IMPACT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTIONS IN NEPAL

A THESIS

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DECLERATION

I hereby declare that the work reported in this thesis entitled *"Impact of Merger and Acquisition on Financial Performance of Financial Institutions In Nepal"* submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of **Prof. Dr. Puspa Raj Sharma** of Central department Of Management, T.U.

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RECOMMENDATION

This is to certify that the Thesis

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has been prepared as approved by this department in the prescribed format of faculty of Management. This Thesis is forwarded for examination.

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VIVA-VOICE SHEET

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to the accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

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LIST OF ABBREVIATIONS

BAFIA	Banks and Financial Institution Act
BFIs	Banks and Financial Institutions
CAR	Capital Adequacy Ratio
CTBL	Commerz and Trust Bank Ltd.
EPS	Earnings per Share
FY	Fiscal Year
GIBL	Global IME Bank Ltd.
IMF	International Monetary Fund
LOU	Letter Of Intent
M&A	Merger and Acquisition
MOU	Memorandum of Understanding
MFFI	Micro-Finance Financial Institutions
NPL	Non- Performing Loans
NPM	Net Profit Margin
NPR	Nepalese Rupee
NRB	Nepal Rastra Bank
OER	Operating Expense Ratio
ROA	Return on Assets
ROE	Return on Equity
WTO	World Trade Organization

CHAPTER- I
INTRODUCTION

1.1 General Background

In today's world of globalized economy, mergers and acquisitions (M & A) are being increasingly used by many of the organizations worldwide to improve competitiveness of companies by gaining greater market share, broadening the portfolio to reduce business risk, to enter into new markets and geographies, and to capitalize on economies of scale etc. Merger and acquisitions is one of the distinctive strategies adopted by different companies all over the world to compete in a challenging and dynamic business environment (Abbas & Hunjra, 2014).

Merger refers to combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. Greenwood (1994) define, "A merger involves a blend of two companies, rather than mere legal enjoinment or absorption of one firm into another". A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity (Ross, Wester field, & Jordan, 2003). The primary reason for corporations to conduct M & A activities is for achieving synergy by combining two companies to increase their competitive advantage (Porter, 1985).

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

Sudarsanam (2003) found out that the main purpose of carrying out M&As is to increase the shareholders' value. Most firms seeking M&As seek to become the

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

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

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

1.1.1 Bank Merger in Nepal

With the introduction of economic liberalization policy in 1984, banking sector got opportunity to expand, grow, add new facilities and introduce modern technology in banking service. Nepal had only two commercial bank till 1984 A.D. and the banking facilities were mainly traditional type. Government emphasized the role of the private

sector for the investment in the financial sector. The adoption of the financial sector liberalization by the government in 80's opened the door for foreign Banks to open Joint venture Banks in Nepal. As a result, various banking and non-banking financial institutions have come into existence. Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Since then Nepal has witnessed tremendous increment in number of financial institutions.

Along with commercial bank, the government allowed to open development banks, finance companies and micro credit development banks with the objective to increase people's access to financial institution. Permission for opening of banks and financial institutions however has been executed with little research on requirement. Majorities of bank and financial institution are city centered and are having cut throat competition. The activities like opening of branches at rural setting, developing entrepreneurs and thereby increase employment opportunities, productivity level and earning of the country did not occur as expected. Activities on lending result shows increased lending in consumption sector which influenced luxury imports and environment pollutions. NRB realized the situation and international donors helping Nepal to improve its economy suggested for the merging of bank and financial institutions to make few but strong institutions (Sharesansar, 2018).

Bank and financial institution established and licensed without long term planning has started to fold back after the World Bank and IMF guided the Nepal Rastra Bank (NRB) to reduce the numbers of financial institution. They suggested making few but stronger institutions than many weak institutions. NRB developed policies and guided banks and financial institutions to strengthen their position. The policy adopted by the NRB has started to pay back with the increase in the numbers of bank and financial institution for merger.

The banking sector of Nepal has expanded at a rapid pace after financial liberalization policy adopted after mid of the 1980s, but the size of economy did not expand in comparison to the expansion of the banking sector. The regulator and supervisor of the banking system was not able to develop and expand its capacity to supervise those BFIs during that period nor was able to conduct any research and studies about the future of Nepalese banking sector stability and its direction. The unwanted adverse impact was straight forward as supposed in the financial sector and it was experienced

since 2010, as many BFIs get started to be in trouble and unable to return the public deposit and many more BFIs get affected adversely from the excessive exposure to short term real estate financing as well as lack of good corporate governance during that period.

However, in these past few years, banking system of Nepal is experiencing an encouraging restructuring and consolidation, particularly through the merger and acquisition. In the recent years, the central bank has adopted the policy of merger and acquisition to support its objectives of reducing the number of BFIs in Nepalese financial system. It is expected that recently drafted financial sector development strategies, the amendments of BAFIA and NRB Act as well as related laws and legislations would fulfill all shortcomings related to the financial structure.

The merger policy unveiled by the NRB is expected to correct the recent troubles such as 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 among BFIs. It is believed that merger will create synergy by lowering operating costs, reaping benefits of economies of scope and scale expanding and diversifying market share. Moreover, it has been expected that the merger of institutions will not only promote the financial capability but will also promote out-reach and competitiveness through shared skills. NRB issued "Bank and Financial Institutions Merger By-law 2011 & 2016"and Acquisition Bylaw, 2013 as the means of financial sector consolidation. After the issuance of merger bylaw, the merger activities of BFIs got further accelerated.

To strengthen the health and competency of BFIs, NRB has given high priority to merger between licensed financial institutions. It includes specific process of merger with several incentives, regulatory relaxations and indirect provision of forceful merger. NRB, through consolidation among BFIs, has expected to yield the benefits of becoming larger institutions, enhancing their capacity for providing modern financial products, enhance strong corporate governance culture, strengthen capital base and ability to introduce new products and use enhanced IT platforms, provides economies of scope, lower the cost of funds and builds resilience to domestic and external shocks (SharebazarNepal, 2018).

There are 28 commercial banks, 33 development banks, 25 finance companies, and 65 micro-finance financial institutions as on 2018. Total number of "A", "B", "C" and "D" class financial institutions decreased to 144 in 2018 from 195 in mid-oct, 2015 as significant increase in number of micro finance financial institutions ("D" Class) by 20 percent has contributed to such an increase in total number of BFIs despite decline in the number of "A" and "C" class BFIs due to merger process. However, the number of "B" class financial institutions reached to 33 in 2018 from 57 as of mid-oct, 2015.

Table 1.1

Number of Merged BFIs (As On December 5, 2018)

Banks and Financial Institutions	2015	2016	2017	2018
Commercial Banks	1	6	2	3
Development Banks	9	20	14	9
Finance Companies	4	7	5	2
Micro Finance Financial Institutions (MFFIs)	0	0	1	0
Total	14	33	22	14

(Source: Nepal Rastra Bank, 2018)

M&As are happening at present due to the regulatory requirements in Nepal to make the situation of BFIs and the financial market more stable. Thus, in this context, the present study aims in assess the financial position of the Nepalese BFIs.

1.2 Statement of the Problem

BFIs in Nepal adopted merger strategy very lately; though it has more than 120 years long history internationally. Previously, NRB adopted the liberal licensing policy as the consequence there was a tremendous growth in numbers of BFIs and now the overcrowding is hurting the financial sector. The concept of M&A was an entirely new thing to the Banking and Financial Institutions (BFIs) of Nepal when the Nepal Rastra Bank, supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011 and September 2016. The objective of the merger by-laws was 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. Lack of specific Act and provisions regarding acquisitions and geo-political scenario are major challenges.

After accession to the WTO in 2004 the Nepal Rastra Bank, the central bank of Nepal, has unveiled the policies to establish foreign bank branches in the country. To face the giant and big banks' challenges, bank should be big and efficient which is possible only through the means of M&A. Merger and acquisition of Nepalese banks and financial institutions is also necessary for the capacity building of these institutions to invest in the mega projects that helps for the formation of the infrastructure. Realizing the situation of banking industry of the country, Nepal Rastra Bank has also issued "Merger Bylaws 2068" in 2011 which facilitates the M&A of BFIs. Further, central bank is also working on the forced merger policy for the financial institutions of the same group. NRB is prioritizing M&A of Nepalese BFIs to halve the number of BFIs in the country as per the recommendation of International Monetary Fund (IMF) which has assured NRB to help with budgetary assistance to manage the financial institutions of Nepal (Chapagain, 2012).

Very little research is carried out to know whether or not the merger by laws, acts and provisions regarding merger and acquisition issued by NRB is effective enough to correct the recent banking and financial turmoil such as 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 among BFIs. Previous studies do not include the impact of profitability in M&As of BFIs. Apart from that the study aims of examine the CAR,NPA,OER,ROA,ROE,NPM and EPS of M&As in BFIs in Nepal and Thus, the current study will try to touch upon their profitability as well, that is what will be the financial performance of BFIs in Nepal before and after merger and fulfill the gap in literature.

- What is the Capital Adequacy Ratio of the selected BFIs in Nepal?
- What is the Non-Performing Assets of the selected BFIs in Nepal?
- What is the Operating Expense Ratio of the selected BFIs in Nepal?

- What is the impact of merger and acquisition in the financial performance of banks?

1.3 Objectives of the Research

The primary objective of this study is to analyze the impact of mergers on the financial performance of BFIs. The specific objectives of this study are presented as follow:

- To examine the Capital Adequacy Ratio of selected BFIs.
- To examine the Non-Performing Assets of selected BFIs.
- To examine the Operating Expense Ratio of selected BFIs.
- To evaluate the financial performance of the BFIs before and after merger and acquisition.

1.4 Significance of the Study

Merger of BFIs is vivid issue in the Nepalese Banking Industry and most of the experts are of the opinion that the merger will act as the solution of all the present burning problems pertinent to the Nepalese Banking Industry. The central bank as well as the IMF is urging the Nepalese BFIs to go for the merger. The merger of BFIs is very important for Nepalese Banking Industry to improve the entire nations BFIs system and thus gain the public confidence in the BFIs. As the study's main objective is to examine the impact of mergers in financial performance of financial institutions in Nepal, the study can be helpful to various stakeholders related to this field like regulators, bankers, shareholders, researchers, investors. The research will also provide better understanding of mergers, its challenges, benefits, implications with respect to banks and financial institutions in Nepal. This study will focus on the impact of merger and acquisition performance of banks which will provide better understanding of what direction the banking and financial institutions in Nepal is heading to. Also, the results of this research could be applicable for other industries apart from the banking industry.

1.5 Limitations of the Study

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

- Although we have seen 67 mergers till date, only 3 merged banks are analyzed for the study.
- The study period covers only for the Three Fiscal Years for the secondary data analysis.
- This study is based on secondary data like annual reports of the companies, journals, related materials from various websites and the outcomes may depend on reliability of data of such nature.
- Due to lack of experience in research work, there may be lack of detailed information required for research.

1.6 Operational Definition

CAR: Capital Adequacy ratio (CAR) is a measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposure. This ratio is used to protect depositors and promote the stability and efficiency of financial systems (Hampton, 2004).

EPS: Earnings per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. The income per common share is known as EPS (Ross, Westerfield & Jaffe, 2005).

Mergers: Merger is the combination of two or more entities through a purchase acquisition or pooling of interests, it is different from consolidation as there is no new entity is created from merger. Those organizations who adopt strategy of merger or acquisition have motives like to gain advantage of economy of scale, economy of scope, increase market share and revenues, taxation, synergy, geographical and other diversification (Muhammad, 2011).

NPM: Net Profit Margin (NPM) is the ratio of net income of the firm in earning, net return on sales or on investment. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders (Van Horne, 2004).

OER: Operating Expense Ratio (OER) is the ratio that shows the efficiency of a company's management by comparing operating expense to net sales. The smaller the ratio, the greater the organization's ability to generate profit if revenues decrease (Brigham & Ehrhardt, 2011).

ROA: Return on Asset (ROA) is the ratio of net income to total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets, the result is expressed as a percentage or a ratio (Van Horne & Wachowicz, 2003).

ROE: Return on Equity (ROE) is the ratio of net income to common equity. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio (Pandey, 2005).

