ANALYSIS OF MERGERS AND ACQUISITIONS ON THE PERFORMANCEOF COMMERCIAL BANKS IN NEPAL

A Thesis

Submitted to Central Department of Economics,

Tribhuvan University, Kirtipur Kathmandu, Nepal,

In Partial Fulfillment of the Requirements for the Degree of

MASTER OF ARTS

In

ECONOMICS

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CENTRAL DEPARTMENT OF ECONOMICS

TRIBHUVAN UNIVERSITY

KIRTIPUR, KATHMANDU

June, 2017

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CHAPTER: ONE

INTRODUCTION

1.1 General Background

Financial sector plays an important role in economic development and prosperity of the country. The banking industry is the drivers of its nation economy. Bank are the prime mover of the economy as the economic activity will sail smoothly only with adequate funds, which is provided by the banking sector. Therefore the banking sector occupies a significant place in the nation's economy. It is no surprise that their operations are perhaps the most heavily regulated and supervised of all businesses.

The Nepalese banking industry started with the establishment of the Nepal Bank Limited in 1937 AD as the first commercial bank of Nepal with the joint ownership of the government and general public. Five decades since the establishment Nepal Bank Limited, the Nepalese Financial sector witnessed major changes in financial sector policies and regulations. With economic liberalization and shift in focus to the private sector development, many foreign banks have established joint venture Banks in Nepal and the

Nepalese financial system has seen a tremendous growth of banking sector, thanks to the liberalized economic policies of the 1980s. The financial sector liberalization resulted into entry of new banks in the domestic market.

By the end of mid July 2015, altogether 192 banks and non- bank financial institutions licensed by NRB were in operation. Out of them, 30 are "A" class commercial banks, 76 "B" class development banks, 48 "C" class finance companies, 38 "D" class micro-credit development banks, 15 saving and credit co-operatives and 27 NGOs. Also, the total banks branches reached to 3,838.

However, the Nepalese Financial industry is currently going through a period of merging and consolidation. The merger and acquisition of BFIs has been encouraged to strengthen financial sector stability. In the review year, NIC Bank Limited and Bank of Asia Limited merged to form NIC Asia Bank Limited. Similarly, Social Development Bank Limited and GulmiBikash Bank Limited merged with Global IME Bank Limited to form Global IME Bank Limited (Bank Supervision Report 2015).

1.1.1 Mergers and acquisitions

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 and Hunjra, 2014).

The history of Merger and Acquisitions began long before early 1900s. This period of time covers six main waves of M&A for the past 100 years and these are those of the early 1900's, 1920's, 1960's, 1980's, 1990's, and 2000's. In the past decades, M&A activities have increased rapidly and come to a light since 2000 when Asian the market started following the trend of U.S and Europe to cope with the downturn of economic and financial markets that began in 2000. Emerging countries such as India, China, South Korea and some ASEAN nations entered into the M&A activity as new major players in global market. Besides, cross-border M&A became an instrument to pursue a business growth in global markets. (Chand 2009, 254-257).

In the context of Nepal, Shrestha (2012) stated that 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. During 2010, the Nepalese banking and financial sectors were passing through a very crucial period. The International Monetary Fund (2008) has clearly mentioned that, almost one third of the Nepalese BFIs are marked by excessive liquidity, excessive operating expenses, inadequate working capital, unhealthy competition and miss management. The balance sheet of the BFIs on the third quarter showed that except for few banks, the profits of all the banks had declined and the percentage level of bad loans were growing. The political instability and uncertainty over the future did not only decrease the income of banks, but also discouraged the investor's confidence to invest in any projects. It has caused a low demand of loans for big projects. Therefore, banks were facing increasing pressure of either investing in volatile housing and real estate business where there is maximum risk, or by failing to utilize the capital to generate more cash by not managing the capital.

Nepal Rastra Bank, as the main principle body of all the BFIs was becoming concerned with the unfortunate state of the BFIs. Thus, the Central Bank of Nepal planned to improve the health of the financial sector by introducing the Merger Bylaw 2011 grounded on the Company Act 2063 article 177, BAFIA 2063 article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. Otherwise, many BFIs may have to exit from the market (Gautam, 2012).

Merger is the combination of two or more entities through a purchase acquisition or pooling of interests, it is different from consolidation as there is no new entity is created from merger. Those organizations who adopt strategy of merger or acquisition have motives like to gain advantage of economy of scale, economy of scope, increase market share and revenues, taxation, synergy, geographical and other diversification. Due to these reasons, banks merged with one another or targeted by acquiring bank. Recently, the financial sector of most of the countries and their entire economy has been the focus both in the business circles and in the media, in terms of exceptional challenges being faced. Regulatory measures are being followed at both micro level as well as the macroeconomic level in order to improve the future condition of the different sectors that are under financial pressure or under financial crises. Many mergers and acquisitions take place in order to overcome these financial crises. This increase of mergers and acquisitions will change the entire structure of financial industry with the objective of making this sector sound and decrease risks attached to financial industry (Muhammad, 2011).

A merger can be taken as an abbreviation which means:

- M: Mixing
- E: Entities
- R: Resources for
- G: Growth
- E: Enrichment and
- R: Renovation

Thus, one can conveniently refer to a merger as the mixing of entities' resources for growth and renovation. (Ransariya, 2010)

1.1.2 Types of Mergers and Acquisitions

There are three major types of mergers and acquisitions which are categorized into horizontal, vertical, conglomerate and congeneric.

a. Horizontal Mergers

Horizontal Mergers takes place when two or more competitors operating in the same line of business combine together. Gaughan (2002, 8) argues that, "if a horizontal merger causes the combined firm to experience an increase in the market power that will have an anticompetitive effect, the merger may be opposed on antitrust ground". In addition to market power, the horizontal merger produces ripple effects when two small scale companies joint together to gain competitive advantage over the competitor (Ross et.al 2003, 844- 12 845). Horizontal mergers have been the most important and prevalent form of mergers in Nepal. The Nepalese financial sector has witnessed twenty sets of horizontal mergers among the Banking and Financial Institutions. The merger among banks would be a horizontal merger. (Annual Bank Supervision Report 2012, 1-3.)

b. Vertical Mergers

A vertical merger refers to the expansion of firms caused either by mergers between two firms involved at successive stages of the production process or by firms developing their own vertical operations (Lipczynski─Wilson 2004, 229). Firms choose a vertical merger to gain efficiency in the business supply chain and to improve profitability position by the effect of economies of scale. For example, the merger between hotelier and tour operator come under vertical merger. An example is America Online's (AOL's) purchase of Netscape for $4.21 billion in 1998 .This was a vertical merger. AOL is an online service provider, while Netscape engages in an Internet and electronic commerce software (Ross et.al 2003, 844).

c. Conglomerate Mergers

"A conglomerate merger occurs when the companies are not competitors and do not have buyer-seller relations. One example would be a Philip Morris, a tobacco company, which acquired General Foods in 1985 for $5.6 billion" (Gaughan 2002, 8.)

1.2 Statement of the Problem

Since the economic liberalization of the financial sector in Nepal, there has been an unnatural growth of banks and financial institutions which led to an intense cutthroat competition amongst them in enticing institution, borrowers and individuals. Along with commercial bank, the government allowed to open development banks, finance companies with the objective to increase people's access to financial institution. Till the end of 2072/073, 76 banks and financial institutions have merged to become 32. Currently, a total of 209 BFIs (banks and financial institutions), including 30 are "A" class commercial banks, 76 "B" class development banks, 48 "C" class finance companies, 40 "D" class micro-credit development banks are in operation.

Before the merger bylaws was introduced, the BFIs endorsed easy loans to real estate, land and housing sector borrowers without assessing their financial capacity for repayment of interest and principle amounts. This led to rapid rises in the value of land and building. When the price started to fall, the borrowers were unable to pay back resulting to a shortfall of liquidity.

Nepalese banking sector is going through torment and really tough phase NRB has brought a new merger bylaw believing that it will as a panacea of the entire burning problem and stated it as the need of the hour. Nepal Rastra Bank, as a supervisory and regulatory body of all the BFIs, introduced a forceful merger by-law in May 2011. Most of the experts and analyst believe that the Nepalese financial sector are overcrowded with so many players for the small size market and if not acted on time these problems will worsen. In this context, it is crucial to know how selected Nepalese banking performing. The study, therefore, aims to analyze and evaluate selected Nepalese Commercial Banks performance based on the CAMEL framework, which is used to evaluate the overall safety and soundness of a bank.

Based on above problems, this study will answer the following research questions:

i) What are the capital Adequacy ratios of selected commercial banks before and after merger?
ii) What are the qualities of assets of selected commercial banks before and after merger?
iii) What are the management qualities of the selected commercial banks before and after merger?
iv) What are the earning capacities of the selected commercial banks before and after merger?
v) What is the liquidity position of selected commercial banks before and after merger?
vi) Does merger and acquisition has any effects on the overall profitability of selected commercial bank in Nepal?

