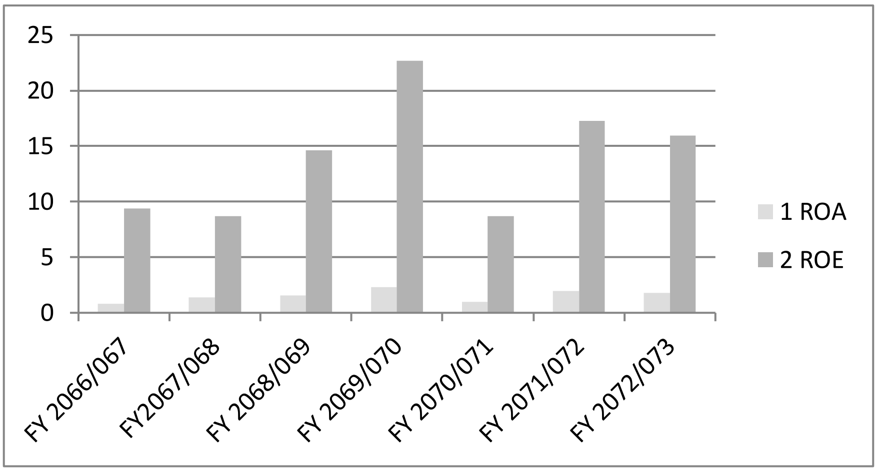
| **Fiscal year** | **ROA** | **ROE** |
|---|---|---|
| 2066/067 | 0.83 | 9.36 |
| 2067/068 | 1.36 | 8.7 |
| 2068/069 | 1.58 | 14.64 |
| 2069/070 | 2.32 | 22.66 |
| 2070/071 | 0.99 | 8.68 |
| 2071/072 | 1.94 | 17.27 |
| 2072/073 | 1.8 | 15.95 |

*Source: Annual report of Sangrila dev. Bank limited.*

The table shows that the financial performance of Sangrilla Dev. Bank limited. The bank has ROA & ROE both increasing trend in after merger. The highest financial performance is the 22.66% in fiscal year 2069/070.

**Figure: : 4.22**

**Financial performance of Sangrila dev. Bank limited.**




*Source: annual report of Sangrila dev. Bank limited.*

The figure shows that the financial performance of Sangrilla Dev. Bank limited. The highest ROA is the 2.32% in fiscal year 2069/070 and the lowest ROA is the 0.83% in fiscal year 2066/067. The highest ROE is the 22.66% in fiscal year 2069/070 and the lowest is the 8.68% in fiscal year 2070/071. Before merger the ROE is the better performer. After the merger ROE is the decrease. At the time of merged period also decrease the ROE than after increasing trend. In the case of ROA is the before and after merger constant growth. And average ROA is 1.55% and average ROE is 13.89%.