1.7 Organizational Structure of the Study

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

CHAPTER-II
LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This chapter deals with the literature review and provides conceptual framework associated with impact of merger and acquisition performance of Nepalese financial institutions from other researchers that have been carried out in the same field in developed and emerging market. It is divided into three sections. First section presents theories of merger and acquisition, Second section includes various provisions relating to merger and acquisition in Nepal and third section is further divided into two parts that includes review of major studies regarding impact of merger and acquisition on financial performance in international context and review of Nepalese studies regarding impact of merger and acquisition on financial performance.

2.1 Theories on Merger and Acquisition

There are some theories that are used to explain the reason of firm to engage in merger and acquisition.

2.1.1 Power Theory

Market power is potential of a market participant or group of participants (persons, firms, partnership, or others) to influence price, quality and the nature of the product in the market place. In turn, market power can lead to un-competitively high and risk-free profits (Montgomery, 1985). Based on the market power theory, merger and acquisition will result in a reducing the number of banks and shrinking of competition, which lead to higher market concentration and increase market power of the banking sector. This will enable banks to increase price within the market and gain excess profit. Based on this reason, merger and acquisition is expected to improve performance of both targets and bidders (Hankir, 2011).

2.1.2 Resource Theory or Synergy Theory

Based on synergy theory, it is said that “the amount of economic value that will result from a merger will depend on the amount of the resource held by the firm, relative to total amount present in the economy, and availability of opportunities to use this resource” (Chatterjee, 1986). Merger and acquisition is expected to raise future cash flow and increase firm value by synergy in operating and financing either due to increase economic of scale by enlarging the firm size, or due to increase economic of scope because of specific combination advantage between the merged firms. The synergy comes from revenue increases as a result of cross selling or up selling, cost reduction as a result of efficiency gains, and benefits of new opportunities in tax saving. Under this theory, performance of both targets and bidders is expected to improve (Hankir, 2011).

2.1.3 “Eat or be eaten” Theory of Mergers

According to Gorton, Kahl & Rosen (2005), the basic elements of the “eat or be eaten” theory is based on the following assumptions: First, managers may have a preference for keeping their firms independent. Managers of acquired firms are likely to play subordinated roles in the new firms or may even lose their jobs. Secondly, there is a state of the world in which at least some mergers generate value. Thirdly, a firm of a given size cannot acquire a larger firm. The larger the acquisition, the more difficult it is to finance.

Thus, the policy thrust of the “eat or be eaten” theory is that mergers and acquisitions could take place either to avoid being acquired by other firms, maintain company’s independence, increase a firm’s size or protect its managers’ jobs. In other words, managerial defensive motives may be the reason for mergers and acquisitions as managers may want to make acquisitions to increase their firm’s size and hence reduce the likelihood of their firms being taken over.

2.1.4 Agency Theory

Agency theory argued that managers have incentives to cause their firms to grow beyond their size. Growth increases managers' power by increasing the resources under their control. It is also associated with increases in managers' compensation, because changes in compensation are positively related to the growth in sales" (Hankir, 2011). Based on agency theory, management of bidder banks involves in merger and acquisition for personal benefit without considering the economic reason (Asimakopoulos & Athanasoglou, 2013). Similar to agency theory is hubris theory. Based on the hubris theory, management of bidder banks is paying a relatively high price because they are too confident with their ability to recognize the undervalued target banks (Asimakopoulos & Athanasoglou, 2013). Under agency theory and hubris theory, performance of bidders is expected to decrease (Hankir, 2011).

2.2 Merger and Acquisition Regulations in Nepal

2.2.1 Provisions Relating to Merger and Acquisition in BAFIA 2006

The section 68 and 69 of BAFIA 2006 has made provision about merger and acquisition. The section 68 states "A licensed institution may, by fulfilling the procedures referred to this Act, be merged with another licensed institution in accordance with the laws in force". The section 69 of this act deals with the application procedures for merger of licensed organizations with each other's. In this section following provisions are made.

1) If any licensed institution wishes to be merged with or merging another licensed institution, both the merging and merged licensed institutions shall adopt a special resolution to that effect in their respective general meetings and make a joint application, setting out the following matters, to the Rastra Bank for approval:
    a. Audit report of the last fiscal year of the merging licensed institution, along with its audited balance sheet, profit and loss account, cash flow statement and other financial statements;
    b. A copy of the written consent of the creditors of both the merging and merged licensed institutions to merge or to be merged;

c. Valuation of the movable and immovable properties of, and actual details of the assets and liabilities of, the merging licensed institution;
d. A copy of the decision as to the employees of the merging licensed institution;
e. Such other necessary matters as prescribed by the Rastra Bank in relation to the merger of the licensed institutions.

2) If an application is made for approval pursuant to Subsection (1), the Rastra Bank shall examine the documents and returns attached with the application and decide whether or not to grant approval for the merger of the licensed institutions with each other and give information thereof to the concerned licensed institutions within forty five days, and within a period of additional fifteen days if the Rastra Bank has demanded any returns or documents in the course of making decision.
3) Notwithstanding anything contained elsewhere in this Act, the Rastra Bank shall not grant approval for the merger of any two or more than two licensed institutions if it sees that the merger of such licensed institutions is likely to create an environment of unhealthy competition or to give rise to the monopoly or controlled practices of any licensed institution in the financial sector.
4) On receipt of an approval from the Rastra Bank for merger pursuant to Subsection (2), all the assets and liabilities of the merging licensed institution shall be transferred to the merged licensed institution.
5) The Rastra Bank shall maintain records of the merged licensed institutions.
6) The Rastra Bank may issue necessary directives in relation to other procedures relating to the merger of licensed institutions.
7) The Rastra Bank shall publish in a newspaper of national circulation at least once within thirty days after the date of decision a notice containing the particulars of the decision made by it in relation to the merger of any licensed institution for the information of the general public.

2.2.2 Provisions Relating to Merger and Acquisition in Company Act 2006

The Company Act 2006 has made following provisions about merger in section 177.

1) A public company may, by adopting a special resolutions in its general meeting to that effect, be merged with another company subject to Sub-section (3). Provided,

however, that, in the case of a private company it shall be as provided in its memorandum of association, articles of association or consensus agreement.

2) A public company, upon merging into a private company or a private company, upon merging into a public company shall stand as a public company.
3) If a resolution for merger is adopted pursuant to Subsection(1),such company shall, within thirty days , make an application, setting out the following matters to the Office for approval:
    a) In the case of a public company, a copy of the decision of the general meeting as referred to in subsection (1) ,and in the case of private company , copies of the related provisions contained in the memorandum of the associations, articles of the associations, or consensus agreement authorizing the merger;
    b) Last balance sheet and auditor's report of the merging company;
    c) A copy of the letter of consent in writing, of the creditors of the merging company and of the merged company;
    d) Valuation of the movable and immovable properties of, and actual details of the assets and liabilities of, the merging company;
    e) If the merging company and merged company have made a decision as to the creditors and employees and workers of the merging company, a copy of such decision;
    f) The scheme of arrangement concluded between the companies for merger with each other.
4) Where the information as referred to in Sub-section (3) is given to the Office, it shall study the matter given information and give its decision within three months.
5) On receipt of an approval from the Officer for merger pursuant to Sub-section (4), all the assets and liabilities of the merging company shall be deemed to have been transferred to the merged company.
6) The office shall maintain separate records of the merging company in the company registration book.
7) Except as otherwise provided in the memorandum of association, articles of association or consensus agreement of the company, a shareholder who does not express his/her consent in writing to the unification or merger or alteration in, or transfer of, shares of the company or the sale of entire assets of the company shall be entitled to get the company's assets valuated prior to such unification, merger

or alteration in or transfer of shares or sale of assets and get return of the amount in proportion to the shares held by him/her from the merging company.

8) Notwithstanding anything contained elsewhere in this Section, the Office shall not give approval for the merger of a company if such merger appears to create a monopoly or unfair trade restriction or to be contrary to public interest.

2.2.3 Provisions Relating to Merger and Acquisition in Merger Bylaw

Sharma (2011) in his newspaper article "NRB brings forceful merger by-law" summarizes the NRB's law regarding merger in Nepal. According to this article on May 12, 2011 NRB Merger by-law, which offers a number of incentives to encourage mergers, something which the central bank has been pushing for strongly for over a year (Sharma, 2011). The new regulations also incorporate a provision of forceful merger, going by which the central bank can instruct two or more banks and financial institutions (BFIs) to undergo merger if it deems appropriate. "The central bank can instruct or suggest to BFIs to merge in case representatives of the same group, firm or company are found assuming posts in the board of directors of both BFIs and their financial conditions remain unhealthy," reads the rule.

That is not all. BFIs could get notice from NRB to merge if their non-performing loans (NPL) exceeded 5 percent of the total loan portfolio for 3 straight years or they faced prompt corrective action (PCA) in three or more instances. Likewise, NRB can also instruct the BFIs to merge if it finds their independent operations are causing negative impact on the banking system and even in case the NRB thinks merger of systemically important BFIs will strengthen the banking system. Basically, the regulations allow NRB to force BFIs to merge in any situation. However, the central bank officials said the provision was retained mainly to open an option whereby central bank could take forceful steps to revive sick BFIs, instead of liquidating them. As for the incentives, the new regulations has pledged relaxation on provisions on capital structure, shareholding limit for promoters, credit-deposit ratio, borrowings limit for promoters and deprived sector lending, among others.

If the merger appeared to raise volume of shares held by promoters to exceed the stipulated limit, the central bank has granted five years to the promoters to bring down the volume of shareholding within the limit. Likewise, merged institutions have been pledged additional three years to bring CD ratio at 80 percent. Promoters have been granted additional 3 years to bring down their loans to below 50 percent of the total shares they hold in the merged BFI. In a bid to lure BFIs to merger, the central bank has even promised a discount in refinance rate by one percentage point to the merged institution. It has also offered to lower penal rate on standing liquidity facility by half for three years in case two or more BFIs merged into one.

The central bank has also opened upgrading of institutions to BFI of higher category if two or more BFIs decided to undergo merger, raised the paid up capital and put in place necessary infrastructure. The rules also promise to recommend to the government deduction and exemption of taxes in case BFIs faced losses during the course of merger.

2.2.4 Provisions Relating to Merger and Acquisition in Merger Bylaw (2016)

Nepal Rastra Bank (NRB) has introduced new measures regarding the merger and acquisition of banks and financial institutions (BFIs). Publishing a new BFIs merger and Acquisition Bylaws, 2073 on Thursday. NRB has tried to address the problems relating to merger and acquisition of BFIs in the recent days. The new Bylaws has combined the previous separate bylaws of merger and acquisition.

The new Bylaws has expanded the merger and acquisition requirement for BFIs. Earlier, only A, B and C class BFIs who have issued equity shares to general public were eligible for merger and acquisition. However, with the new Bylaws in place, BFIs who have not issued shares to general public are also eligible for merger and acquisition. Nevertheless, it is mandatory formed after merger or acquisition to have 30 percent shares owned by the general public. BFIs lacking such proportionate share ownership should achieve the share proportion by issuing additional shares to general public.

Similarly, BFIs short of capital adequacy ratio as directed by the regulator are also eligible for the merger and acquisition. However, the merged entity must have the pre-settled capital adequacy ratio. Troubled institutions, however, are eligible for acquisition only. According to stakeholders, the new bylaws will provide additional pace to merger process by addressing the previous existed problems.

Similarly, the new Bylaws has also provision of the formulation of mechanism for determination of swap ratio. "In the recent days, BFIs have increasingly scrapped the merger process citing the expert determined swap ratio unsatisfactory which have been corrected," Said a NRB source.

The swap determination process performed during the merger process has been modified. Under the new mechanism, swap ratio shall be determined through mathematical formulae based on scientific and logical procedure. The formulae will calculate net assets per share also considering the market share price of the listed company and determine the swap ratio.

Similarly, the new bylaw has formed a mechanism under which NRB may take action against those BFIs who scrap merger or acquisitions after the initiation of the process. However, the aspects of the action will be announced after formulating the work plan. NRB has already started preparations regarding the formulation of work plan. Moreover, NRB may also take action against the officials of the merger scrapping BFIs. If it is evident that any officials play any role in braking merger process, then such officials may declared ineligible for the post.