1.3 Objectives of the Study

The major objective of this study is to investigate whether the financial performance of the selected merged commercial bank (i.e Global IME Bank) improved after the merger with CAMEL Criteria. The specific objectives of the study are as follows:

- To overview the general knowledge of the merger and acquisition.

- To identify the difference in the financial performance of the selected commercial bank pre-post the merger.

- To examine the effect of merger and acquisition in Nepal banking sector i.e. Global IME Bank.

1.4 Significance of the Study

This research work provides a comprehensive insight of the selected bank ongoing merger and acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs).In order to detect whether BFIs mergers produce any efficiency gains as well as factors contributed to the performance. The evidence shows that merger created synergy as indicates by the statistically and significantly increasing the post-merger financial and productive efficiency performances. The possible outcome of these research findings will be helpful to the Nepal Rastra Bank for further investigation concerning the merger bylaws provisions and its impact on employees, stakeholders, clients and customers, and the financial market.

1.5 Research hypothesis

The research hypothesis states that:

Ho: there is no significant difference in the performance of Global IME Bank before and after the mergers and acquisitions exercise. The study used the CAMEL criterion for measuring bank performance to test this hypothesis. Appropriate proxies were used where the variables could not be observed directly. The test statistic was the paired sample t-statistic

The decision rule is to reject Ho if the absolute value of the calculated t-ratio is greater than 2.447 which is the critical value of the t distribution at the 5% level of significance with 6 degrees of freedom. Otherwise, H0 is accepted.

1.6 Limitations of the Study

The major limitations of the study are as follows:

- First, the sample data used in the present study is relative small likewise time period for the comparison was four years before and after the merger, this might bring in the question of statistical validity of the results.
- Apart from the profitability, other performance ratios like risk, cash flow has been ignored to know the performance of financial institutions that has undergone for merger and acquisition strategy.
- This study is based on secondary data only but the findings of the study would have been more accurate and reliable if primary data including the perceptions of top level managers, stockholders, employees and customers regarding the impact of merger on financial performance were considered
- This study is based on descriptive and comparative research design. Other research design has been ignored in this study.
- The findings of this study could not be generalized to manufacturing and trading enterprises because the study is only based on the financial sector.

1.7 Organization of the Study

Organization of the study is the examination of how individuals construct structures, processes, and practices and how these, in turn, shape whole research project. It comprises different areas that deal with the different aspects of the research report. The study is organized in six chapters. The overall background of the study, the statement of the problem, basic and specific objectives, and organization of the study is introduced in chapter one. The conceptual review of some major studies in the field merger and acquisitions and research gap is summarized in chapter two. Subsequently, research methodology of the study is presented in third chapter that describes the research design, nature and sources of data. Chapter four include merger and acquisition in Nepalese banking sector which is further divided into introduction, merger by la policies, merger process, risk in merger process, General background of data, and analysis of secondary data estimation of descriptive statistics, shown in chapter five. Finally, in chapter five, the summary and the conclusions of the study along with the recommendations are presented.

CHAPTER: TWO

LITRERATURE REVIEW

This chapter deals with the literature review and provides conceptual framework associated with post-merger 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 two sections. First section presents theories of merger and acquisition, second section is concerned with empirical studies about impact of merger and acquisition. Second section is further divided into two parts that includes review of major studies regarding impact of merger and acquisition on financial performance 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 et al., 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 al., 2011).

2.1.3 "Eat or be eaten" theory of mergers

According to Gorton, Kahl and 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 al., 2011). Based on agency theory, management of bidder banks involves in merger and acquisition for personal benefit without considering the economic reason (Asimakopoulos and 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 and Athanasoglou, 2013). Under agency theory and hubris theory, performance of bidders is expected to decrease (Hankir et al., 2011).

2.2 International Context

Vander (1996) analyzed the effects of merger and acquisition on performance of the banks. This study highlighted various techniques to estimate the treatment effects of banks mergers on performance. This study provides evidence in favor of the view that there are positive and long lasting effects of banks merger and acquisition on the banks performance and the society as well especially it totally improves the cost efficiency of the banks. The finding from this research also suggests that the pre-merger effects are likely to occur in terms of the higher cost efficiency. Nevertheless, the small size banks enjoy the cost benefits more than the large size banks.

Resti (1998) explored the effects of merger on performance and target markets of the merged banks. This study also measure the extra efficiency derived from the comparison with a benchmark. Merged banks seems to have increased their efficiency in the years after the merger and it is true when the deal of merger of two banks operating on the same local markets and when the size of the new bank is not so big. Moreover, this research states that the mergers between two equally sized banks increase the efficiency as well as the profits.

Rhoades (1998) investigated the impact of merger and acquisitions on the post mergers efficiency of banks. In this study a sample of nine firms were selected that yield efficiency gains. The author explained 16 financial ratios including liquidity, profitability, efficiency and capital ratios. The results of this study indicated that nine mergers resulted in significant cost reductions in line with the forecasts prior to the merger. It was concluded that four of the nine mergers are clearly able to improve the cost, but five are not.

Yeh and Hoshino (2000) investigated the impact of mergers and acquisitions on both the acquiring firms' stock prices and financial performance by using a sample of 20 Taiwanese corporations during 1987-1992. They have examined accounting measures of profitability, financial health and growth of the acquirers. They have observed that the stock market reacts positively to the announcements of mergers and acquisitions, but profitability shows a downward change from pre-merger to post-merger periods.

Tripe (2000) analyzed a small sample of seven to fourteen banks, employed accounting ratios and two Data Envelopment Analysis (DEA) models to explore the efficiency of six banks mergers in New Zealand between 1989 and 1998. They found that the acquiring banks to be generally larger than their existing ones, although they were not consistently more efficient. They found that five or six merged banks had efficiency gains based on the financial ratios while another only achieved a slight improvement in operating expenses to average total income. Based on DEA analysis, they found that only some merged banks were more efficient than the target banks pre-merger. The results suggest that four banks had obvious efficiency gains post-merger.

Beitel and Schiereck (2001) examined the value implications of 98 large mergers and acquisitions of publicly traded European banks that occurred between 1985 and 2000. The study found that for the entire sample the shareholders of target banks earned significant positive cumulated abnormal returns in all intervals studied, while the shareholders of the bidding banks did not earn significant cumulated abnormal returns. From a combined view of the target and the bidder, European bank mergers and acquisitions were found to be significantly value creating on a net basis.

Gjirja (2003) investigated the efficiency impact of mergers and acquisitions in the Swedish banking industry. The purpose of this study was to evaluate the effects of the efficiency of bank mergers in Sweden. In this study a sample of 28 Sweden banks that underwent merger during the year 1984 to 2002 were taken. This study used the un-balanced panel data analysis technique to test the significance. The analysis revealed that post-merger has no significant improvement in the technical efficiency of the bank after the consolidation.

Mylonidis and Kelnikola (2005) examined the merging activities in Greek banking system. The main purpose is to access the financial performance of the recent mergers and acquisitions in Greek banking system. The methodology used to access the financial performance is the Operating Performance (OP) of the banks by observing the pre- and post-merger financial performance of the Greek banks. Profits, operating efficiency and labor productivity ratios of the bidding and targets banks do not improve after merger but when compared with the ratios of non-merging banks then it is concluded that the merger program has a positive impact on banks' operating performance but it has a negative impact on liquidity measure.

Choi and Harmatuck (2006) discussed the post operating performance of constructive mergers of United States of America. This study examines the operating performances after the merger during the past two decades (1980-2002). After merger the cash flow returns was not improved significantly. Secondly, the operating performance was slightly improved due to increase in the size of the firm.

Poposki (2007) analyzed the hectic pace of mergers in the financial institutions. The main aim of this study was to explore the value of synergy. Synergy is the benefit that merged firms can get only when the firms combine. This study explains the importance of financial synergy in merger and acquisitions transactions between insurance companies. The survey of financial synergies focuses on issues of solvency, liquidity and leverage. It was concluded that mergers in the insurance industry increased the efficiency of firms.

Sufian and Majid (2007) analyzed the mergers effect on the performance of Singaporean banking sector. The aim of this study was to trace the answer of questions such as, did the mergers result in increasing the post- merger efficiency in Singapore banking, can low efficient bank is the target of acquisition, can low efficient target bank reduces the post- merger efficiency of the acquiring bank, can more profitable and efficient bank increases the post- merger efficiency of acquiring bank and how the relative performance of Singapore banks can be determined. In this study a sample of all banks that underwent mergers and acquisition during 1998-2004 in Singapore were taken. In this paper Data Envelop Analysis (DEA) and Tobin's regression were used to test the significance. The results suggested that bank profitability has a significant positive impact on the efficiency of banks; on the other hand poor credit quality has a significant negative impact on the performance of banks.