### 4.4.5 Impact of M&A on financial performance of NMB bank limited.

**Table: 4.23**

**Financial performance of NMB Bank Ltd.**

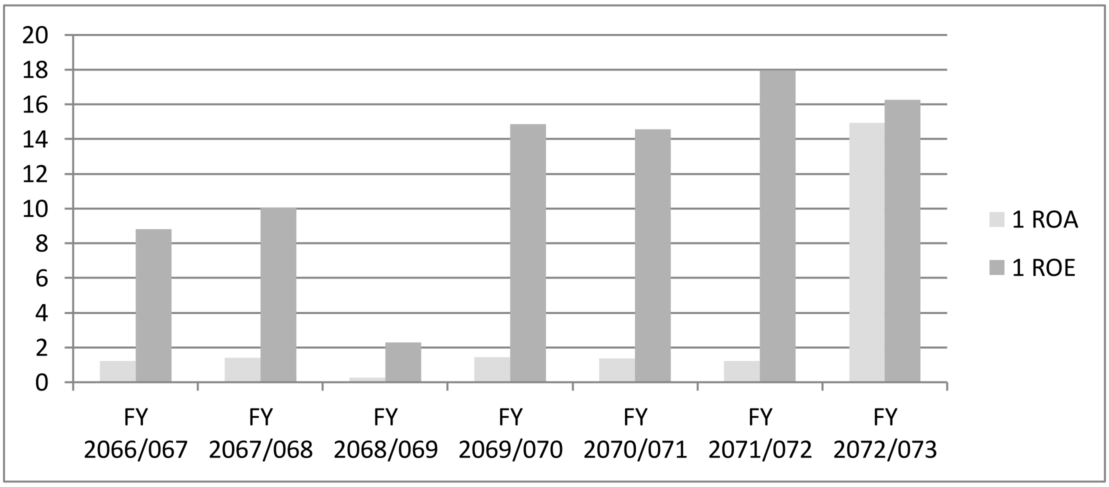
| Fiscal year | ROA | ROE |
|---|---|---|
| 2066/067 | 1.21 | 8.83 |
| 2067/068 | 1.39 | 10.02 |
| 2068/069 | 0.28 | 2.31 |
| 2069/070 | 1.43 | 14.87 |
| 2070/071 | 1.36 | 14.57 |
| 2071/072 | 1.21 | 17.96 |
| 2072/073 | 14.94 | 16.25 |

*Source: Annual report of NMB bank limited.*

The table shows that the financial performance of NMB bank limited. The bank has increasing trend in financial performance. The highest financial performance is the 17.96% in fiscal year 2071/072.

**Figure: 4.23**

**Financial performance of the NMB bank limited.**




*Source: Annual report of NMB Bank limited.*

The figure shows that The financial performance of NMB bank limited is better performance. Before the merger highly increased the ROE and at the time of merged also increased the ROE. The merged period of FY 2072/073 the ROA is unexpected increased. The highest ROA is the 14.94% in fiscal year 2072/073 and lowest ROA is the 028% in fiscal year 2068/069. The highest ROE is the 17.96% in fiscal year 2071/072 and lowest is the 2.31% in fiscal year 2068/069. And the average ROA is 3.12% and average ROE is 12.12%.

### 4.4.6 Impact of M&A on financial performance of Siddhartha bank limited.

**Table: 4.24**

**Financial performance of Siddhartha bank limited**.

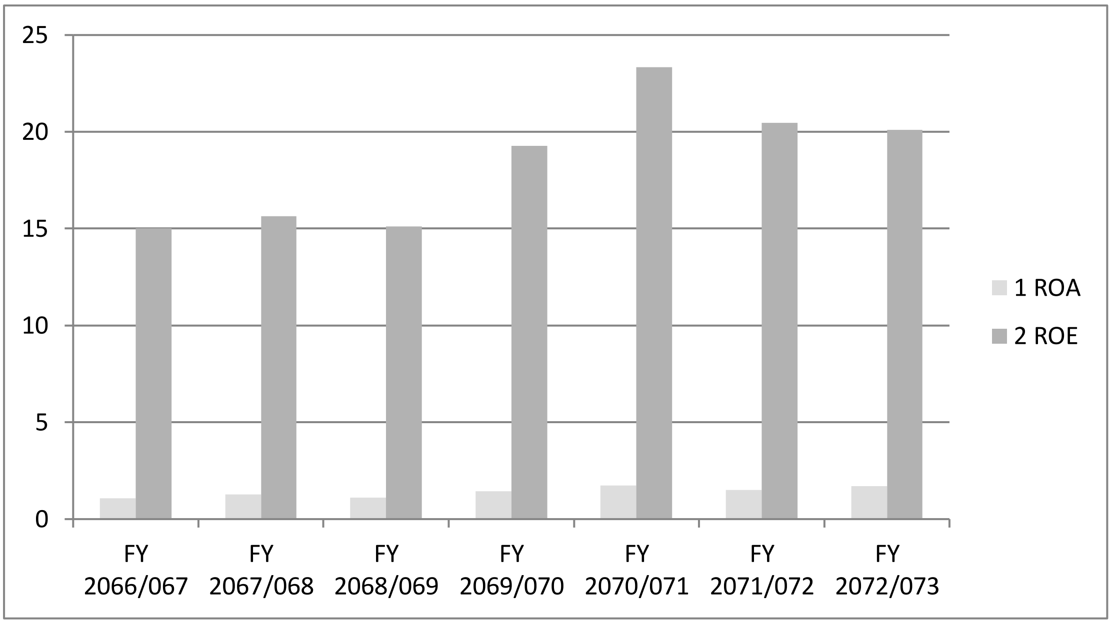
| **Fiscal year** | **ROA** | **ROE** |
|---|---|---|
| 2066/067 | 1.06 | 15.02 |
| 2067/068 | 1.28 | 15.66 |
| 2068/069 | 1.11 | 15.11 |
| 2069/070 | 1.43 | 19.29 |
| 2070/071 | 1.74 | 23.35 |
| 2071/072 | 1.51 | 20.48 |
| 2072/073 | 1.69 | 20.11 |