The provisions of merger bylaws obtained from New Business Age (2016) under the policies titled "Merger By laws, 2073 (Including First Amendment)" on 2016 are:

a. 'A', 'B' and 'C' class financial institutions can merge into each other. 'D' class financial institutions can merge with another 'D' class financial institutions only.
b. Financial institution that want to merge should form a separate merger committee and sign Memorandum of Understanding (MoU).
c. The due process including MoU should be completed before applying to the NRB for the Letter of Intent (LoI). NRB should hold a meeting within 15 days of receiving LoI application.

d. NRB decides whether to issue LoI or not after conducting discussions and detailed study of concerned institutions.
e. Due Diligence Audit should complete within six months of receiving LoI from the central bank.
f. The detailed factual report comprising assets and liabilities of concerned institutions should be submitted to the NRB.
g. Copy of decision regarding name, address and share ratio of concerned financial institutions should be submitted to NRB.
h. Action plan of concerned financial institution including date of operation after merger process is completed should be submitted.
i. Other document as prescribed by the NRB should be submitted to NRB.

2.2.5 Effect of Merger Bylaws on BFIs

When the Nepal Rastra Bank first introduced the Merger By-laws 2011, many has doubted whether Nepali BFIs would go for mergers as the concept was a relatively new for the country and also 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, (2017), the Nepalese financial sector has witnesses 67 different sets of consolidations among the BFIs which are shown in the table below:

Table 2.1

List of Merged BFIs (Nepal Rastra Bank 2017)

S.N.	Name Of BFIs	Name (After merged)	Date(After Merged)
1	Prime Commercial Bank Limited and Om Development Bank Limited	Prime Commercial Bank Limited	2018/819
2	Best Finance Company Limited & Synergy Finance Limited	Best Finance Company Limited	2018/8/2
3	Rastriya Banijya Bank Limited and NIDC Development Bank Limited	Rastriya Banijya Bank Limited	2018/5/2
4	Kabeli Bikas Bank Limited & Mount Makalu Development Bank Limited	Kabeli Bikas Bank Limited	2018/6/10
5	Mega Bank Nepal Ltd. & Tourism Development Bank Ltd.	Mega Bank Nepal Limited	2018/5/13
6	Jyoti Bikash Bank Limited & Hamro Bikas Bank Limited	Jyoti Bikash Bank Limited	2018/7/15
7	Deva Bikas Bank Limited & Western Development Bank Limited	Deva Bikas Bank Limited	2018/7/10
8	Western Development Bank Ltd. And Namaste Bittiya Sanstha Ltd.	Western Development Bank Ltd.	2017/10/15
9	Kamana Bikas Bank Ltd. And Sewa Bikas Bank Ltd.	Kamana Sewa Bikas Bank Ltd.	2017/8/6
10	Gandaki Bikas Bank And Fewa Bikas Bank Ltd.	Gandaki Bikas Bank Ltd.	2017/7/5
11	Mahalaxmi Bikas Bank Ltd. And Yeti Development Bank Ltd.	Mahalaxmi Bikas Bank Ltd.	2017/7/2
12	Om Development Bank Ltd. And Manasalu Bikas Bank Ltd.	Om Development Bank Ltd.	2017/6/16
13	Janata Bank Nepal Ltd. And Triveni Bikash Bank Ltd.	Janata Bank Nepal Ltd.	2017/4/7
14	Bhaktapur Finance Company And Central Finance Ltd.	Central Finance Ltd.	2017/3/23

15	Lumbini Finance And Leasing Company Ltd. And Vibor Society Development Bank Ltd.	Lumbini Bikas Bank Ltd.	2017/7/9
16	Shree Investment And Finance Company Ltd. And Everest Finance Ltd.	Shree Investment Finance Company Ltd.	2017/2/1
17	NCC Bank Ltd. And Infrastructure Development Bank Ltd. And Apex Development Bank Ltd. And Supreme Development Bank And International Development Bank Ltd.	Nepal Credit And Commerce Bank Ltd.	2017/1/1
18	Vibor Bikas Bank Ltd. And Society Development Bank Ltd.	Vibor Society Development Bank Ltd.	2016/9/2
19	Garima Bikas Bank Ltd. And Subekshya Bikash Bank Ltd.	Garima Bikas Bank Ltd.	2016/9/20
20	Bank Of Kathmandu And Lumbini Bank Ltd.	Bank Of Kathmandu Ltd.	2016/7/14
21	Malika Bikas Bank Ltd. And Mahalaxmi Finance Ltd. And Siddhartha Finance Ltd.	Mahalaxmi Bikas Bank Ltd.	2016/9/4
22	Siddhartha Bank Ltd. And Business Universal Development Bank Ltd.	Siddhartha Bank Ltd.	2016/6/21
23	City Development Bank Ltd. And Om Finance Ltd.	Om Development Bank Ltd.	2016/4/4
24	Kamana Bikas Bank Ltd. And Kaski Finance Ltd.	Kamana Bikas Bank Ltd.	2016/6/20
25	Shine Resunga Development Bank Ltd. And Gaumukhi Bikas Bank Ltd.	Shine Resunga Development Bank Ltd.	2016/6/10
26	Siddhartha Development Bank Ltd. And Ekata Bikas Bank Ltd. And Nepal Awas finance ltd.	Siddhartha Development Bank Ltd.	2016/6/10
27	Kailash Bikash Bank Ltd. And Metro Development Bank And Nepal Express	Kailash Bikas Bank Ltd.	2016/5/30

	Finance Ltd.		
28	Garima Bikas Bank Ltd. And Nilgiri Bikas Bank Ltd.	Garima Bikas Bank Ltd.	2016/7/13
29	Gorkha Bikas Bank Ltd. And Kathmandu Finance Ltd.	Gorkha Finance Ltd.	2016/4/10
30	Prabhu Bank Ltd. And Grand Bank Nepal Ltd.	Prabhu Bank Ltd.	2016/2/12
31	Jyoti Bikas Bank Ltd. And Jhimruk Bikash Bank Ltd.	Jyoti Bikas Bank Ltd.	2016/8/12
32	Mega Bank Ltd. And Paschimanchal Development Bank Ltd.	Mega Bank Nepal Ltd.	2016/4/25
33	Sagarmatha Merchant And Finance Company Ltd. And Patan Finance Ltd.	Sagarmatha Finance Ltd.	2015/7/16
34	NDEP Development Bank Ltd. And Rising Development Bank Ltd.	Deva Bikas Bank Ltd.	2015/7/10
35	Biswa Bikash Bank Ltd. And Fewa Finance Ltd.	Fewa Bikash Bank Ltd.	2015/7/13
36	Triveni Bikash Bank Ltd. And Public Development Bank And Bright Development Bank Ltd.	Triveni Bikas Bank Ltd.	2015/6/1
37	NMB Bank Ltd. And Patibhara Bikas Bank Ltd. And Bhrikuti Bikas Bank Ltd. And Clean Energy Development Bank And Prudential Finance Company Ltd.	NMB Bank Ltd.	2015/10/18
38	Biratlaxmi Bikash Bank Ltd. And Khadbari Development Bank Ltd.	Biratlaxmi Bikash Bank Ltd.	2014/5/17
39	Laxmi Bank Ltd. And Hisef Finance Ltd.	Laxmi Bank Ltd.	2014/7/26
40	Global IME Bank Ltd. And Commerz And Trust Bank Ltd.	Global IME Bank Ltd.	2014/4/9
41	Reliable Finance Ltd. And Subhalaxmi Finance Ltd. And Nepal Consumer Development Bank Ltd.	Reliable Development Bank Ltd.	2014/4/16
42	Reliance Finance Ltd. And Lotus Investment Finance Ltd.	Reliance Finance Ltd.	2014/5/8

43	Siddhartha Finance Ltd. And Imperial Finance Ltd.	Siddhartha Finance Ltd.	2014/5/8
44	Civil Bank Ltd. And Axis Development Bank Ltd. And Civil Merchant Bitiya Sanstha Ltd.	Civil Bank Ltd.	2014/4/14
45	Shangrila Development Bank Ltd. And Bageswori Bikash Bank Ltd.	Shangrila Development Bank Ltd.	2014/7/13
46	Lumbini Bank Ltd. And Navadurga Finance Company	Lumbini Bank Ltd.	2014/6/29
47	Purwanchal/Madyamanchal/Paschimanchal/ Madyapaschimanchal/Sudurpaschimanchal Grameen Bikash Bank Ltd.	Nepal Grameen Bikas Bank Ltd.	2014/8/15
48	Kist Bank Ltd. And Prabhu Bikash Bank Ltd. And Gaurishankar Development Ltd. And Zenith Finance Ltd.	Prabhu Bank Ltd.	2014/9/15
49	Shine Development Bank Ltd. And Resunga Bikash Bank Ltd.	Shine Resunga Development Bank Ltd.	2013/6/30
50	NIC Bank Ltd. And Bank Of Asia Ltd.	NIC Asia Bank Ltd.	2013/6/30
51	Diyalo Bikash Bank Ltd. And Professional Development Bank Ltd.	Professional Diyalo Bikas Bank Ltd.	2013/6/30
52	Arniko Development Bank Ltd. And Surya Development Bank Ltd.	Arniko Development Bank Ltd.	2013/7/14
53	Royal Merchant Saving And Finance Ltd. And Rara Bikash Bank Ltd. And Api Finance Ltd.	Apex Development Bank Ltd.	2013/7/15
54	Global IME Bank Ltd. And Social Development Bank Ltd. Gulmi Bikash Bank Ltd.	Global IME Bank Ltd.	2013/7/14
55	Prabhu Finance Ltd. And Sambridhi Bikash	Prabhu Bank Ltd.	2013/7/14

	Bank Ltd. Baibhav Finance Ltd.		
56	Manakamana Development Bank Ltd. And Yeti Finance Ltd. And Valley Finance Ltd.	Yeti Development Bank Ltd.	2013/7/15
57	Butwal Finance Ltd. And Alpic Everest Finance Ltd. And CMB Finance Ltd.	Synergy Finance Ltd.	2012/12/6
58	Vibor Bikash Bank Ltd. And Bhajuratna Finance Ltd.	Vibor Bikas Bank Ltd.	2012/9/2
59	Pashupati Development Bank Ltd. And Udham Bikash Bank Ltd.	Axis Development Bank Ltd.	2012/7/13
60	Kasthamandap Development Bank Ltd. And Shikar Finance Ltd.	Kasthamandap Development Bank Ltd.	2012/4/13
61	Infrastructure Development Bank Ltd. And Swastik Merchant Finance Ltd.	Infrastructure Development Bank Ltd.	2012/7/10
62	Business Development Bank Ltd. And Universal Finance Ltd.	Business Universal Development Bank Ltd.	2012/4/4
63	Machhapuchchhre Bank Ltd. And Standard Finance Ltd.	Machhapuchchhre Bank Ltd.	2012/7/9
64	Global Bank Ltd. And IME Finance Ltd. And Lord Budha Finance Ltd.	Global IME Bank Ltd.	2012/7/9
65	Nepal Bangladesh Bank Ltd. And Nepal Srilanka Merchant Finance Ltd.	Nepal Bangladesh Bank Ltd.	2011/1/23
66	Narayani Finance Ltd. And National Finance Ltd.	Narayani National Finance Company Ltd.	2010/11/1
67	Nepal Bangladesh Bank Ltd. And Nepal Bangladesh Finance Ltd.	Nepal Bangladesh Bank Ltd.	2007/9/18

2.3 Review of Literature

2.3.1 International Context

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

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

Bhunia and Khan (2014) studied M&A during the period of 1997 – 2011 in the financial sector of India. This study was specially based on assessment of Merger and Acquisition with respect to accounting measures. The results proved that profit after tax (PAT) and profit before depreciation, interest, tax and amortization (PBDITA) were enhanced, but the liquidity of firm's was reduced. In both pre & post, M&A

situation the interest coverage found to be a main factor of return on shareholders' equity (ROE). Similarly, the profit margin found to be equally vital.

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

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

Ebimobowei A. and Sopia J.M. (2011) made an analysis of efficiency effect of mergers and acquisitions in the Nigerian banking industry. Simple random sample was used to select 10 Nigerian banks operating across the country as at 31st December 2010 for the analyzing the efficiency effect. Using descriptive analysis and paired sample t-test statistics, the finding revealed that there is no significant differences between the return on equity of banks the impact of merger and acquisition. Based on the findings, they recommended that the mergers and acquisitions should be left in the hands of the banks to decide when and how to merge rather than the quick fix method used by regulatory authority (Central bank of Nigeria) for banks to capitalize. They concluded that the banks should put in place strategies that would improve their performance, stability and growth.