Said and Rhman (2008) investigated the effect of mergers and acquisitions in the banking sector of Malaysia. The objective of this study was to make available proof of the proficiency improvements that banks experienced from the 1998—2004 merger application in Malaysia and to assess the performance of banking institutions. In this research a sample of ten Malaysian banks were selected that underwent merger and acquisitions during the 1998 to 2004. Three approaches to analyze the impact of mergers were used in this study namely paired sample t-statistics, Data envelopment analysis and regression analysis to test the significance. The variables of study called camel –type variables includes advances/loan loss reserves to capital, growth of loans; in order to measure the liquidity risks of banks, a ratio of loan to deposits is used. The efficiency impact of mergers was measured by using the DEA. Paired sample t-statistics was used to measure the pre and post-merger average performance of camel type variables. The results of this study showed that mergers do not result in improving the productive efficiency of merged banks.

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.

Kadir and Selamat (2010) investigated the extent of the impact of merger and acquisition on Malaysia banks productivity over the period 2003-2007. The aim of this study was to explore the productivity growth of commercial banks in Malaysia. In this study, sample of nine commercial banks were taken that underwent merger and acquisition activity in Malaysia during 2003-2007. It analyzes both technological change and changes in technical efficiency of merging banks in Malaysia with a non-parametric analysis of data envelopment analysis (DEA). This study examines the two input and three output variables. The input variables were operating expense and interest expense. Output variables used in this study were net interest income, total amount of loans and advances and non- interest income. It was found that six out of the nine banks had average increment in total factor productivity (TFP).

Raiyami (2010) analyzed the merger effects on the efficiency and productivity of banks in India. The purpose of this study was to explore the motivations of mergers and acquisitions in the Indian banking sector and its effect on performance. In this study, sample of six Indian banks were selected that underwent merger and acquisition during year 2000-2006. In this study, the author used the financial ratios to examine the profitability, efficiency, liquidity assets quality and capital position of Indian banks. The result of the study revealed that merger has a positive impact on performance of the selected banking institutions.

Sinha and Gupta (2011) studied the Indian financial sector in the scenario of mergers and acquisitions. The aim of this study was to investigate the post- merger impact in the financial sector of India. Author stated that Indian corporations were subject to a strict control regime before 1990s. In this study a sample of eighty mergers were selected that involved in mergers and acquisitions during the 1993—2010. This study uses the paired sample t-test, regression and wilcoxon /Mann Whitney to achieve the research objectives and to test the significance of research hypothesis. The variables used in this study were profit margin, total cost, advances, profit before interest and taxes, depreciation and amortization, profit after tax ratio, current ratio, interest coverage ratio and return on capital employed. Three years average before and after merger is taken for all variables and significance is tested with the help of paired sample t- statistics. The conclusion of this study showed that mergers both have a positive and negative impact on the firm performance.

Appah and John (2011) conducted a study on the efficiency effects of mergers and acquisitions in the Nigerian banking industry. Data was collected from the financial statements of all the sampled banks within the study period. The population of the study comprised all the 24 banks operating in the Nigerian banking industry as at 31st December 2010. Simple random sampling technique was used to select the 10 banks used for the analysis. About 3 year (2003-2005) pre-merger and acquisition mean return on equity was compared with the 3 years (2006-2008) post-merger and acquisition mean. Using descriptive analysis and paired sample t-test statistics, the findings revealed no significant difference between the return on equity of banks pre and post-merger and acquisition. On the basis of the findings, it was recommend among others that mergers and acquisition in the banking industry in Nigeria must be driven by market forces to give room for efficiency and effectiveness and that researchers should develop new framework and models for banks performance, stability and growth as opposed to merger and acquisition.

Akben and Alitok (2011) conducted a study on the impact of mergers and acquisitions on acquirer performance in Turkey. Sixty companies which involved in mergers and acquisitions deals between 2003 and 2007 were included in the sample. The analysis of both stock market and accounting data weakly support the hypothesis that acquirer companies are negatively affected by mergers and acquisitions activities.

Juma and Wawire (2012) studied the past literature related to banks mergers and acquisition that shows effect on the wealth of business owner and investors. The main aim of this study was to proof whether mergers results in improving the wealth of shareholders. This study concluded that in order to improve the wealth of shareholders, these must be synergistic benefits. Synergy motive can further be divided into operational and financial synergy. The result of this study showed that mergers and acquisition are the burning issue for the researcher and the literature has discussed almost on every aspect of mergers including effect on post-merger profitability, efficiency and synergy.

Al-Khasawneh and Essaddam (2012) examined a sample of 309 bank mergers in the US from 1992 to 2003 and find that merger between low efficiency bidder and target creates significant market returns after the merger and acquisition, while mergers combining the least efficient bidders with moderately efficient targets diminish bidder's value. Furthermore, technical efficiency and geographic diversification of bidders gives a positive impact to bidder's value. The cross border acquisition gives more opportunity for bidders to get access and better manage new market, and invest the new resources acquired from targets.

Rani et al. (2013) investigated on post-mergers and acquisitions operating performance of Indian acquiring firms. The sample for the study consisted of 383 mergers and acquisitions companies between 2003 and 2008. The study measured and compared the pre-and post-merger and acquisition financial performance of acquiring companies in terms of operating cash flows. The results of the analysis revealed that mergers and acquisitions have been beneficial for the acquiring companies in the long-run with regard to their operating performance. The findings indicated that profitability of acquiring firms improved during post- mergers and acquisitions phase. Mergers and acquisitions have resulted to better and improved performance.

Onaolapo and Ajala (2013) used an econometric perspective to research the post-merger performance of selected Nigerian deposit money banks. Using judgmental sampling technique, 15 listed banks were selected as data (secondary) were extracted from the financial records of ten years (pre &post). The Pearson's correlation was used to measure the degree of association between variables under consideration; Assets profile, capital structure, operating efficiency, liquidity risk and credit risk while the formulated hypotheses were tested with use of multiple regression analysis. The study concluded that there is an improved performance on the part of selected commercial banks. This is in terms of return on equity, return on asset and net profit margin. It revealed that there is a strong relationship between bank performance and merger.

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.

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. Data was collected using questionnaires with both open and closed ended questions. The collected data was analyzed using SPSS where the co-efficient of correlation obtained. Study found that the mergers and acquisitions raised the shareholders' value of the merged/acquiring banks. Researcher recommended that thorough feasibility studies should be carried out before the merger/acquisition process can be done. It was also recommended that effect of mergers/acquisitions in other sectors of the economy should be established with a view of drawing a parallel with the effects of the same processes in the banking sector.

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 Utilisation, Equity Multiplier, Earnings per share, Debt Equity ratio, Debt Asset ratio & Leverage ratio, the study evaluated the performance of the banks before and after mergers and acquisitions using pair sample t-test. The results showed that there is significant difference in the performances of Deposit Money Banks in the pre and post-merger periods using the ROA, ROE and LR as yards tick but shows no significant impacts in the performances of Deposit Money Bank using other variables as yard stick. The study hereby recommends that the CBN should set and enforce corporate governance standards for commercial banks and also enforce risk based supervision in banks.

2.3 National Context

Shrestha R., (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:

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

Neupane (2013) examined critical factors in Merger and acquisition of Nepalese financial institutions and concluded that merged firms enhanced the ability to attract loans, increased employee's productivity and net assets growth and that this was evident in the Nigerian banking industry. This study also pointed out that mergers and acquisitions might lead to improved productivity of employees and the general performance of the banks due to the integration of information and communication technologies packages and good corporate governance.

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, the post-merger trend shows that the sampled bank can produce more return to its shareholders in the days to come.

Shrestha (2014), merger and acquisitions are based on the assumption that it creates a synergistic value for the potential stakeholders involved and in the hope of realizing an economic gain. Apart from garnering tax advantages and achieving economies of scale, M&A provides financial benefits and career growth and advancement as well. The benefits of the M&A is not only limited to one side of the organization rather it develops all the aspect of the organization if conducted with proper guidance and supervision.

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.

Research Gap

CHAPTER: THREE

RESEARCH METHODOLOGY

This chapter deals with the methodology use to conduct the research and to analyze the data based. For the convenience of the presentation, the methodology has been presented in some different sub-headings.

3.1 Research Design

This study is based on descriptive and comparative research designs to deal with the various issues raised in this study regarding pre and post-merger performance of commercial bank in Nepal. Using descriptive methodology helps in fact- finding operation that search for adequate information about performance of commercial bank in Nepal.

3.2 Nature and Source of Data

This study is based on and secondary data which have been collected from various sources like bank supervision report and banking and financial statistics published by Nepal rastra bank, Journals, Published and unpublished by different researchers and institutions and reports.

3.3 Method of Data Analysis

The study analyzed the data using both descriptive and analytical tools. In addition to tables, percentages and graphs, the CAMEL criterion was employed as a framework for analyzing the performance of the bank; appropriate ratios were adopted as proxy for capital, asset management, earning and liquidity. The trend of these ratios for the period before and after mergers and acquisitions was tested with the aid of paired sample t- test.