*Source: Annual report of Siddhartha bank limited*

The table shows that the financial performance of Siddhartha bank limited. The banks performance is good. It is going on increasing trend. The highest financial performance is the 23.35% in fiscal year 2071/072.

**Figure: 4.24**

**Financial performance of Siddhartha bank limited**.




*Source: Annual report of Siddhartha bank limited.*

The figure shows that the financial performance of Siddhartha bank limited. The highest ROA is the 1.74% in fiscal year 2070/071 and the lowest is the1.06% in fiscal year 2066/067. The highest ROE is the 23.35% in fiscal year 2070/071 and the lowest is 15.02% in fiscal year 2066/067. The ROA is the constant increasing trend and ROE is the highly increased. The Siddhartha bank financial performance is better to all. And average ROA is 1.40% and average ROE is 18.43%.

## 4.5 Findings

The purpose of this thesis is to research the impact of merger and acquisition trend in Nepalese banks and financial instiutions. This chapter entails the data presentation, analysis and interpretation of the findings of the thesis. The excel software was used to perform the analysis. Descriptive and regression analysis has been utilized to analyze the findings in this study. Data was collected from audited financial reported for the selected banks and financial institutions. From the research of merger and acquisition, its impact on Nepalese BFs reaction of the six banks and financial institutions following major findings.

1) The Global IME bank limited is merged with Lord Buddha finance limited and IME finance Limited in 3/25/2069. After merging the Global IME bank limited different time period of FY 2066/067 – FY 2072/073.

   a) The EPS are in rupees: 4.95, 14.06, 11.79, 16.15, 19.57, 15.58 & 19.33. And average EPS is Rs. 14.49. The MVPS are rupee 260, 209, 160, 432, 640, 479 & 515. And average MVPS is Rs. 385. The P/E ratio in rupees: 52.47, 14.86, 13.57, 26.74, 32.70, 30.74 & 26.64. And average P/E ratio is 28.25.The Global IME bank has positive relationship between the M&A when the time of merged that after EPS, MVPS & P/E ratio are increasing trend.

   b) The Global IME bank limited profitability ratio is also highly increased when the time of merger. Increase net profit after taxes and total operating income. But some indicators are not improved satisfactory due to economic recession, increase in inflation high liquidity and some other problems. And average profitability ratio is 28.13%. And average liquidity ratio is 31.43%.

   c) The average leverage ratio of Global IME bank limited is well capitalized i.e. 7.02%. There is no impact of before and after merger.

   d) The financial performance of Global IME bank limited is constant growth. The average ROA is 1.19% and average ROE is 12.46%.