Carletti, Hartmann and Spagnolo (2009) provided a model of the impact of bank mergers on loan competition, individual reserve management and aggregate liquidity risk. One important result they found was that large mergers, which increase asymmetry in bank sizes, always increase the aggregate expected liquidity needs of

the banking system in this framework. So, .pro-competitive mergers that generally decrease loan rates have the most detrimental effect on bank system liquidity.

Mantravadi and Reddy (2008) explore the impact of mergers on the operating performance of acquiring corporate in different industries, by examining some pre-merger and post-merger financial ratios. The results suggest that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. In particular, mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry.

Aston and Pham (2007) discuss about the efficiency and price effects of horizontal bank mergers across UK. Their study provides an empirical assessment of the efficiency and interest rate changes occurring during 61 UK retail bank mergers. They found that the degree of pass through from efficiency gains to prices is both limited and varies by product type. Further, they proposed that the price and efficiency effects which emerge from mergers may not be clearly understood through assessment of market share change alone.

Cornett, McNutt, and Tehranian (2006) finds a contrasting result that shows industry-adjusted operating performance of merged banks increases significantly after a merger. They used 134 samples of US bank merger from 1990 to 2000 to examine the changes in overall industry-adjusted operating performance and long-run stock returns of commercial bank mergers. They also find large bank mergers produce greater performance gains than small bank mergers, activity-focusing mergers produce greater performance gains than activity-diversifying mergers, and geographically focusing mergers produce greater performance gains than geographically diversifying mergers.

Sufian F. (2004) discussed about the efficiency effects of bank mergers and acquisitions in a developing economy. They examined the effects of mergers and acquisitions on the efficiency of Malaysian banks using non-parametric Data Envelopment Analysis (DEA) methodology. The sample period was divided into three sub-periods to compare the difference in Malaysian banks' efficiency. They found that during the merger year, Malaysian banks' overall efficiency level deteriorates significantly compared to the pre-merger period, which was mainly due to

scale inefficiency. Their results suggest that the small and medium size banks have benefited the most from the merger programmers while the large banks were still suffering from scale inefficiency post-merger.

Altunbas Y. and Ibanez D.M. (2004) made a study on "Mergers and Acquisitions and Bank Performance in Europe: The Role of Strategic Similarities." The main aim of this paper was to highlight on the process of financial consolidation in the European Union by assessing whether strategic and organizational fit between financial institutions involved in mergers and acquisitions plays an important role in improving after merger financial performance. They used strategic management and resource-based view of the firm approach to analyze the domestic and cross border mergers of banks by using descriptive analysis. They found that there are improvements in performance after the merger has taken place particularly in the case of cross-border M&As.

Houston J.F., James C.M. and Ryngaert M.D (2001) made a study on “Where do merger gains come from? Bank mergers from the perspective of insiders and outsiders”. They analyzed the sample of the largest bank mergers between 1985 and 1996. They considered the estimated value gains from bank mergers and calculated the expected net present value of merger’s net benefit. The results suggest that most of the estimated value gains from bank mergers stem from the opportunity to cut costs by eliminating overlapping operations and consolidating backroom operations.
DeLong (1999) examined the wealth effect of bank mergers by distinguishing between types of mergers according to their focus or diversification along the dimensions of activity and geography rather than differentiating among various organization type. She found diversifying mergers to have a low correlation between the stock return of the bidder and the target at the time of the merger announcements. Her results showed that bank mergers that focus both on geography and activity are value-increasing, whereas diversifying mergers do not create value.

Akhavein, Berger, & Humphrey (1997) made a study on “The effects of Megamerger on efficiency and prices: Evidence from bank profit function.” They examined the efficiency and price effects of mergers by applying a frontier profit function to data on bank ‘mega mergers’. Their finding suggests that the banking megamergers of the 1980s did significantly improve profit efficiency on average. They found that the

merged banks experience a statistically significant 16 percentage point average increase in profit efficiency rank relative to other large banks. Most of the improvement is from increasing revenues, including a shift in outputs from securities to loans, a higher-valued product. Improvements were greatest for the banks with the lowest efficiencies prior to merging, who therefore had the greatest capacity for improvement. By comparison, the effects on profits from merger-related changes in prices were found to be very small.

Linder and Crane (1992) used a case study method to analyze operating income performance of one bank merger in 1991 by comparing performance data one year before the merger to performance data two years after the merger. Their results indicated that although operating income did not improve after the merger, the acquiring bank was more efficient than the acquired after the time of the merger.

2.3.2 National Context

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

Adhikari (2014) studied financial sector of Nepal to investigate the impact of ongoing M&A's on Nepali BFIs and to assess the empirical results whether the M&A's play an important role in strengthening the Nepalese banks and financial institutions. Web-based online survey tool has been used to identify the impact of M&A's on the

employees and service consumers of merged entities. Sample banks were Machhapuchchhre Bank Limited, Apex Development Limited, Yeti Development Bank Limited and NIC Asia Bank Limited. The result revealed that very less of the sampled financial institutions is technically efficient in generating more returns to share owners. However, after the merger trend shows that the sampled bank can produce more return to its shareholders in the days to come.

Shrestha (2011) financial ratios is one of the key indicators of the performance measurement but may be misleading at times because they do not control for product mix or input prices. M&A are of growing importance in a developing country like Nepal because of the extravagant financial losses generated from public enterprises. The objectives and motives of initiating mergers and acquisitions are no doubt good. But their achievements are still very difficult although not impossible. There are three basic expected objectives of mergers and acquisitions. They are:

- Downsizing of the government expenditure.
- Promotion of functional expertise through active involvement of private sector to enhance internal growth, efficiency and productivity and
- Promotion of accountability and corporate culture and transparency in merged companies to have improved managerial and financial implications.

Conclusion

Although there is enough research literature on mergers and acquisitions, most of the studies have been done for the efficient markets of the developed world specially USA and UK. But in Nepal there are very limited research done on this topic. Books available are plenty but they are mostly theory based. None of the few studies conducted in Nepal have explored the performance of M&As empirically in terms of their effect on performance of the company. The present study makes an attempt to fill these voids and aims to investigate the performance of the impact of mergers and acquisitions that have taken place in Nepal.

2.4 Research Gap

The literature review regarding mergers of banking and financial institutions across various countries shows that there has been very successful cases of mergers in some

countries while cases of failure of mergers in some countries prevails as well. Merger in Nepalese BFIs is relatively new and is in preliminary stage. There is no substantial study or research made regarding the impact of merger and acquisition banking performance analysis and effectiveness of mergers in Nepal. Previous studies included the opinions of various parties involved in M&As of BFIs. The current study will try to touch upon their financial performance as well and fulfill the gap in literature. Apart from that the study aims to examine the CAR, NPA, OER, ROA, ROE, NPM and EPS of M&As in BFIs in Nepal. So in this regards, this study will try to make the impact of mergers and acquisition on financial performance of bank.

2.5 Theoretical Framework

Juma (2012) measured the impact of bank mergers on the shareholders' wealth which is the function of return on assets (ROA), return on equity (ROE) and the efficiency ratio (ER). The study reveals that the merger significantly improved the shareholders' value.

This theoretical framework shown below (the diagram that describes the relationship between dependent and independent variables) is the foundation on which the entire research on “the impact of mergers and acquisition on financial profitability and market share price of selected financial institutions of Nepal" is largely based.

The theoretical framework shown below elaborates the relationship among the variables, explains the theory underlying these relations and describes the nature and the direction of the relationships.

Figuer2.1

Theoretical framework

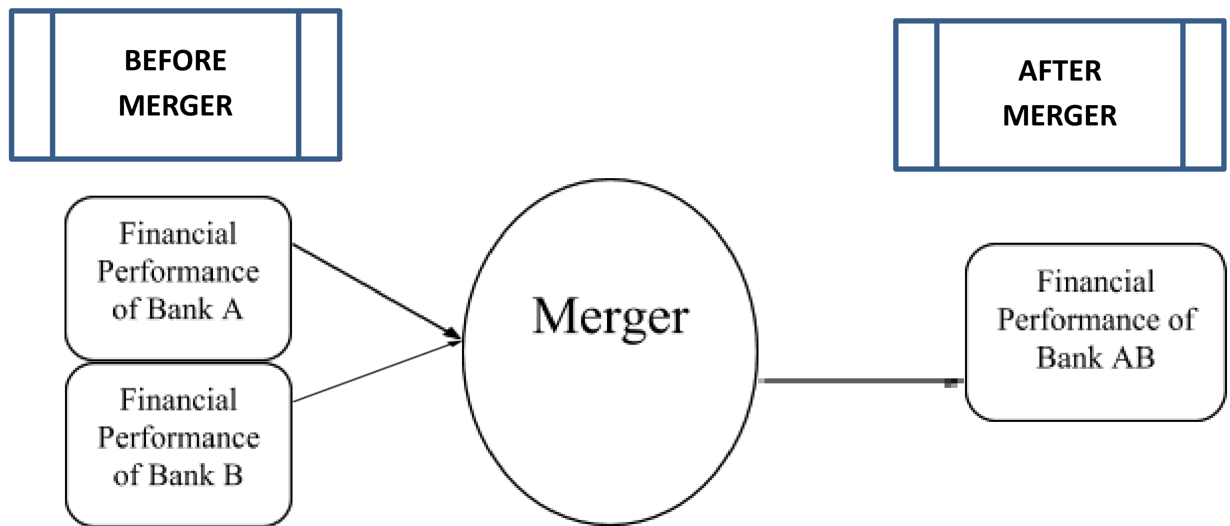
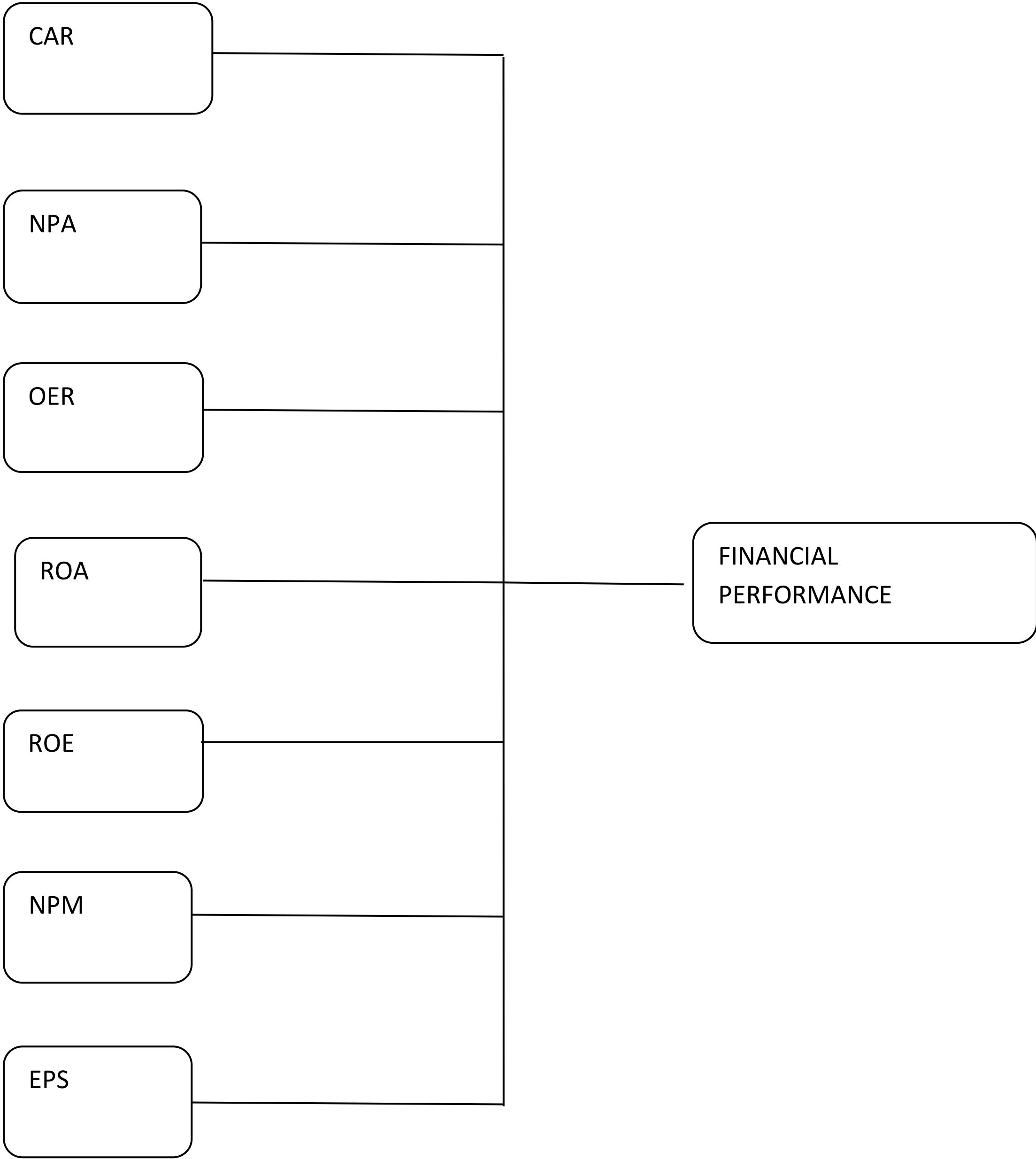