The Paired sample t- test is outlined as follows:

$$t = \frac{X1+X2}{\sqrt{\frac{S12+S22}{n1+n2}}}$$

Where

X1 = Mean of the performance indicators of the bank before M&A

X2 = Mean of the performance indicators of the bank after M&A

S12 = Sample variance of the performance indicators of the bank before M&A

S22 = Sample variance of the performance indicators of the bank after M&A

t = t- statistic

n = Sample size with n1 +n2 -2 degree of freedom

The variables used for analysis were capital, assets, management, earnings and liquidity.

These variables were not directly measurable. Consequently, they were proxied by other variables.

1. **Capital adequacy ratio (CAR)** defined as the ratio of bank's capital to asset was used as proxy for capital adequacy; it reflects the inner strength of the bank.
2. **Ratio of performing loans to total loans (RPL)** was used to measure assets quality.
3. **Return on assets (ROA)** defined as the ratio of net income after taxes to total assets, used as proxy for management efficiency. This ratio is an indicator of managerial efficiency; it indicates how capable the management of the bank has been converting the bank's assets into net earnings.
4. **Profit before tax (PBT)** was employed as substitute for earnings.
5. **Investment deposit ratio (IDR)** also known as liquidity ratio, was used in place of liquidity. The ratio is defined as the ratio of liquid assets

Data on the variables for the study covered the period 2010-2016. The year 2013, the deadline for the recapitalization, was taken as the base year while the period 2010-2012 was taken as the pre-merger period with the period 2014-2016 serving as the post-merger period.

The method of data analysis employed by this study was an adaptation of the CAMEL criterion used by Anderibom and Samuila (2015), which was published in the International Journal of Education and Research. It is also widely used for the evaluation of performance and ranking of banks. It assesses bank performance based on capital adequacy, assets quality, management efficiency, earnings and liquidity.

It was expected that the various performance indicator ratios of the bank for the period after mergers and acquisitions should be higher than those of the previous period. The values of the t-statistic were expected to be negative, indicating that the bank performance had improved after the mergers and acquisition exercise.

CHAPTER: FOUR

MERGER AND ACQUISITION IN NEPALESE BANKING SECTOR

4.1 Introduction

Liberalization in opening of banking and financial institution led to mushrooming of banking & financial institutions in Nepal. There were only two commercial bank in1984 A.D. and the banking facilities were mainly traditional type.

With the introduction of economic liberalization policy in 1984, banking sector expand add new facilities and introduce modern technology in banking service.

With commercial bank, the government allowed to open development banks, finance companies with the objective to increase people's access to financial institution. There are 32 commercial banks, 88 development banks, 69 finance companies, 24 micro-development banks as on Mid July 2012. The total numbers of branches of these institutions stands 1423 of commercial banks, 687 of development bank, 246 finance companies, more than 90 micro development bank) as on mid July 2012 (Bank Supervision Report 2012).

Permission for opening of Banks and financial institutions however have been executed with little research on requirement, possible offer available from these banks and financial institutions at people's level at urban and rural areas , viability level of the these institutions and capacity of regulating agency to monitor these institutions.

The result came out in few years. 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.

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.

In recent years, mergers and acquisitions have been the burning issue in the banking sector. Complying with the global scenario, Nepalese banks and financial institutions are currently going through the situation of merger and acquisition. The first banks to merge in Nepal were Himchuli Bikash Bank (category "B") and Birgunj Finance Limited ("C") on which the banks were renamed to H & B Development Bank Limited (National Level category "B") and the banking operation started from 6/15/2011 after merger. In Nepal, the banks have not gone for acquisition so far. The Banks and Financial Institutions Acquisitions Bylaw came into practice only from 2014 (Nepal Rastra Bank Allows Acquisitions of Financial Institutions, 2014). The following table shows the list of merger activities in Nepal so far:

S.N	**Name of financial institutions before merger**				**Name after merger**
1	Machhapuchhre Bank Ltd	Standard finance Ltd.			Machhapuchhre Bank Ltd.
2	Global Bank Ltd.	Lord Buddha Finance Ltd. IME Financial	Social Development Bank Ltd. Gulmi Bikash	Commertz and Trust Bank Nepal Ltd.	Global IME Bank Ltd.

		Institutions Ltd.	Bank Ltd.		
3	Pashupati Dev. Bank Ltd.	UddhyamBikash Bank			Axis Dev Bank Ltd
4	Butwal Finance Ltd.	Alpic Everest Finance Ltd.	CMB Finance Ltd.		Synergy Finance Ltd.
5	Annapurna Dev. Bank Ltd.	Surya Darshan Finance Ltd.			Supreme Dev. Bank Ltd.
6	Himchuli Development Bank Ltd.	Birgunj Finance Ltd.			H & B Development Bank Ltd.
7	Kasthmandap Dev. Bank Ltd.	Sikhar Finance Ltd.			Kasthmandap Dev. Bank Ltd.
8	Vibor Bikash Bank Ltd.	Vajuratna Finance Ltd.			ViborBikash Bank Ltd.
9	Business Development Bank Ltd.	Universal Finance Ltd.			Business Universal Dev. Bank Ltd.
10	Nepal Industrial and Commerical Bank Ltd.	Bank of Asia Ltd.			NIC Asia Bank Ltd.
11	DiyaloBikas Bank Ltd.	Professional Bikas Bank Ltd.			Professional DiyaloBikas Bank Ltd
12	Prabhu Finance Ltd.	Baibhav Finance Ltd.	SambridhiBikash Bank Ltd.		PrabhuBikas Bank Ltd.

13	Royal Merchant and Banking Finance Ltd.	Api Finance Ltd.	RaraBikas Bank Ltd.		Apex Dev. Bank Ltd.
14	Araniko Development Bank Ltd.	Surya Dev. Bank Ltd.			Araniko Dev. Bank Ltd.
15	ManakamanaDev. Bank Ltd.	Yeti Finance Ltd.	Valley Finance Ltd.		Yeti Dev. Bank Ltd.
16	Civil Bank Ltd.	Axis Dev. Bank Ltd.	Civil Merchant BittiyaSanstha Ltd.	Int'l Leasing & Fin, Co. Ltd	Civil Bank Ltd.
17	Reliable Finance Ltd.	Nepal Consumer Dev. Bank Ltd.	Subhalaxmi Finance Ltd.		Reliable Dev. Bank Ltd.
18	Reliance Finance Ltd.	Lotus Investment Finace Ltd.			Reliance Lotus Finance Ltd.
19	Imperial Finance Ltd.	Siddhartha Finance Ltd.			Siddhartha Finance Ltd.
20	BiratlaxmiBikas Bank Ltd.	Khandbari Development Bank Ltd			BiratlaxmiBikas Bank Ltd.
21	Lumbini Bank Ltd.	Navadurga Finance Ltd.			Lumbini Bank Ltd.
22	Bageshwori Dev. Bank Ltd.	Shangrila Dev. Bank Ltd.			Shangrila Dev. Bank Ltd

23	Kist Bank Ltd.	PrabhuBikas Bank Ltd.	Gaurishankar Dev. Bank Ltd.	Zenith Finance	Prabhu Bank Ltd.
24	Prabhu Bank Ltd.	Grand Bank Ltd.			Prabhu Bank Ltd.
25	Citizens Bank International Ltd.	Nepal Housing and Merchant Finance Ltd.	People's Finance Ltd.	Premier Finance Ltd.	Citizens Bank International Ltd.
26	TriveniBikas Bank Ltd.	Public Dev. Bank Ltd.	Bright Dev. Bank Ltd.		TriveniBikas Bank Ltd.
27	BishwaBikash Bank Ltd.	Fewa Finance Ltd.			FewaBikash Bank Ltd.
28	NDEP Development Bank Ltd.	Rising Dev. Bank Ltd.			Deva Bikas Bank Ltd.
29	MuktinathBikas Bank Ltd.	Civic Dev. Bank Ltd			MuktinathBikas Bank Ltd.
30	GarimaBikas Bank Ltd.	NilgiriBikas Bank Ltd.			GarimaBikas Bank Ltd.
31	Sagarmatha Merchant Banking & Finance Ltd.	Patan Finance Ltd.			Sagarmatha Finance Ltd.
32	Siddhartha Bank Limited	Business Development Bank Limited			Siddhartha Bank Limited

33	Mega Bank Limited	Paschimanchal Bikash Bank Ltd			Mega Bank Ltd
34.	Bank of Kathmandu Ltd	Lumbini Bank			Bank of Kathmandu Lumbini Ltd
35	NMB Bank Ltd.	Clean Energy Development Bank Ltd Prudential Finance Ltd.	Pathibhara Development Bank Ltd	Bhrikuti Development Bank Ltd	NMB Bank Ltd.
36	Nepal Credit and Commerce Bank Limited	Kumari Bank	Supreme Development Bank Limited	Infrastructure Development Bank Limited	**In Process**

Source: Nepal Rastra Bank (Upto mid July, 2016)

The NRB start merger to following reason:

- ✓ Paid up capital increment
- ✓ Financial Stability
- ✓ Increase in competitive strength
- ✓ Cost efficiency
- ✓ Increase in quality of banking services
- ✓ Reduction of unhealthy banking competition
- ✓ Increase in ability of banks to invest in huge commercial projects.