2) NIC ASIA bank limited is Merger with Bank of Asia In3/6/2070. All data are input the FY 2066/067- FY 2072/073.

   a) After merger the bank increase the EPS, MVPS & P/E ratio. The average EPS is Rs. 24.32, average MVPS is Rs. 518 and average P/E ratio is 22.16.Where the merger period EPS is highly increase. EPS also highly increase in merged period.

   b) In compare to before merger and after the profitability ratio is also increasing trend after merger. But some profitability ratio is not improved satisfactory due to the recession in economy of the nation, increase in inflation high liquidity and some other market problem. The average profitability ratio is 35.91% and liquidity ratio is 19.68.

c) The average leverage ratio is well capitalized i.e 8.47%.

d) The financial performance of this bank is increasing trend after merger. The ROE in increasing trend and ROA is constant growth. And average ROA is 1.40% and average ROE is 14.52%.

3) The Machhapucchre bank limited is merged with standard finance limited in 3/25/2069. The bank has all indicators are increasing trend. But some indicators are not satisfactory due to high liquidity.

a) The EPS & MVPS is increasing trend after merger. There is no significant between before and after merger. In the case of P/E ratio there is difference between before and after merger. After merger the P/E ratio is decreasing trend. And the average EPS is Rs. 11.23, average MVPS is Rs. 363.57 & average P/E ratio is 69.54.

b) The profitability ratio is highly increased rather than before merger. After merger there is positive impact. After merger the liquidity ratio is decrease than the profit margin is increase. Liquidity ratio is increased the bad for the banks. The average profitability ratio is 19.77% and liquidity ratio is 9.99.

c) After merger the bank the leverage ratio is increased. There is positive relationship of the merger. The average leverage ratio is well capitalized i.e. 7.86%.

d) The financial performance of this bank is highly increased the ROA & ROE. After the merger the bank performance is better performer. The average ROA is 0.70% and average ROE is 8.24%.

4) The Sangrilla Dev bank limited is merged with Bageshwori Bikas bank limited in 3/29/2071.

a) The bank has EPS decreasing trend after merger before merger this bank has EPS is increased. The relationship between the merged is negative. The MVPS is increasing trend of the merger. In the case of

P/E ratio is also increasing trend of after merger. The average EPS is Rs. 28.42, average MVPS is Rs. 296.57 & average P/E ratio is 11.54.

b) The profitability ratio of this bank is highly increased due to decrease of liquidity ratio. The average profitability ratio is 32.91% and liquidity ratio is 29.69.

c) The average leverage ratio of this bank is well capitalized i.e. 11.23%.

d) The financial performance of this bank is increasing trend of after merger. When the time of merged the bank has ROA & ROE is decreased than after increasing. The average ROA is 1.55% & average ROE is 13.89%.

5) The NMB Bank limited is merged with Pathibhara Bikas bank limited, Bhrikuti Bikas bank limited, Clean Energy Development Bank limited and Predential finance company limited in 7/1/2072.

a) The EPS, MVPS and P/E ratio is increasing trend. After merger the indictors are highly increased. The average EPS is Rs. 16.53, average MVPS is Rs. 393.43 & average P/E ratio is 28.96.

b) The profitability ratio of this bank is increasing trend before and after merger. The liquidity ratio is decreasing trend. It is the good news for the banks. The average profotability ratio is 34.55% & average liquidity ratio is 13.28.

c) The average leverage ratio of this bank is well capitalized i.e. 8.54%. Some indicators are not satisfactory due to inflation.

d) The financial performance of this bank is highly increased after merger rather than before merger. The time of merged period unexpected increased by ROA. The average ROA is 3.12% & average ROE is 12.12%.

6) The Siddhartha bank limited is merged with Business universal Development bank limited in 3/7/2073.

a) The EPS, MVPS & P/E ratio are increasing trend of merger. Due to increase the all indicators decrease the liquidity ratio. The average EPS is Rs. 29.99, average MVPS is Rs. 530.86 % average P/E ratio is 17.23.

b) The profitability ratio is also going on increasing trend. The average profitability ratio is 35.20% & liquidity ratio is 16.65.

c) The average leverage ratio of this bank is well capitalized i.e. 6.15%. Some years LR not satisfactory due to increase in inflation and increase liquidity.

d) The financial performance of increasing trend. Before and after merger the ROA & ROE is increasing. The average ROA is the 1.40% & average ROE is 18.43%.