Figure 2.2

Sub component of financial performance



CHAPTER-III

RESEARCH METHODOLOGY

Research is the way of finding solution systematically. A research is an in-depth study and advancement of existing knowledge about subject matter. It is a method of serious thinking by defining problems, or suggested solution, collecting organizing, evaluating, manipulating data and making conclusion to determine. Thus, the term "Research refers to a critical careful and exhaustive investigation, inquiry, examination, or experimentation having as its aim the revision of accepted conclusion, in the light of newly discovered facts. Research methodology is the style, framework or way of defining the solution for specific research problem systematically. Research methodology defines the reasons behind the uses of specific tool and technique in research. Research methodology is a part of proactive management that reduces cost, time, and unnecessary burden of analysis.This chapter includes research design, sources of data, methods of data collection, data analysis tools and limitations of methodology. The above research procedures are dropped comprehensively to accomplish the objectives set in chapter 1.

3.1 Research Design

The research design is the specification of methods and procedure for acquiring the information needed to structure of solve problems. It is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances. The study used quantitative methods approaches to meet the overall objective and to provide an answer to research questions. The research design is basically based on the impact of merger policy on financial stability of merged banks. For this purpose, the research is conducted on the historical and analytical study basis. Therefore, descriptive-cum analytical research methodology has been followed, to achieve the desired objectives. Analysis was basically done on the basis of secondary data of past three years taken from the selected banks. This study tries to describe and analyze all these facts that have been collected for the purpose of the study.

Hence, the research design is made by collecting the information from the different source and data have been tabulated and analyzed by using various financial. The

financial tools include capital adequacy ratio, profitability ratio, earnings before tax and other financial ratios. The data was collected from audited financial reports of merged financial institutions.

3.2 Population and Sample Size Determination

Population implies the whole or totality of observation that have been selected for the study. Population is also known as universe sample, which represents the total population attributes and characteristics. All 67 mergers that had happened till FY 17/18 are considered as population size. Among them, researcher used 2009 to 2012 before merger and 2012 to 2015 after merger for machchapuchchhre bank Limited. Likewise, 2009 to 2012 before merger and 2012 to 2015 after merger for NIC Asia bank Limited. And, 2010 to 2013 before merger and 2013 to 2016 after merger are taken as sample size with purposive /judgmental sampling which are grouped as following:

- Merger of commercial bank and finance company. Machhapuchchhre Bank Limited (Machhapuchchhre Bank and Standard Finance)
- Merger between commercial banks NIC Asia Bank (NIC Bank and Bank of Asia Nepal.
- Merger between commercial banks Global IME bank (Global IME and Commerz & Trust Bank)

3.3 Data Collection

Basically the research is based on secondary information data have been used for the research study. The annual reports of the banks are the major sources of data. The regulatory data are collected from the various website, annual reports of the respective banks, website of NRB, website of Nepal Stock Exchange (NEPSE), etc.

3.4 Instrumentation

All those tools that are used for collection and analysis of data of research work are termed as data instrumentation. Relevant data are gathered through website of respective banks, annual supervision report from NRB, website of NEPSE, NRB directives and Bank and Financial Statistics. Moreover, several books, journals,

articles, magazines, and various websites have also been referred for the preparation of literature review.

3.5 Data Analysis Tool and Plan

The steps followed for analysis of data was as followed:

- Firstly, all the required data was collected from financial statements of sample banks, reports of NRB and NEPSE and other used sources.
- Secondly, these data are properly extracted, arranged and tabulated in Microsoft Excel program.
- Thirdly, with the use of the data collected from the process followed above, required variables for study was computed with appropriate formulas.
- Finally, these results and outputs were explained thoroughly.

3.6 Method of Data Analysis

This study is based on following financial tools and techniques.

Capital Adequacy

a) Core Capital Adequacy Ratio

Core capital adequacy ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle. It is calculated by using following model.

$$\text{CCAR} = \frac{\text{Core Capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Where,

CCAR=Core Capital Adequacy Ratio

Core Capital = paid-up capital + share premium + non-redeemable

Preference share + general reserve + cumulative profit –goodwill

b) Supplementary Capital Adequacy Ratio

Supplementary capital adequacy ratio is the expression of numerical relationship between supplementary capital and total risk adjusted assets. It measures the proportion of supplementary capital in total risk adjusted assets. Further more, it shows the absolute contribution of supplementary capital in capital adequacy. The ratio is used to analyze the supplementary capital adequacy and determined by using the following model

$$SCAR=\frac{\text{Supplementary Capital}}{\text{Risk Weighted Assets}}\times 100$$

Where,

SCAR= Supplementary Capital Adequacy Ratio
Supplementary Capital=Loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument + Unsecured subordinate term debt + interest rate fluctuation fund + Other free reserves

c) Total Capital Adequacy Ratio

Capital adequacy ratio is the numerical relationship between total fund and risk adjusted assets. It measures the adequacy of capital and financial soundness of finance company. Capital adequacy ratio is used to measure of capital in the finance company. It is worked by using the following model.

$$CAR=\frac{\text{Total Capital Fund}}{\text{Total Risk Adjusted Assets}}\times 100$$

Where,

CAR= Capital Adequacy Ratio
Total capital fund= Core capital + Supplementary capital
Total Risk Adjusted Assets= On-balance sheet risk adjusted assets + off Balance sheet risk adjusted assets

Where, **Assets Quality**

a) Non-performing Loan Ratio

The non-performing loan ratio indicates the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advances. The ratio is used to analyze the asset quality and determined by using the given model.

$$\text{Non-performing Loan Ratio} = \frac{\text{Non} - \text{performing Assets}}{\text{Total Loan and Advance}} \times 100$$

Non-performing loan= loan not recovered with in the given the time

Frame either in the form of interest servicing or principal repayment

Earning Quality

a) Return on Assets (ROA)

Return on assets is the numerical relationship between net incomes after taxes to total assets of a company. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the company has been converting the institution's assets into net earnings (Rose, 1999). It is calculated by using the following model.

$$\text{Return on Assets} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100$$

b) Earning Per Share (EPS)

Earnings per share provides a direct measure of the returns flowing to the company's owners-its stockholders- measured relative to the members of shares to the public(Rose, 1999). It gives the strength of the share in the market. Following is the expression of earning per share.

$$\text{Earnings per Share} = \frac{\text{Net Income to Shareholder}}{\text{Number of Share}}$$

c) Return on equity (ROE)

ROE: Return on Equity (ROE) is the ratio of net income to common equity. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio (Pandey, 2005).

$$\text{Return on equity} = \frac{\text{Net Income After Tax}}{\text{common equity}} \times 100$$

d) Net Profit Margin (NPM)

NPM: Net Profit Margin (NPM) is the ratio of net income of the firm in earning, net return on sales or on investment. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders (Van Horne, 2004).

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{earning}}$$

CHAPTER-IV
DATA PRESENTATION AND ANALYSIS

This chapter includes the results, discussions and analysis based on the findings from secondary research. This section deals with the analysis of secondary data describing before and after-merger financial ratio analysis of the merged entities.

4.1 Secondary Data Analysis

4.1.1 Machhapuchchhre Bank

Machhapuchchhre Bank Limited (Class "A") and Standard Finance Limited (Class"C") merged in July 09, 2012 to become Machhapuchchhre Bank Limited (National Level Class "A") becoming 4th merged bank in the history of banking industry in Nepal.

Table 4.1
Financial Ratios of Machhapuchchhre Bank

RATIO	Before-Merger (Average)			After-Merger (Average)	Comparison		
	Standard Finance (A)	Machhapuchchhre Bank (B)	Combined (AB)	Machhapuchchhre Bank (C)	A VS C	B VS C	AB VS C
CAPITAL RATIO							
CAR	41.91%	11.02%	26.46%	13.79%	DECREASE	INCREASE	DECREASE
ASSET QUALITY							
NPL	0.82%	3.25%	2.03%	2.84%	INCREASE	DECREASE	INCREASE
EFFICIENCY RATIO							
OER	38.22%	59.28%	48.75%	65.50%	INCREASE	INCREASE	INCREASE
PROFITABILITY RATIO							
ROA	1.56%	0.20%	0.88%	0.32%	DECREASE	INCREASE	DECREASE
ROE	5.05%	2.32%	3.68%	3.38%	DECREASE	INCREASE	DECREASE
PE Ratio	28.85%	149.72%	89.29%	51.69%	INCREASE	DECREASE	DECREASE
Staff Expense Ratio	36.02%	38.97%	37.50%	36.75%	INCREASE	DECREASE	DECREASE
Net Profit Margin	28.00%	5.92%	16.96%	9.48%	DECREASE	INCREASE	DECREASE
SHAREHOLDERS' WEALTH							
EPS	5.41	2.53	3.97	3.77	DECREASE	INCREASE	DECREASE
Market Value Per Share	157	207.5	182.25	110	DECREASE	DECREASE	DECREASE

(Source: Appendix-1)

Before-merger, the CAR ratio of Standard Finance was 41.91% and that of Machhapuchchhre Bank was 11.02%. After-merger, the data shows 13.79% of CAR, which means that there is increase in CAR in the case of standard finance and decrease in the case of Machhapuchchhre Bank. When comparing the average of both BFIs Before-merger, the CAR is 26.45% and After-merger is 13.79% which shows the decrease in the CAR

The NPL of standard Finance was 0.82% where as that of Machhapuchchhre Bank was 3.25%. After-merger, the NPL was 2.84% which shows that the NPL has increased in the case of Standard Finance and decreased in the case of Machhapuchchhre Bank. The average NPL Before-merger of both BFIs is 2.035% which means that the NPL of the merger has increased.

Before-merger, the OER ratio of Standard Finance was 38.22% and that of Machhapuchchhre Bank was 59.28%. After-merger, the data shows 65.50% of OER, which means that there is increase in OER in the case of both BFIs. When comparing the average of both BFIs Before-merger, the OER is 48.75% and After – merger is 65.50% which shows the increase in the OER.

Before-merger, the ROA of Standard Finance was 1.56% and that of Machhapuchchhre Bank was 0.20%. After the merger, the ROA is 0.32% which shows that ROA has decreased in the case of Standard Finance and increased in the case of Machhapuchchhre Bank. On calculating the average, before the merger, ROA was 0.88% which has decreased to 0.32%.

ROE of Standard Finance and Machhapuchchhre Bank was 5.05% and 2.32% respectively before the merger. After the merger, the ROE was 3.38% which shows that ROE has increased in the case of Machhapuchchhre Bank and decreased in the case of Standard Finance. The average of ROE before the merger was 3.68 which mean that the ROE has not increased.

Before-merger, the NPM of Standard Finance was 28.00% and that of Machhapuchchhre Bank was 5.92%. After the merger, the NPM is 9.48% which shows that ROA has decreased in the case of Standard Finance and increased in the

case of Machhapuchchhre Bank. On calculating the average, before the merger, ROA was 16.96% which has decreased to 9.48%.

EPS of Standard Finance was 5.41 and EPS of Machhapuchchhre Bank was 2.53 prior to the merger of the two BFIs. After the merger, the EPS was 3.77 which show the decrease in the case of Standard Finance and increase in the case of Machhapuchchhre Bank. The average of EPS before the merger was 3.97 which is less than 3.77 and hence, there has been decrement in EPS.

Conclusion

The financial ratios of Standard Finance were much better than that of Machhapuchchhre Bank prior to the merger which has affected the average ratios of both BFIs. The After –merger financial ratios is lower than the average ratio.