4.2 Laws of merger in Nepalese banking sector

Nepal Rastra Bank, the central bank of Nepal, has stated various conditions on which it can direct the banking and financial institutions for immediate merger. The conditions, obtained from the website of Nepal Rastra Bank under the policies titled “Merger By laws, 2073 (Including First Amendment)” on 2016 are:

1. If the various banking and financial institution are owned by the same family, relatives or groups.

2. If there is shortfall of capital, then the banking and financial institutions must go for merger (for this, the commercial banks are supposed to have capital adequacy ratio of 10 percent and development banks are supposed to have the capital adequacy ratio of 11 percent).

3. If the banking and financial institutions have been treated with reformatory punishment for three or more times.

4. If the banking and financial institutions are unable to fulfillment their responsibility of payments because of systematic risks

5. If the banking and financial scenario has better results if two or more banks get merged.

6. If there are chances of negative results in the financial situation of the country when the banks and financial institutions are allowed to perform in as-is basis.

7. BFIs who have not issued shares to general public are also eligible for merger and acquisition. Nevertheless, it is mandatory for the entity formed after merger or acquisition to have 30 percent shares owned by the general public.

8. 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.

9. NRB may take action against those BFIs who scrap merger or acquisitions after the initiation of the process.

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:

1. A, B, C, class financial institutions can merge with each other but the D class financial institutions can merge only with another same class financial institution.

2. Banking and Financial Institutions (BFI) that want to merge should delegate separate merger committees from their annual general meetings and sign a memorandum of understanding (MoU).

3. The due process including a MoU should be endorsed with an action plan before applying to the Nepal Rastra Bank for a Letter of Intent (LOI). The NRB should hold a meeting within 15 days of receiving the LOI application.

4. The NRB has a right to grant whether to approve the LOI or not after meeting discussion and detailed study of the concerned financial institution.

5. After receiving a LOI from the central bank a due diligence audit should be completed within six months.

6. The detailed evaluation comprising assets, liabilities and transactions of the concerned institutions should be submitted to the NRB

7. An agreement copy of the final decision regarding name, address and share ratio of concerned the BFIs should be submitted to the NRB.

8. An action plan of the concerned financial institution including date of operation after merger is completed should be submitted to the NRB.

4.3 Steps in merger process of Nepalese banks and financial Institutions

The steps in the merger process of Nepalese banks and financial institutions are:

1. **Formation of merger committee**

    There will be formation of the committee including the directors from all the BFIs that are subjected to merge.

2. **Special Annual General Meeting**

Here, the AGM will be held with the discussion of objectives and reasons to the shareholders. The decision will be taken into consideration only if majority of shareholders agree on it.

3. Memorandum of Understanding

It explains the future plans after merger backed up by at least two third of consensus and also is used as a tool for legal commitment. This is submitted to Nepal Rastra Bank for merger.

4. Application to Nepal Rastra Bank for merger

Application is submitted to Nepal Rastra Bank stating current positions of the companies and their future objectives after merger.

5. Due diligence report

Prepared by the independent third party audit firm, it explains the information regarding net worth, capital adequacy, liquidity condition, types of loans and the like of the companies

6. **Final approval**

The decision regarding merger is done by Nepal Rastra Bank based upon financial statements, memorandum of understanding, valuation of companies' asset and liabilities, location details and name of the companies about merge along with share valuation report, business plan after merger and the like.

4.4 Risk in merger and acquisition

Merger and acquisitions are not hundred percent risk free activities/achievements. With regards to various uncertain events there can be problems in or problems created by merger and acquisition. Clashes related to difference between organization cultures, inadequate information flows, lack of transparency etc. are the risks factors involved. Similarly, merger also means that there will be sharing of confidential information among the companies involved and by chance if the merger fails to occur, then it would result in the companies knowing things about each other that were supposed to be confidential.

A study was conducted by Nepal Rastra Bank (2015) among Nepalese banks with regards to the changes in risk management caused by merger and acquisition. Among the participants who were founders, 51.4 percent stated that the result was positive, 41.1 percent stated that the situation had not changed and 7.5 percent state that the situation had worsened. Among the participants who were employees and managers, 41.1 percent stated that the result was positive, 47.1 percent stated that the situation had not changed while 11 percent stated that the situation had worsened.

CHAPTER: FIVE

DATA PRESENTATION AND ANALYSIS

5.1 Introduction

This chapter deals with the presentation and analysis of data collected from different sources with the focus on the CAMEL components. As stated in the theoretical prescription, the financial performance analysis of Global IME bank Limited is concentrated in the five components of CAMEL i.e. Capital Adequacy, Assets Quality, Management Quality, Earning Quality and Liquidity. The data collected from annual reports of bank have been analyzed with the application of CAMEL.

5.2 Data Presentation and Analysis

The data collected from different sources has been defined and documented in Excel tables, which are further processed to analyze and arrived at the findings on the financial conditions of selected bank in terms of CAMEL Analysis. The major finding of the study on financial performance of Global IME bank is also described on each section and part of CAMEL analysis.

5.2.1 (C) Capital Adequacy

Capital adequacy ratio (CAR), defined as the ratio of bank's capital to risk weighted assets was used as proxy for capital adequacy; it reflects the inner strength of the bank. Minimum capital adequacy ratios have been designed to ensure banks can absorb a reasonable level of losses before becoming insolvent. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent. An FI should have adequate capital to support its risk assets in accordance with the risk-weighted capital ratio framework. It has become recognized that capital adequacy more appropriately relates to asset structure than to the volume of liabilities. Risk Weighted Assets, Core Capital and Supplementary Capital are major figures used to calculate Capital Adequacy Ratio.

In the context of Nepal, NRB has assigned following weight for following Assets of Banks.

0% Risk Weight Asset

Cash in Hand, Gold (Tradable), Balance with Nepal Rastra Bank, Investment in Government Bonds, Investment in NRB Bonds, Loan against own Fixed Deposit Receipt, Loan against Government Bonds, accrued Interest on Government and Bills for Collection.

10% Risk Weight Asset

Forward Foreign Exchange Contract

20% Risk Weight Asset

Balance with domestic Licensed Banks & Financial Institutions, Loan against other Banks F.D. receipt, Balance with Foreign Banks, Money at Call, Loan against Guarantee of International Rated Banks, Investments on International Rated Banks, L/C (Below 6months maturity) and Guarantee against International Bank Guarantee

50% Risk Weight Asset

L/C (Over 6 month's maturity), Bid Bonds and Performance Bond

100% Risk Weight Asset

Investments on Share, Debenture & Bonds, Other Investments, Loan, Advances & Bills Purchase/Discount, Fixed Assets, Other Assets, Net Other Interest Receivable (Gross Int. Receivable – Interest receivable on Govt. Bonds - Interest Suspense) , Financial Guarantee, Other Guarantee, Irrevocable Loan Commitment, Contingent Liability for Tax and Other Contingent Liability.

Capital Adequacy ratio calculated as follows:

Capital Adequacy Ratio (CAR) = $\frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} X100$

Table 4.1 is the observed Capital Adequacy Ratio during the study period in numerical terms which is presented below:

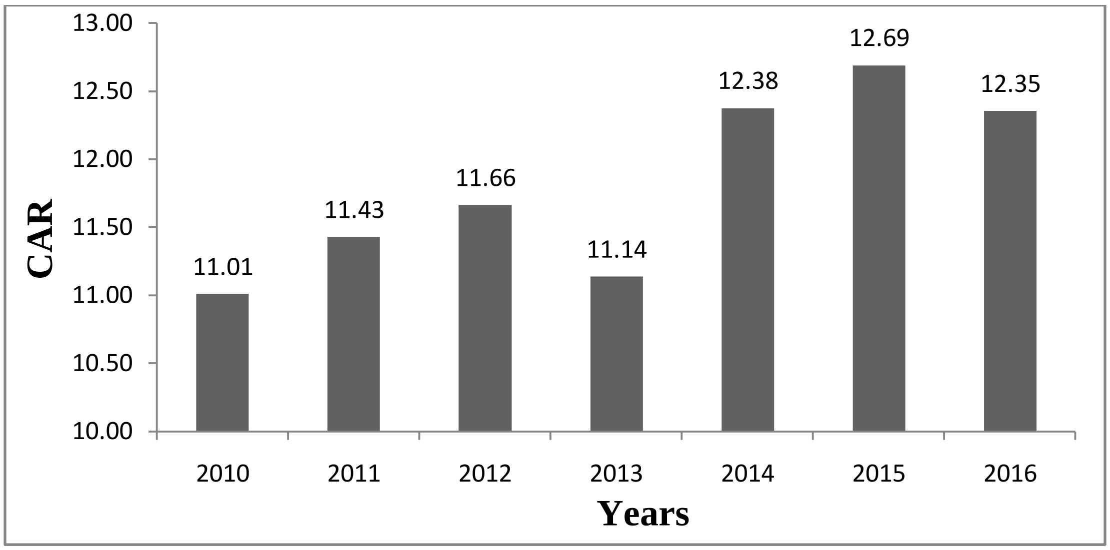
Table: 5. 1 Capital Adequacy Ratio

Fiscal Year	Total Capital Fund	Total Risk Weighted Assets	Capital Adequacy Ratio
2010	1,641,327,000	14,909,253,000	11.01
2011	1,823,045,000	15,952,952,000	11.43
2012	3,146,505,000	26,978,407,000	11.66
2013	3,894,582,000	34,969,452,000	11.14
2014	6,805,537,000	54,985,594,000	12.38
2015	7,908,636,000	62,313,066,000	12.69
2016	9,381,258,000	75,934,081,000	12.35

(Sources: Appendix 1)

Figure 5.1 is a bar diagram which represents the above tabulated numerical data which helps to compare the Capital adequacy Ratio of banks.