# CHAPTER V

# CONCLUSIONS

## 5.1 Summary

The main purpose of this study is to impact of M&A in financial performance in Nepalese financial institutions. In order to achieve this purpose, this study raised what is the impact of M&A in shareholders' value, what is the impact of profitability ratio, what is the impact of leverage ratio, what is the impact of liquidity ratio, and financial performance are the research questions. They were consolidated under to examine the impact of M&A shareholders' value, to examine the impact of M&A on profitability ratio, to examine the leverage ratio, to examine the financial performance are the specific objectives.

This study uses the financial tools and techniques there are earning per share, Market Value per share, Price earning ratio, profit margin ratio, leverage ratio, liquidity ratio, ROA & ROE in order to attain research objectives. To this end, data obtained from internet and through the annual reports of six sample banks namely Global IME bank ltd. NIC Asia Bank ltd, Machhapuchhre bank ltd, Sangrila dev. Bank ltd, NMB Bank ltd & Siddhartha bank ltd.

The analysis of the data the shareholders' value (EPS) is the NIC Asia bank limited is higher than all six sample banks there is 47.41 in the time of merger in 2069/070. It shows the trend of merger and acquisition is rapidly increasing day by day. The profitability ratio of the Siddhartha bank limited is the higher than all sample banks there is 45.22 in fiscal year in the merged time 2072/073. The leverage ratio of Sangrila dev. Bank limited is the higher than all sample banks there is 15.51 in the before merger fiscal year 2067/068. The liquidity ratio is the Siddhartha bank limited is lowest then other all sample banks there is 5.61 in fiscal year 2067/068 before the merger period. The liquidity ratio minimum is the best for the every bank. The financial performance of the better performance in the case of ROA is NMB Bank limited there is 14.94 in fiscal year 2072/073. The financial performance of the better performer in the case of ROE is the NIC ASIA bank limited there is 25.49 in fiscal year 2066/067 it is the before merger time. The sample banks have improved that performance after merging is increasing trend.

## 5.2 Conclusions

The findings of the study present valuable insight into the research questions raised by this study the impact of merge and acquisitions on Nepalese banks and financial institutions (BFIs). The sample banks were NIC ASIA Bank ltd., Global IME bank ltd, Machhapuchhre bank ltd., Sangrilla Dev. Bank ltd., NMB Bank ltd., & Siddhartha bank ltd. The Global IME bank ltd. has before merged EPS, MVPS, & P/E ratio are less than standard average and after merger EPS, MVPS, & P/E are higher than standard average. Global IME bank limited Liquidity ratio, Profit margin ratio, Leverage ratio, ROA, & ROE are higher than standard average after merging with different BFIs in different time period. The NIC ASIA bank limited EPS & MVPS are higher than standard average after merger and P/E ratio is fluctuating in comparision to standard average. The Liquidity ratio & Profit margin ratio are higher thn standard average after merger. Leverage ratio & ROA are lower than standard average the ROE is higher than standard average. Machhapuchhre bank limited EPS, MVPS, Profit margin ratios. ROA & ROE are higher than standard average after merger. And P/E ratio & Leverage ratio are lower than standard average. Liquidity ratio is fluctuating the after merger. The Sangrilla Dev. Bank limited is merged with Bageshori Development Bank ltd. This bank MVPS, P/E ratio, Liquidity ratio, profit margin ratio, ROA & ROE are higher than after merger. And EPS & Leverage ratio are lower than standard average after merged. The NMB Bank limited EPS & Profit margin ratios are higher than standard average. MVPS, P/E ratio and ROE are fluctuating and Liquidity ratio, leverage ratio & ROA are lower than standard average after merged. Some indicators are not increase in satisfactory due to inflation. The Siddhartha bank limited all indictors are higher than standard average after merging with Business universal Development bank limited.