4.1.2 NIC Asia Bank

NIC Bank (Class "A") and Bank of Asia (Class "A") merged in June 30, 2013 to become NIC Asia Bank (Class “A”).

Table 4.2
Financial Ratios of NIC Asia Bank

RATIO	Before-Merger (Average)			After-Merger (Average)	Comparison		
	NIC Bank (A)	Bank of Asia (B)	Combined (AB)	NIC Asia (C)	A VS C	B VS C	AB VS C
CAPITAL RATIO							
CAR	11.95%	15.57%	13.76%	13.61%	INCREASE	DECREASE	DECREASE
ASSET QUALITY							
NPL	0.67%	2.67%	1.67%	2.33%	INCREASE	DECREASE	INCREASE
EFFICIENCY RATIO							
OER	33.11%	42.64%	37.88%	32.28%	DECREASE	DECREASE	DECREASE
PROFITABILITY RATIO							
ROA	1.89%	1.08%	1.48%	1.51%	DECREASE	INCREASE	INCREASE
ROE	16.01%	8.83%	12.42%	15.85%	DECREASE	INCREASE	INCREASE
PE Ratio	14.72%	22.36%	18.54%	19.33%	INCREASE	DECREASE	INCREASE
Staff Expense Ratio	44.32%	33.02%	38.67%	48.81%	INCREASE	INCREASE	INCREASE
Net Profit Margin	40.61%	26.20%	33.40%	39.51%	DECREASE	INCREASE	INCREASE
SHAREHOLDERS' WEALTH							
EPS	33.83	9.56	21.70	29.53	DECREASE	INCREASE	INCREASE
Market Value Per Share	494	210	352	762	INCREASE	INCREASE	INCREASE

(Source: Appendix-2)

Before-merger, the CAR ratio of NIC Bank was 11.95% and that of Bank of Asia was 15.57%. After-merger, the data shows 13.61% of CAR, which means that there is increase in CAR in the case of NIC Bank and decrease in the case of Bank of Asia. When comparing the average of both BFIs Before-merger, the CAR is 13.76% and After – merger is 13.61% which shows the slight decrease in the CAR.

The NPL of NIC Asia was 0.67% where as that of Bank of Asia was 2.67%. After-merger, the NPL was 2.33% which shows that the NPL has increased in the case of NIC Bank and decreased in the case of Bank of Asia. The average NPL Before-

merger of both BFIs is 1.67% which means that the NPL of the merger has increased slightly.

Before-merger, the OER ratio of NIC Bank was 33.11% and that of Bank of Asia was 42.64%. After-merger, the data shows 32.28% of OER, which means that there is increase in OER in the case of Bank of Asia and decrease in the case of NIC Bank. When comparing the average of both BFIs Before-merger, the OER is 37.88% and After -merger is 32.28% which shows the decrease in the OER.

Before-merger, the ROA of NIC Bank was 1.89% and that of Bank of Asia was 1.08%. After the merger, the ROA is 1.51% which shows that ROA has increased in both BFIs. On calculating the average, before the merger, ROA was 1.48% which has increased to 1.51%.

ROE of NIC Bank and Bank of Asia was 16.01% and 8.83% respectively before the merger. After the merger, the ROE was 15.85% which shows that ROE has increased in the case of Bank of Asia and decreased in the case of NIC Bank. The average of ROE before the merger was 12.42% which mean that the ROE has increased.

Before-merger, the NPM of NIC Bank was 40.61% and that of Bank of Asia was 26.20%. After the merger, the NPM is 39.51% which shows that ROA has decreased in the case NIC Bank and increased in the case of Bank of Asia. On calculating the average, before the merger, ROA was 33.40% which has increased to 39.51%.

EPS of NIC Bank was 33.83 and EPS of Bank of Asia was 9.56 prior to the merger of the two BFIs. After the merger, the EPS was 29.53 which show the decrease in the case of NIC Bank and increase in the case of Bank of Asia. The average of EPS before the merger was 21.70 which is more than 29.53 and hence, there has been increment in EPS.

Conclusion

There has been significant increase in the financial ratios after the merger of the two BFIs compared to the average of two BFIs. There has been decrease in the financial ratios in the case of NIC Bank compared to the After-merger ratios.

4.1.3 Global IME Bank

Global IME Bank and Commerz and Trust Bank merged in April 9, 2014 to become Global IME Bank

Table 4.3

Financial Ratios of Global IME Bank Ltd.

RATIO	Before-Merger (Average)			After-Merger (Average)	Comparison		
	Global IME (A)	Commerz and Trust (B)	Combined (AB)	Global IME Bank (C)	A VS C	B VS C	AB VS C
CAPITAL RATIO							
CAR	11.40%	20.13%	15.76%	12.68%	INCREASE	DECREASE	DECREASE
ASSET QUALITY							
NPL	1.96%	3.90%	2.93%	2.37%	INCREASE	DECREASE	DECREASE
EFFICIENCY RATIO							
OER	46.29%	64.44%	55.36%	43.10%	DECREASE	DECREASE	DECREASE
PROFITABILITY RATIO							
ROA	1.01%	0.25%	0.63%	1.52%	INCREASE	INCREASE	INCREASE
ROE	12.18%	1.41%	6.79%	14.79%	INCREASE	INCREASE	INCREASE
PE Ratio	20.16%	76.81%	48.48%	28.29%	INCREASE	DECREASE	DECREASE
Staff Expense Ratio	35.81%	20.19%	28.00%	40.12%	INCREASE	INCREASE	INCREASE
Net Profit Margin	26.69%	2.99%	14.84%	36.41%	INCREASE	INCREASE	INCREASE
SHAREHOLDERS' WEALTH							
EPS	13.97	1.44	7.70	19.85	INCREASE	INCREASE	INCREASE
Market Value Per Share	296	1.4	148.7	560	INCREASE	INCREASE	INCREASE

(Source: Appendix-3)

Before-merger, the CAR ratio of GIBL was 11.40% and that of CTBL was 20.13%. After-merger, the data shows 12.68% of CAR, which means that there is increase in CAR in the case of GIBL and decrease in the case of CTBL. When comparing the

average of both BFIs before-merger, the CAR is 15.76% and after-merger is 12.68% which shows the decrease in the CAR.

The NPL of GIBL was 1.96% where as that of CTBL was 3.90%. After-merger, the NPL was 2.37% which shows that the NPL has increased in the case of GIBL and decreased in the case of CTBL. The average NPL before-merger of both BFIs is 2.93% which means that the NPL of the merger has decreased.

Before-merger, the OER ratio of GIBL was 46.29% and that of CTBL was 64.44%. After-merger, the data shows 43.10% of OER, which means that there is decrease in OER in the case of both BFIs. When comparing the average of both BFIs before-merger, the OER is 55.36% and after – merger is 43.10% which shows the decrease in the OER.

Before-merger, the ROA of GIBL was 1.01% and that of CTBL was 0.25%. After the merger, the ROA is 1.52% which shows that ROA has increased in the case of both BFIs. On calculating the average, before the merger, ROA was 0.63% which has increased to 1.52%. ROE of GIBL and CTBL was 12.18% and 1.41% respectively before the merger. After the merger, the ROE was 14.79% which shows that ROE has increased in the case of both BFIs. The average of ROE before the merger was 6.79% which mean that the ROE has increased.

Before-merger, the NPM of GBIL was 26.69% and that of CTBL was 2.99%. After the merger, the NPM is 36.41% which shows that ROA has increased for both banks. On calculating the average, before the merger, ROA was 14.84% which has increased to 36.41%. EPS of GIBL was 13.97 and EPS of CTBL was 1.44 prior to the merger of the two BFIs. After the merger, the EPS was 19.85 which show the increase in the EPS of both banks. The average of EPS before the merger was 7.70 which is less than 19.85 and hence, there has been increment in EPS.

Conclusion

There has been significant increase in the financial ratios after the merger of the two BFIs compared to the average of two BFIs. Hence we can say that the merger has improved the financial ratio of the merged entity

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is divided into three sections. The first section is summary, which describes the whole research in a summarized form. The second section is conclusion. It lists the conclusions drawn from the analysis of the data for the study. The third section is recommendations. It includes necessary suggestions given to the authorities concerned for the consideration to implementation.

5.1 Summary

The main object of the study is impact of merger and acquisition of financial performance of the selected merged financial institutions. The key findings from the secondary data are capital adequacy ratio of all 3 merged entities has seen decreased. Only 1 out of the 3 merged entities were successful to decrease their non-performing loan below the Before-merger average. When comparing the operating expenses ratio to look at the efficiency ratio, 2 out of the 3 merged entities saw decrease in the operating expenses ratio after the merger process. 2 out of the 3 merged entities showed increase in return on assets. Similarly, 2 out of the 3 BFIs were able to increase return on equity when comparing the before and After-merger ratios. Net profit margin of the 2 BFIs increased after the merger and finally earning per share of the 2 merged BFIs increased when compared to the average to respective BFIs prior to the merger

5.2 Conclusion

- The current Capital Adequacy requirement as set by NRB is 11% but at the time when the above mergers took place it was 10%. As we can see in all the above three cases, CAR has decreased but the decline is more profound in the case of Machhapuchchhre bank and standard finance. The decrease can be attributed to the fact that during the course of merger the internal standards of the individual banks for measuring risk weighted assets must have been different and after the consolidation, post-merger, the CAR seems to have considerably decreased. The decrease in CAR indicates that mergers between BFI's decreases the capital adequacy ratio.

- As we can see those non-performing assets of two of the merged banks have increased and one of the merged entity, namely, Global IME bank has slightly decreased. The asset quality of the pre-merger individual banks might be different. One bank might be stringent and have strong risk assessing measures whereas the other merging party may be 'weak' in terms of their assets and may have subpar standards of loaning. Hence, the mergers have led to mixed results. It can be clearly stated that owing to different internal risk assessing standards of the individual banks the non-performing assets of the new merged body can be high if it has to absorb the 'bad' assets of the 'weak' bank and low if the other merging bank is 'strong' than itself.
- Operating Expense Ratio (OER) is an efficiency ratio that assesses the operational performance of entities before and after the mergers. As we can see, that two of the merged banks have better operating expense ratio than pre-merger period, hence we can safely say that merger has led to better utilization of the resources and enhanced their operational performance. In the case of Machhapuchchhre Bank the operating expense ratio has increased from 48.75% to 65.50%. This increase in operating expense ratio could be attributed to increased expenditure in Information technology, infrastructure and human resources to accommodate the increased size of the bank after merger. It can be safe to infer that M&A's lead to reduction of operating expense ratio in majority of the cases.
- Profit fell in comparison to the net increase in total assets of the merged bank. It can safely be stated that M&A's lead Return on Assets (ROA): ROA of two banks have increased and that of Machhapuchchhre Bank has decreased. It implies that M&A has led to better operational efficiencies and that banks are making bigger returns by utilizing their assets after merger. The decrease in the ROA of Machhapuchchhre Bank can be attributed to the fact that the overall to increased ROA in majority of cases. Return on Equity (ROE): ROE of two banks have increased and that of Machachapuchhre Bank has decreased. It shows that M&A has led to better returns for the shareholders of the bank. The decrease in the ROE of Machhapuchchhre Bank from 3.68% to 3.38% is due to the fact that its

operations were equity funded rather than debt funded, which brings down the ROE.

Price Earnings (PE) Ratio: PE ratio of Machachapuchhre Bank and Global IME bank have decreased whereas the PE ratio of NIC Asia Bank has increased slightly. The shares of the banks are not traded during the process of M&A and when the stock of the merged bank starts trading on the stock market the market value of the stocks are generally lower than the pre-merger prices and hence the fall in PE ratio. It can be safely concluded that initial post-merger PE ratios decrease after M&A.

Net Profit Margin (NPM): Net profit Margin of NIC Asia Bank and Global IME bank have increased whereas that of Machachapuchhre Bank has decreased from 16.96% to 9.48%. It is quite evident that Net profit margins of the banks increase post-merger. The decrease in NPM of Machachapuchhre Bank is due to the higher expenses incurred during the merger process which in turn reduces the net income leading to a lower NPM.