Figure: 5. 1 Capital Adequacy Ratio



As shown in the table 5.1 and figure 4.1, the Capital Adequacy Ratio of Global IME bank is 11.01 percent in 2010 where it is 11.43 percent in 2011. In 2012 it increases to 11.66 percent while it decrease in 2013 to 11.14 percent at the year of Merger. After the merger in 2014 bank CAR was at 12.38 percent, while in 2015 it was in its highest point 12.69 percent, but slight decreases to 12.35 percent in 2016.

Furthermore Chart 4.1 helps to find out the trend of bank Capital Adequacy Ratio over the last Seven years period.

Chart: 5. 1 Capital Adequacy Ratio

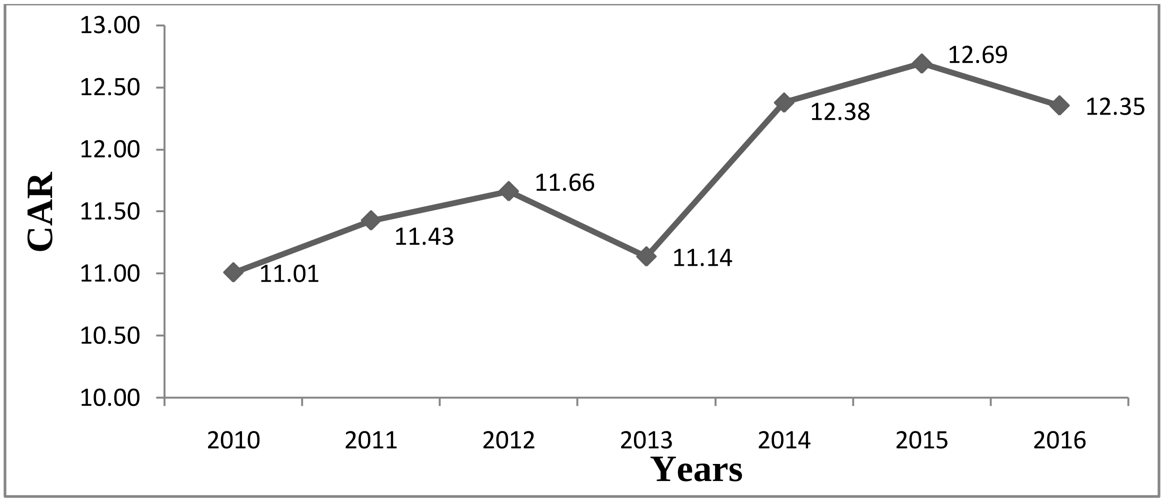


Chart 5.1 is the trend analysis of the bank over the seven years study period. It shows that bank capital adequacy ratio was 11.01 percent in 2010 and rose to 11.43 percent in 2011 and then, to 11.01% in 2012. This indicates an upward trend. However, in 2013, the year of the merger, the ratio decline to 11.14 percent and rose to its peak to 12.38 percent in 2014 and 12.69% in 2015, but slight decline to 12.3 percent in 2016. The fluctuation in the trend after the mergers may be attributed to the onslaught of continuous excessive liquidity and also the devastating earthquake that struck Nepal.

5.2.2 (A) Assets Quality

Commercial bank holds their assets in the form of liquid assets like cash and bank balance and short term investment etc. Through this lending bank generated interest. Assets quality ratio is also known as activity ratio as well as turnover ratio be converted in to cash and equivalent to cash. This is only profit if the bank is efficient enough to earn profit.

Ratio of Performing loans to total loans (RPL)

The ratio of performing loans to total loans (NPL) was used to measure assets quality. Performing loan refers to those loans which are not in or near default. According IMF, a performing loan is any loan in which; interest and principal payment are less than 90 days overdue; less than 90 day's worth of interest has been refinanced, capitalized or delayed by agreement; and continued payment is anticipated. All conditions must be present for a loan to be performing. However, the specific definition is dependent upon the loan's particular terms. It is calculated as follows:

$$\textbf{Performing Loan Ratio} = \frac{\text{Total Performing loan}}{\text{Total Loan } \& \textit{ Advances}} X100$$

Table 4.2 is the observed Non-Performing Loan Ratio of three banks during the study period in numerical terms which is presented below:

Table: 5. 2 Performing Loan Ratio

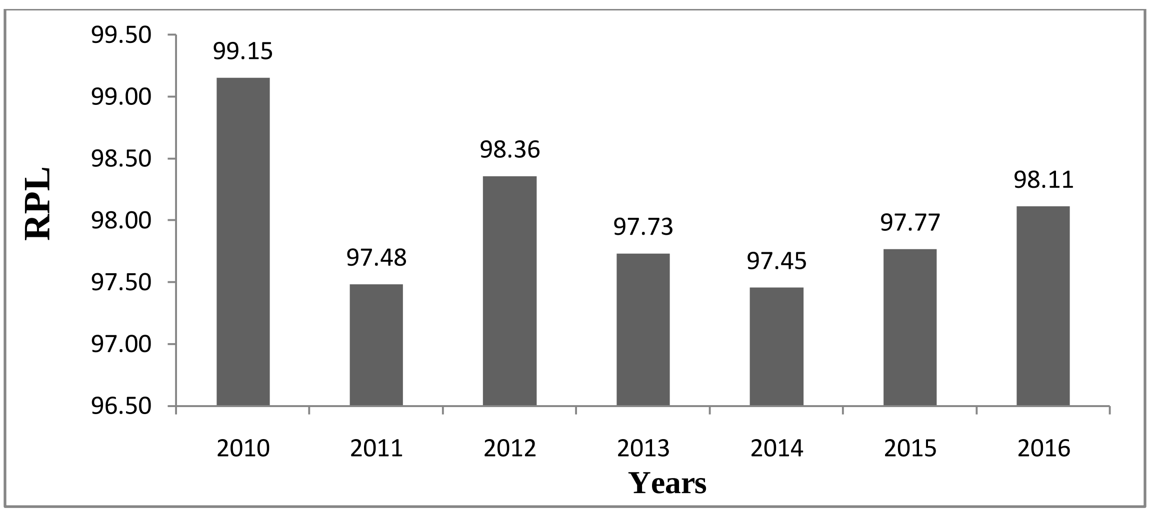
Fiscal Year	Total Performing Loan	Total Loan & Advances	Performing Loan Ratio
2010	12,060,439,773	12,163,635,545	99.15
2011	12,457,392,751	12,779,175,146	97.48
2012	20,423,860,479	20,765,181,747	98.36
2013	26,379,253,777	26,991,614,623	97.73
2014	41,923,809,501	43,018,763,076	97.45
2015	49,104,397,979	50,226,649,351	97.77

2016	59,692,346,103	60,841,363,744	98.11

(Sources: Appendix 1)

Figure 5.2 is a bar diagram which represents the above tabulated numerical data which helps to compare the Performing Ratio of bank.

Figure: 5. 2 Performing Loan Ratio



As shown in the table 5.2 and figure 5.2, the Performing Loan Ratio of Global IME bank is 99.15 percent in 2010 where as it is 97.48 percent in 2011, it increase to 98.36 percent in 2012 while it decreases in 2013 to 97.73 percent at the year of Merger. After the merger in 2014 bank performing loans was at 97.45 percent, while it was 97.77 percent in 2015, and again in 2016 it increases and reached to 98.11 percent.

Furthermore Chart 5.2 helps to find out the trend of bank Non-Performing Loan Ratio over the last Seven years period.