The research conclude that the sample banks are producing more return to their shareholders after merger and also can return more in coming days. The Nepal Rastra Bank has successfully implemented the merger bylaws policy in Nepali BFIs and transformed the weak and unstable financial institutions into strong, stable and creditable financial institutions.

The initial merger was forceful. It took certain time to Nepalese BFIs to understand, analyzed and implementation this policy. Gradually, BFIs took this policy in a positive way and as a golden opportunity to enhance their performance and be strong in the competitive market. It is difficult to analyze exactly whether the impact is positive or negative. After the merger process, the employee of previous BFIs must be continued. The branch officers and Automated Tailoring Machine (ATM)s must not be cut off but can be replace as required. Through the merger process, the BFIs should increase their overall performance regarding share capital, Balance Sheet Volume, Net Profit after Tax, Return on Equity & Return on Assets.

Merger and Acquisition leads to efficient use of shared resources and exploitation of the learning and experience due to increased scale of production. After going on merger and acquisition banks and financial institutions are must strong in financial capability, human resources and technology and area coverage. Thus, banks and financial institution investment are grown-up highly with coverage on more and more diverted are and they earn higher profit. So banks are currently secure from crisis.

It is beneficial for banks to minimize cost and it is more beneficial for shareholders and investor also. A lot of speculations have been going on in the financial sector whether the merger policy will be fruitful to strengthen the Nepalese bank and financial institutions. Some of positive signals have been visible in financial institutions that must of financial institutions including commercial banks, Development Banks and finance companies have been merged. So for and few BFIs are in pipelines and some of intent it gives the positive way for Nepalese banks and financial institution. The main difficulties faced by the banks in terms of merger are swap ratio, composition of BOD, management team structure, the socio-culture factors like cultural complexity, informal relationship, nepotism, favoritism, corporate cultural clash, position issues, managerial level, Fear of losing the current job, adjustment problems, Socialization and so on. Some of the Chief Executive Officer (CEO)s, Branch Manager (BM)s and other top level officers of pre-merger banks can leave the job after merging the banks by not gaining the previous level position in the bank after merging.

Nepal Rastra Bank has successfully implemented its merger and Acquisition policy, Nepalese BFIs are interested and exercising this policy day by day. BFIs are taking this tool as a golden opportunity to enhance their poor performance and become a strong, branded and competitive in the market. However, this policy is not an one and only solution to improve the poor BFIs.

## 5.3 Implications

This study also has several implications pointing to interesting avenues for future research. The author implementation some suggestions for further research as there are many areas will need to be discovered in relation to the merger and acquisition in Nepal and its impact on author implements future researches to adopt better research techniques and method and cover. The research can be helpful for Nepal Rastra Bank and BFIs of Nepal on develop new policy and strategy in future. The researcher futher suggests the followings.

1. Some of the banks indictors are fluctuating conditdions. So, after merger and acquisition of BFIs, Nepal Rastra Bank also should watch, observe and follow those BFIs regularly either those BFIs are securing good result or not after the merger exercise.
2. Related institutions should focus on developing strong controlling, regulatory and evaluating policies and mechanism should be formed to cover all the financial sector.
3. P/E ratio of the MBL has lower than standard average after the merger of the Bank. Management of the Bank should focus on Market price. Internal strength and strong Management team will trust by the customer and that is why MVPS will rose-up and P/E ratio will go higher.
4. EPS of the Sangrilla Dev. Bank has lower than standard average. Bank gradually improving such a problem. To balance the EPS Bank should attention towards increase the net income and reduction of net expenses items.
5. Banks should intensify training and retraining programmes for all staff, particularly the management efficiency.
6. Before merger and after merger of commercial bank is fluctuating situation in the given year.
7. This shows that commercial bank force to take the bank and financial institutions under them for raising their paid up capital.

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