Earnings per Share (EPS): EPS has increased for both NIC Asia Bank and Global IME Bank whereas it has decreased from 3.97 to 3.77 for Machachapuchhre Bank after merger. The increase in EPS after merger can be attributed to the increased net income of the merged banks thus increasing the EPS. The reason for decline in EPS of Machachapuchhre Bank can be explained by decrease in the net income of the merged bank due to operational inefficiencies caused during the merger process.

5.3 Recommendation

Based on findings and conclusions, following recommendations have been provided:

- M&A's take place in Nepal owing to the directives issued by NRB to increase their paid-up capital rather than futuristic strategic business decisions, which should be the case. Capital Adequacy ratio decrease implies that the ability to absorb losses of the bank has decreased and the regulators must keep an eye on the risks that banks take and closely monitor their lending practices. Capital

Adequacy standards should not only be measured by the banks internal management but by the govt regulators and independent bodies as well.

- To decrease the Non-performing assets of a merged bank, Nepal Rastra bank must take into account that the merging parties have similar standards of rating their assets and risk assessment. Mergers of two 'weak' banks will only lead to a formation of a 'weaker' bank. To reduce non-performing assets, Nepal Rastra Bank should have more stringent regulatory disclosure measures, reduce insider abuse, the bank must stop high risk lending and stop unprofitable operations.
- Big size banks post-merger lead to higher economies of scale and better utilization of resources, thus reducing the operational expenses but this should not be considered a measure of banks success but customer trust and faith on the bank should be. The bank must strictly follow the guidelines set by the central bank and must be ethical with timely disclosures of its quarterly and annual reports in a fair and honest manner.
- M&A's can help BFI's to generate higher profits from its assets which can lead to better financial performance and hence higher ROA's. While mergers banks must ensure to fund their operations through their own equity rather than debt, which will entail extra interest. Debt funding leads to higher ROE's but it may be misleading. The PE ratio is very important for shareholders but can fluctuate with share prices and is also affected by external conditions beyond the control of bank such as the political climate in the country. The M&A's should lead to increase in Earnings per Share (EPS) which in turn would lead to higher PE Ratio. The M&A process should be well planned and well executed so as not to cause operational inefficiencies leading to unwanted expenses and obstacles. Smooth transition from pre-merger to post-merger is very important for higher NPM after the merger. While it is the case in most of the M&A's that EPS increases post-merger but factors like calculating the best swap ratio of the banks should be accurately calculated so that the number of outstanding shares do not get diluted thereby decreasing the EPS.

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APPENDICES

Appendix-1

Machhapuchchhre Bank Limited (Before Merger) (Rs. '000')

Capital and Liabilities	FY 2009-10	FY 2010-11	FY 2011-12
Capital	1,627,19	1,627,197	2,478,794
Reserves and Surplus	146,31	146,426	169,282
Debenture & Bond			0
Borrowing	150,00	1,251,242	0
Deposit	18,535,91	16,411,426	21,546,397
Bills Payable	15,40		31,299
Proposed & Payable dividend			0
Tax Liabilities			0
Other Liabilities	203,96	789,488	131,482
Total Liabilities	20,678,7	20,225,77	24,357,254
Cash Balance	1,049,32	2,207,561	1,305,790
Balance With NRB	1,094,66		3,081,827
Bank Balance with Banks	315,72		1,049,619
Money At call	661,56	307,891	0
Investment	2,096,79	1,409,556	1,705,425
Loan and Advances	14,289,79	14,731,040	15,602,701
Fixed Assets	732,29	725,485	865,179
Non- Banking Assets			0
Other Assets	438,63	844,246	746,713
Total Assets	20,678,7	20,225,77	24,357,254
Interest Income	1,688,61	2,080,305	1,926,128
Interest Expenses	1,144,80	1,544,728	1,500,772
Net Interest Income	543,80	535,577	425,356
Commission and discount	49,90	44,183	45,047
Other Operating Income	60,63	72,406	68,019
Exchange Income	42,69	38,433	51,643

Total Operating Income	697,04	690,599	590,065
Employees Expenses	152,11	164,250	164,951
Other Operating Expenses	223,46	274,325	309,131
Exchange Loss			0
Operating Profit Before Provision	321,46	252,024	115,983
Provisions for possible losses	335,04	337,850	7,471
Operating Profit	(13,58	(85,826)	108,512
Non-Operating Income/ Expenses		98,774	205,052
Return From Loan Loss Provision	117,79	685,546	63,372
Profit From Ordinary activities	104,21	698,494	376,936
Extra ordinary Income /Expenses	9,97	(685,546)	(367,412)
Net Profit including all activities	114,18	12,948	9,524
Provision For Staff Bonus	10,38	1,177	0
Provision For Income Tax	30,49	3,531	(28,688)
-This Year			61,270
-Up to Last Year			0
Net Profit / Loss	73,31	8,240	38,212
Financial Indicators			
Core Capital to Risk Weighted Assets	9.94	10.86	14.11%
Capital Fund to Risk Weighted Assets	11.24	10.00	15.04%
Non-Performing Loan to Total Loan	2.32	4.46	2.84%
Weighted Average Interest Spread	3.40	2.27	5.01%
Net Interest Income (Rs. in thousand)	543,8	535,57	425,356
Return on Assets	0.35	0.03	0.16%
Credit to Deposit	80.78	92.35	74.62%
Liquid Assets to Total Assets	24.27	18.56	28.27%
Liquid Assets to Total Deposit	27.07	22.87	31.96%

Machhapuchchhre Bank Limited (After Merger)   Amt. in Rs. Million

Capital and Liabilities	2012-13*	2013-14	2014-15
Capital	2,479	2,776	3,484
Reserves and Surplus	318	459	507
Debenture & Bond	0	0	0
Borrowing	61	0	0
Deposit	27,137	37,132	44,206
Bills Payable	19	11	13
Proposed & Payable dividend	0	16	28
Tax Liabilities	0	0	0
Other Liabilities	283	330	515
Total Liabilities	30,296	40,724	48,753
Cash Balance	1,522	1,749	2,097
Balance With NRB	2,932	3,165	4,616
Bank Balance with Banks	590	1,632	1,674
Money At call	0	0	0
Investment	2,415	3,461	4,479
Loan and Advances	21,165	29,053	34,261
Fixed Assets	805	778	756
Non- Banking Assets	0	0	0
Other Assets	866	886	870
Total Assets	30,296	40,724	48,753
Interest Income	2,430	2,836	3,109 1,753

Interest Expenses	1,486	1,720	
Net Interest Income	944	1,116	1,356
Commission and discount	59	61	92
Other Operating Income	148	181	179
Exchange Income	38	51	79
Total Operating Income	1,189	1,409	1,706
Employees Expenses	233	280	350
Other Operating Expenses	366	381	412
Exchange Loss	3	5	0
Operating Profit Before Provision	587	743	944
Provisions for possible losses	450	171	197
Operating Profit	137	572	748
Non-Operating Income/ Expenses	7	19	92
Return From Loan Loss Provision	271	181	151
Profit From Ordinary activities	414	772	991
Extra ordinary Income /Expenses	(175)	(63)	6
Net Profit including all activities	239	708	997
Provision For Staff Bonus	22	64	91
Provision For Income Tax	69	189	290
-This Year	92	90	223
-Up to Last Year	0	0	18
Deferred Tax	(23)	99	49
Net Profit / Loss	149	455	616

Standard Finance (Before Merger)

Capital And Liabilities	09/10 (66/67)	10/11 (67/68)
Paid up Capital	1,001,880.00	1,001,880.00
Reserve and Surplus	48,718.00	100,412.00
Borrowings		190,000.00
Deposits	1,917,107.00	2,778,440.00
other liability	78,877.00	32,562.00
TOTAL LIABILITIES	3,046,582.00	4,103,294.00
cash and bank balances	613,831.00	732,902.00
Money at call	-	-
Investments	185,743.00	313,357.00
Loans and Advances	2,076,972.00	2,838,981.00
Fixed Assets	142,426.00	188,118.00
other Assets	27,610.00	29,936.00
TOTAL ASSETS	3,046,582.00	4,103,294.00
Net interest income	154,404.00	191,126.00
Operating Income	24,576.00	21,602.00
Total operating income	178,980.00	212,728.00
Total operating expenses	65,609.00	84,610.00
Operating profit before provision	113,371.00	128,118.00
Provision for possible losses	24,961.00	48,540.00
Operating profit	88,410.00	79,578.00
Net Profit after tax	56,746.00	51,693.00

Appendix-2

Bank of Asia Limited (Before Merger (Rs. 000)

Capital and Liabilities	FY 2009-10	FY 2010-11	FY 2011-12
Capital	1,500,00	2,000,00	2,000,00
Reserves and Surplus	84,99	154,44	177,01
Debenture & Bond		0	0
Borrowing	876,44	990,00	0
Deposit	12,480,76	13,677,36	15,351,20
Bills Payable	21,40	4,11	26,69
Proposed & Payable dividend	157,89	147,36	150,00
Tax Liabilities	2,04	0	0
Other Liabilities	420,03	726,28	166,10
Total Liabilities	15,543,57	17,699,56	17,871,02
Cash Balance	268,76	320,77	416862
Balance With NRB	480,86	929,80	2312034
Bank Balance with Banks	181,68	645,39	387023
Money At call	749,33	492,75	202866
Investment	2,415,87	2,648,19	1898319
Loan and Advances	11,107,42	11,639,02	12165922
Fixed Assets	242,78	206,23	157435
Non- Banking Assets		0	0
Other Assets	96,84	817,40	330559
Total Assets	15,543,57	17,699,56	17,871,02
Interest Income	1,370,27	1,859,54	1942675
Interest Expenses	870,26	1,239,69	1312120
Net Interest Income	500,00	619,84	630,55
Commission and discount	17,64	16,78	21757
Other Operating Income	80,67	62,62	69439
Exchange Income	27,16	30,85	8306
Total Operating Income	625,48	730,11	730,05

Employees Expenses	101,91	122,80	147767
Other Operating Expenses	151,76	166,73	185293
Exchange Loss		0	0
Operating Profit Before Provision	371,80	440,57	396,99
Provisions for possible losses	45,19	111,61	145813
Operating Profit	326,61	328,95	251,18
Non-Operating Income/ Expenses		1,12	19523
Return From Loan Loss Provision		0	0
Profit From Ordinary activities	326,61	330,08	270,70
Extra ordinary Income /Expenses	0	0	0
Net Profit including all activities	326,61	330,08	270,70
Provision For Staff Bonus	29,69	30,00	24609
Provision For Income Tax	89,02	90,19	73528
-This Year			79540
-Up to Last Year			0
Deferred Tax			-6012
Net Profit / Loss	207,90	209,88	172,57
Financial Indicators			
Core Capital to Risk Weighted Assets	12.66	15.20	14.17
Capital Fund to Risk Weighted Assets	13.06	16.11	15.02
Non-Performing Loan to Total Loan	0.27	1.40	3.94%
Weighted Average Interest Spread	3.68	2.52	3.18%
Net Interest Income (Rs. in Thousand)	500,00	619,84	630,55
Return on Assets	1.53	1.26	0.97%
Credit to Deposit	89.00	85.10	79.25%
Liquid Assets to Total Assets	19.25	25.56	28.92
Liquid Assets to Total Deposit	23.98	33.07	33.67

Nepal Industrial and Commercial Bank Limited (Before Merger) (Rs. 000)

Capital and Liabilities	FY 2009-10	FY 2010-11	FY 2011-12
Capital	1,311,55	1,311,55	131155
Reserves and Surplus	453,40	686,79	75068
Debenture & Bond	200,00	200,00	20000
Borrowing	1,723,25	773,30	13237
Deposit	15,968,91	18,394,43	2211185
Bills Payable	17,54	17,53	3926
Proposed & Payable dividend	345,14	262,31	32788
Tax Liabilities	32,57	4,82	0
Other Liabilities	256,95	439,62	70591
Total Liabilities	20,309,33	22,090,37	25,579,52
Cash Balance	530,61	405,79	60925
Balance With NRB	589,32	817,94	165919
Bank Balance with Banks	966,19	453,31	48694
Money At call	100,00	0	0
Investment	4,946,77	4,868,91	399273
Loan and Advances	12,732,01	14,933,94	17,242,30
Fixed Assets	297,19	354,78	40561
Non- Banking Assets		0	0
Other Assets	147,21	255,68	118349
Total Assets	20,309,33	22,090,37	25,579,52
Interest Income	1,777,16	2,321,40	243153
Interest Expenses	1,031,47	1,446,63	162180
Net Interest Income	745,69	874,77	809,72
Commission and discount	76,06	99,64	8400
Other Operating Income	49,34	81,23	7045
Exchange Income	90,90	68,02	9150
Total Operating Income	962,00	1,123,67	1,055,69
Employees Expenses	118,85	139,90	17978
Other Operating Expenses	137,74	187,98	21129
Exchange Loss	0	0	0
Operating Profit Before Provision	705,40	795,78	664,61