Chart: 5. 2 Performing Loan Ratio

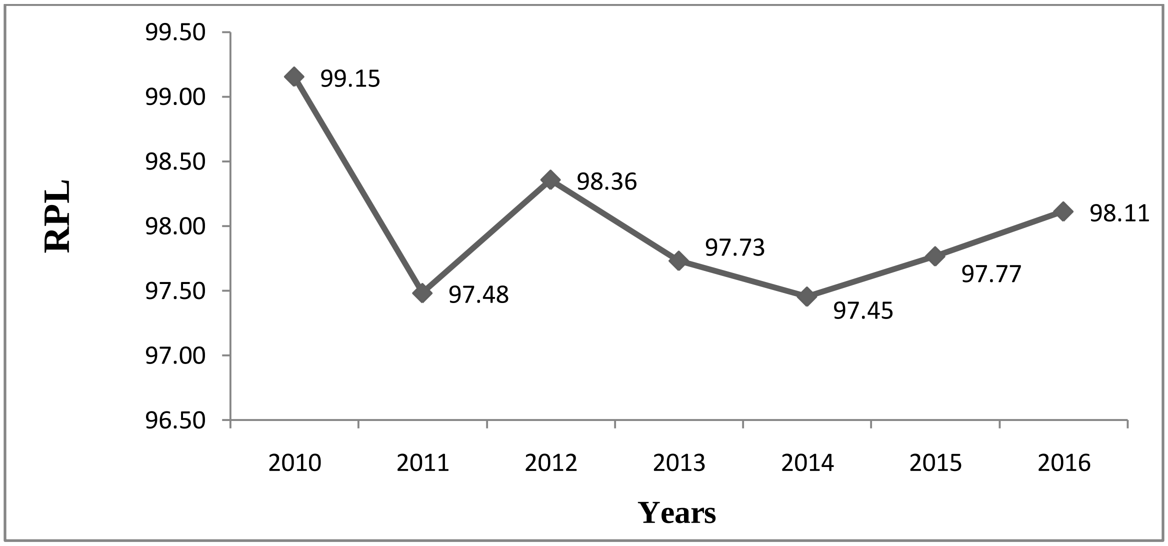


Chart 5.2 is the trend analysis of the bank over the seven years study period. It shows that bank Performing Loan Ratio was started with 99.15 percent in 2010 and decline to 97.48 percent in 2011 and then, it slightly increase to 98.36 percent in 2012. This indicates a small fluctuating trend of bank performing loan. However, in 2013, the year of the merger, the ratio decreases to 97.73 percent and further decline to 97.45 percent in 2014, which in 2015 increase to 97.77 percent, and increases to 98.11 percent in 2016 which is the highest point after the Merger. So, trend analysis shows there is fluctuation in the performing loan of bank.

5.2.3 (M) Management

The success of any institution depends on the competency of its management. In fact, the management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies.

Return on assets (ROA)

ROA defined as the ratio of net income after taxes to total assets, was used as proxy for management efficiency. This ratio is an indicator of managerial efficiency; it indicates how capable the management of the bank has been converting the bank's assets into net earnings. Higher ROA shows the better utilization and management on the assets and extend profit level. This ratio depicts how efficiently a bank management is utilizing and mobilizing its assets to generate profit. It is calculated as follows:

$$\textbf{Return on Assets (ROA)} = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \text{X}100$$

Table 4.3 is the observed Return on Assets of the bank during the study period in numerical terms which is presented below:

Table: 5.3. Return on Assets

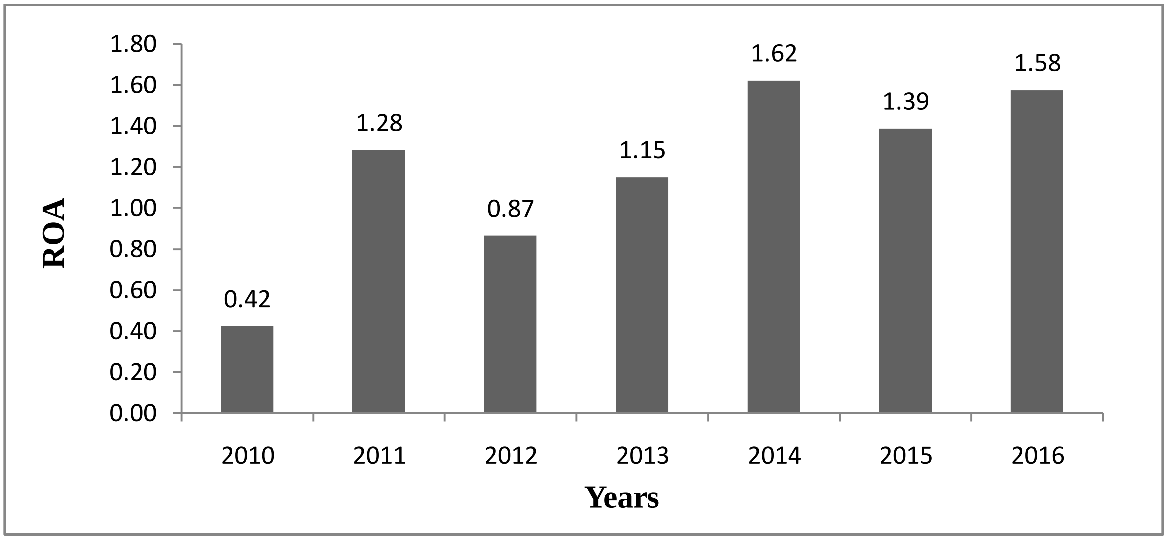
Year	Net Profit After Tax	Total Assets	ROA
2010	73,003,292	17,201,415,486	0.42
2011	224,977,751	17,522,708,435	1.28
2012	265,316,025	30,664,113,427	0.87
2013	449,218,454	39,018,489,785	1.15
2014	974,037,010	60,018,207,850	1.62
2015	960,608,067	69,186,488,883	1.39

2016	1,382,223,998	87,701,310,349	1.58

(Sources: Appendix 1)

Figure 5.3 is a bar diagram which represents the above tabulated numerical data which helps to compare the Return on Assets of banks before and after Merger.

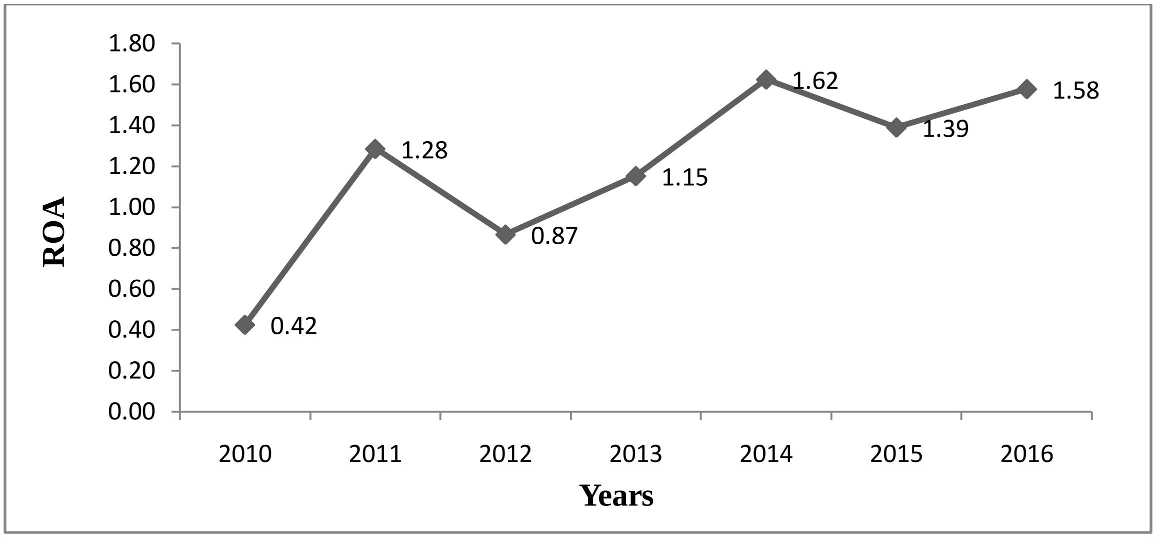
Figure: 5. 3 Returns on Assets



The bank's return on assets was 0.42 percent in 2010 to 1.28 percent in 2011and to 0.87 percent in 2012 to 1.15 percent in 2013 the year of the merger and increase to 1.62 percent in 2014 and then fell to 1.39 percent in 2015. It rose to 1.58 percent in 2016.

Furthermore Chart 5.3 helps to find out the trend of bank Return on Assets over the last seven years period.

Chart: 5. 3. Return on Assets



The bank returns on assets increase from 0.42 percent in 2010 to1.28 percent in 2011. It decline in 2012 to 0.87 percent but in 2013 the year of the merger it start to rose 1.15 percent. Continue increase to 1.62 percent in 2014 and then fell to 1.39 percent in 2015. It rose to 1.58 percent in 2016. The fluctuation in the trend after the mergers is attributed to the onslaught of continuous excessive liquidity and also the devastating earthquake that struck Nepal.

5.2.4 (E) Earnings

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings.