Provisions for possible losses	17,74	34,90	4930
Operating Profit	687,66	760,88	615,30
Non-Operating Income/ Expenses	11,45	16,91	207
Return From Loan Loss Provision	56,20	74	0
Profit From Ordinary activities	755,32	778,53	617,37
Extra ordinary Income /Expenses	(46,204	1	0
Net Profit including all activities	709,11	778,54	617,37
Provision For Staff Bonus	64,46		5612
Provision For Income Tax	194,81	70,77	16947
-This Year		212,06	17562
-Up to Last Year			-
Deferred Tax			59
Net Profit / Loss	449,84	707,77	391,78
Financial Indicators			
Core Capital to Risk Weighted Assets	11.25	11.34	9.91
Capital Fund to Risk Weighted Assets	12.92	12.89	11.01
Non-Performing Loan to Total Loan	0.72	0.60	0.73
Weighted Average Interest Spread	3.75	3.75	3.33
Net Interest Income (Rs. in Thousand)	745,69	874,77	809,72
Return on Assets	2.30	2.34	1.64
Credit to Deposit	80.97	82.45	79.25
Liquid Assets to Total Assets	19.59	14.16	24.93
Liquid Assets to Total Deposit	24.92	17.00	28.84

NIC Asia Bank Limited (After Merger) **Amt. in Rs. Million**

Capital and Liabilities	2012-13*	2013-14	2014-15
Capital	2,312	2,658	3,695
Reserves and Surplus	2,077	2,215	1,804
Debenture & Bond	0	500	500
Borrowing	204	0	0
Deposit	39,909	44,984	53,477
Bills Payable	89	47	41
Proposed & Payable dividend	462	347	55
Tax Liabilities	0	0	0
Other Liabilities	1,483	750	948
Total Liabilities	46,535	51,500	60,519
Cash Balance	873	776	1,042
Balance With NRB	4,222	5,187	4,763
Bank Balance with Banks	588	1,221	868
Money At call	10	0	0
Investment	6,812	6,485	10,124
Loan and Advances	31,560	36,325	42,144
Fixed Assets	465	523	567
Non- Banking Assets	0	0	0
Other Assets	2,006	983	1,012
Total Assets	46,535	51,500	60,519
Interest Income	2,663	3,995	3,918
Interest Expenses	1,420	2,197	2,340
Net Interest Income	1,243	1,798	1,577
Commission and discount	82	143	132
Other Operating Income	98	196	267
Exchange Income	110	101	126
Total Operating Income	1,534	2,239	2,102
Employees Expenses	224	378	422
Other Operating Expenses	242	385	452
Exchange Loss	0	0	0
Operating Profit Before Provision	1,067	1,475	1,229

Provisions for possible losses	89	259	360
Operating Profit	978	1,216	868
Non-Operating Income/ Expenses	4	8	13
Return From Loan Loss Provision	1	135	183
Profit From Ordinary activities	983	1,359	1,065
Extra ordinary Income /Expenses	0	-50	3
Net Profit including all activities	983	1,309	1,068
Provision For Staff Bonus	89	119	97
Provision For Income Tax	252	358	290
-This Year	257	357	287
-Up to Last Year	-5	1	3
Deferred Tax	0	0	0
Net Profit / Loss	642	832	680

Financial Indicators	
Core Capital to Risk Weighted Assets	12.2
Capital Fund to Risk Weighted Assets	13.1
Non-Performing Loan to Total Loan	2.3
Weighted Average Interest Spread	3.8
Net Interest Income (Rs. in Thousand)	1,243 ,
Return on Assets	1.7
Credit to Deposit	81.2
Liquid Assets to Total Assets	25.5
Liquid Assets to Total Deposit	29.7

Commerz and Trust Bank Limited (Before Merger) Rs.'000'

Capital and Liabilities	FY 2010-11	FY 2011-12	FY 2012-13
Capital	1,400,00	1,400,00	2,040,00
Reserves and Surplus	23,33	38,51	32,86
Debenture & Bond		0	0
Borrowing	190,30	43,97	10,00
Deposit	2,487,86	6,332,04	9,961,00
Bills Payable		0	0
Proposed & Payable dividend		0	2,105
Tax Liabilities	4,188	0	0
Other Liabilities	57,64	40,76	96,09
Total Liabilities	4,163,33	7,855,30	12,142,07
Cash Balance	61,49	142,53	268,21
Balance With NRB	93,64	1,070,88	1,100,65
Bank Balance with Banks	80,85	109,19	196,42
Money At call	558,26	65,76	583,47
Investment	700,85	664,76	837,65
Loan and Advances	2,466,37	5,592,65	8,844,31
Fixed Assets	120,01	122,18	137,13
Non- Banking Assets		0	0
Other Assets	81,84	87,31	174,20
Total Assets	4,163,33	7,855,30	12,142,07
Interest Income	270,69	581,83	932,70
Interest Expenses	138,31	417,45	616,74
Net Interest Income	132,38	164,38	315,95
Commission and discount	4,524	19,86	25,08
Other Operating Income	12,32	28,06	40,60
Exchange Income	1,835	5,027	19,57
Total Operating Income	151,07	217,33	401,21

Employees Expenses	34,02	60,34	75,61
Other Operating Expenses	53,01	103,20	139,54
Exchange Loss		0	0
Operating Profit Before	64,03	53,78	186,06
Provisions for possible losses	27,61	45,80	158,16
Operating Profit	36,42	7,976	27,89
Non-Operating Income/	0	0	0
Return From Loan Loss	0	16,93	27,98
Profit From Ordinary activities	36,42	24,90	55,88
Extra ordinary Income /Expenses	0	0	0
Net Profit including all activities	36,42	24,90	55,88
Provision For Staff Bonus	3,311	2,264	5,080
Provision For Income Tax	10,34	7,456	14,34
-This Year	12,68	7,846	18,35
-Up to Last Year		0	0
	(2,347	(390	(4,010
Net Profit / Loss	22,76	15,18	36,45
Financial Indicators			
Core Capital to Risk Weighted	26.80	19.80	18.85
Capital Fund to Risk Weighted	27.28	20.58	19.67
Non-Performing Loan to Total	0.00	0.00	1.33
Weighted Average Interest	3.00	3.73	4.06
Net Interest Income (Rs. in	132,38	164,38	315,95
Return on Assets	0.55	0.19	0.30
Credit to Deposit	100.14	89.22	90.66
Liquid Assets to Total Assets	35.62	25.94	24.30
Liquid Assets to Total Deposit	59.60	32.19	29.62

Appendix-3

Global IME Bank Limited (Before merger) **Rs.'000'**

Capital and Liabilities	FY 2010-11	FY 2011-12	FY2012-13
Capital	1,600,000	2,250,357	
Reserves and Surplus	108,027	286,343	449,930
Debenture & Bond	0	400,000	400,000
Borrowing	401,789	87,321	107,043
Deposit	15,066,49	26,913,76	34,111,46
Bills Payable	60,460	17,728	19,571
Proposed & Payable dividend	80,263	218,481	0
Tax Liabilities	0	0	2,671
Other Liabilities	205,679	490,118	1,146,951
Total Liabilities	17,522,70	30,664,11	39,018,49
Cash Balance	522,684	624,42	929,93
Balance With NRB	808,765	2,249,52	3,190,12
Bank Balance With Banks	422,997	2,095,39	1,423,92
Money At call	0	0	16,08
Investment	2,920,247	4,247,06	5,548,94
Loan and Advances	12,372,42	20,296,50	26,212,29
Fixed Assets	231,579	660,51	692,22
Non- Banking Assets	0	0	0
Other Assets	244,012	490,69	1,004,95
Total Assets	17,522,70	30,664,11	39,018,49
Interest Income	1,963,603	2,226,13	3,206,64
Interest Expenses	1,288,051	1,586,55	1,826,78
Net Interest Income	675,55	639,57	1,379,86

Commission and discount	67,518	105,04	171,89
Other Operating Income	84,979	120,54	215,79
Exchange Income	30,937	50,54	73,14
Total Operating Income	858,98	915,70	1,840,70
Employees Expenses	155,004	158,18	289,77
Other Operating Expenses	237,364	304,11	485,07
Exchange Loss	0	0	0
Operating Profit Before Provision	466,61	453,40	1,065,85
Provisions for possible losses	252,931	132,79	474,39
Operating Profit	213,68	320,60	591,45
Non-Operating Income/ Expenses	(132)	187	-291
Return From Loan Loss Provision	166,245	217,99	143,33
Profit From Ordinary activities	379,80	538,78	734,50
Extra ordinary Income /Expenses	(93,481	-	-
Net Profit including all activities	286,31	419,25	717,59
Provision For Staff Bonus	26,029	38,11	65,23
Provision For Income Tax	35,312	115,82	203,14
-This Year		126,73	219,70
-Up to Last Year		0	0
Deferred Tax		-	-
Net Profit / Loss	224,97	265,31	449,21
Financial Indicators			
Core Capital to Risk Weighted Assets	10.14	9.21	9.17
Capital Fund to Risk Weighted	11.09	11.66	11.14
Non-Performing Loan to Total Loan	2.52	1.64	2.27
Weighted Average Interest Spread	3.27	3.88	4.21
Net Interest Income (Rs. in	675,552	639,57	1,379,86
Return on Assets	1.28	0.87	1.15
Credit to Deposit	84.82	77.15	79.13
Liquid Assets to Total Assets	21.77	28.67	26.32
Liquid Assets to Total Deposit	25.31	32.66	30.11

Global IME Bank Limited (After Merger)   Amt. in Rs. '000

Capital and Liabilities	2013-	2014-15	2015-16
Capital	4,976,6	6,164,267	7,151,00
Reserves and Surplus	1,149,6	1,159,226	1,555,00
Debenture & Bond	400,0	400,000	400,00
Borrowing	143,1	103,318	2,400,00
Deposit	52,292,0	60,175,98	74,683,00
Bills Payable	95,4	71,579	45,00
Proposed & Payable dividend	165,6	0	0
Tax Liabilities		0	
Other Liabilities	795,5	1,112,115	1,467,00
Total Liabilities	60,018,2	69,186,48	87,701,00
Cash Balance	1,373,1	1,467,008	2,055,00
Balance With NRB	3,923,3	4,751,333	5,436,00
Bank Balance With Banks	2,444,3	1,438,499	1,151,00
Money At call		0	0
Investment	8,680,7	10,717,06	17,991,00
Loan and Advances	41,777,6	48,936,96	59,219,00
Fixed Assets	821,0	896,819	935,00

Non- Banking Assets		0	0
Other Assets	997,8	978,800	914,00
Total Assets	60,018,2	69,186,48	87,701,00
Interest Income	3,810,2	4,660,874	4,988,00
Interest Expenses	2,051,8	2,371,094	2,099,00
Net Interest Income	1,758,4	2,289,780	2,889,00
Commission and discount	215,0	294,209	312,00
Other Operating Income	260,7	381,504	493,00
Exchange Income	138,4	203,128	251,00
Total Operating Income	2,372,5	3,168,621	3,945,00
Employees Expenses	373,8	636,053	659,00
Other Operating Expenses	637,7	743,550	829,00
Exchange Loss		0	0
Operating Profit Before Provision	1,360,9	1,789,018	2,457,00
Provisions for possible losses	438,7	548,613	606,00
Operating Profit	922,1	1,240,405	1,851,00
Non-Operating Income/ Expenses	49,6	3,790	8,000
Return From Loan Loss Provision			252,00
Profit From Ordinary activities	1,382,7	1,716,292	2,111,00
			47,00
Net Profit including all activities	1,415,8	1,540,816	2,158,00
Provision For Staff Bonus	128,7	140,074	196,00
Provision For Income Tax	313,1	440,134	580,00
-This Year	366,6	415,362	598,00
-Up to Last Year	(53,534)	25,279	0
Deferred Tax	(19)	(507)	(18000)
Net Profit / Loss	974,0	960,608	1,382,00