Profit before tax (PBT)

PBT was employed as substitute for earnings; higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following is the expression of PBT:

$$\textbf{Profit before Tax (PBT)} = \frac{\text{Profit Before Tax}}{\text{Total Profit Before Tax}} X100$$

Table 5.4 is the observed Profit before Tax of the bank during the study period in numerical terms which is presented below:

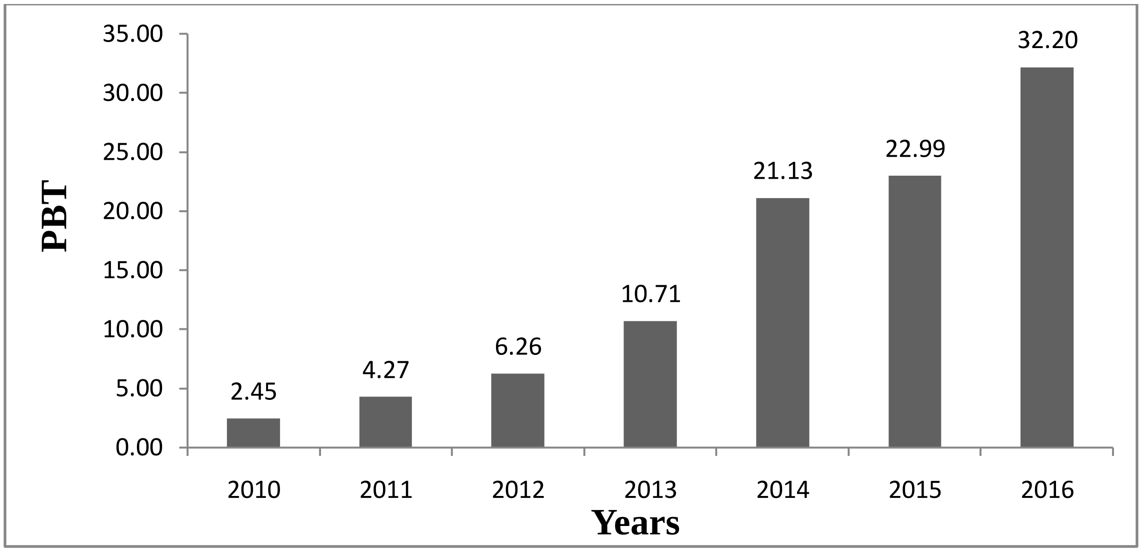
Table: 5. 4. Profit before Tax

Year	PBT	Total PBT	PBT Ratio
2010	164,209,462	6,702,009,796	2.45
2011	286,319,078	6,702,009,796	4.27
2012	419,253,262	6,702,009,796	6.26
2013	717,594,486	6,702,009,796	10.71
2014	1,415,853,725	6,702,009,796	21.13
2015	1,540,816,094	6,702,009,796	22.99
2016	2,157,963,689	6,702,009,796	32.20

(Sources: Appendix 1)

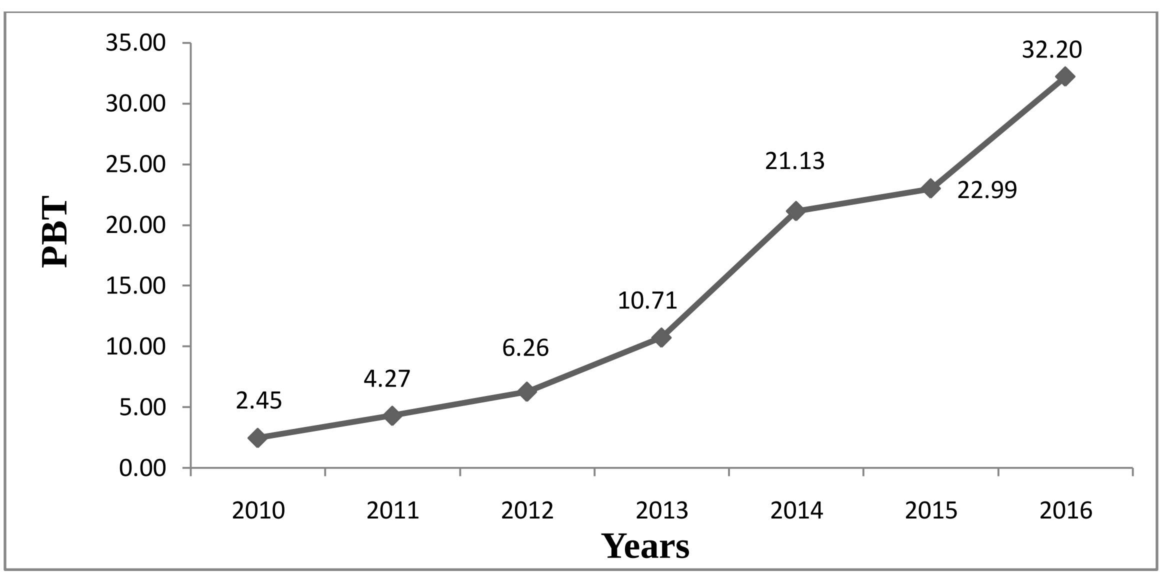
Figure 5.4 is a bar diagram which represents the above tabulated numerical data which helps to compare the Profit before Tax ratio of banks before and after Merger.

Figure: 5.4. Profit before Tax



The bank's profit was 2.45 percent in 2010 which increase in 2011 to 4.27 percent, and it increases to 6.26 percent in 2012. The merged year its profit again increase to 10.71 percent in 2013 and further increase to 21.13 percent in 2014 and then continue to increase 22.99 percent in 2015. It rose to 32.20 percent in 2016 which is also a highest point among the study years. Furthermore Chart 5.4 helps to find out the trend of bank Profit before tax over the last seven years period.

Chart: 5. 4. Profit before Tax



For a large part of the period under review, the bank's profit before tax increased steadily, rising from 2.45 percent to 4.27 percent respectively in 2010 and 2011. It further shows the increasing trend to 6.26 percent just the year before merger in year 2012 it again increase to 10.71 in 2013, it continuously rose to 21.13 percent in the year 2014 followed by 22.99 percent in 2015. Then it recorded the highest annual percentage increase of 32.20 percent 2016. The trend is depicted in Chart 4.5.The increasing trend of profit after the merger was due to again merge of financial institution.

5.2.5 (L) Liquidity

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement.

Investment Deposit Ratio (IDR)

Investment deposit ratio (IDR), also known as liquidity ratio, was used in place of liquidity. The ratio is defined as the ratio of liquid assets [cash + deposit with NRB + Treasury Bills + investments in money market (money at call, commercial paper, bankers' acceptances, bills discounted)] to total deposits. This ratio calculated as:

Investment Deposit Ratio (IDR) = $\dfrac{\textbf{Total Investment}}{\textbf{Total Deposit}}\,\mathbf{X100}$

Table 5.5 is the observed Investment Deposit Ratio of the bank during the study period in numerical terms which is presented below:

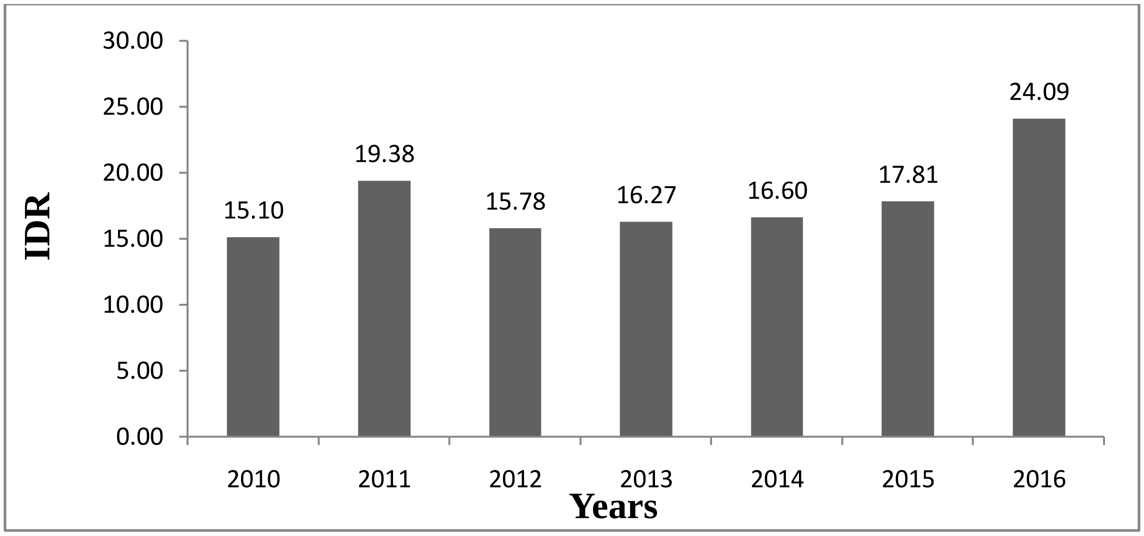
Table: 5.5. Investment Deposit Ratio

Year	Investment	Deposit	IDR
2010	2,270,487,367	15,031,548,347	15.10
2011	2,920,246,931	15,066,490,196	19.38
2012	4,247,059,978	26,913,765,174	15.78
2013	5,548,946,217	34,111,465,761	16.27
2014	8,680,784,385	52,292,058,154	16.60
2015	10,717,061,403	60,175,983,690	17.81
2016	17,990,717,999	74,682,917,216	24.09

(Sources: Appendix 1)

Figure 5.5 is a bar diagram which represents the above tabulated numerical data which helps to compare the Profit before Tax ratio of banks before and after Merger.

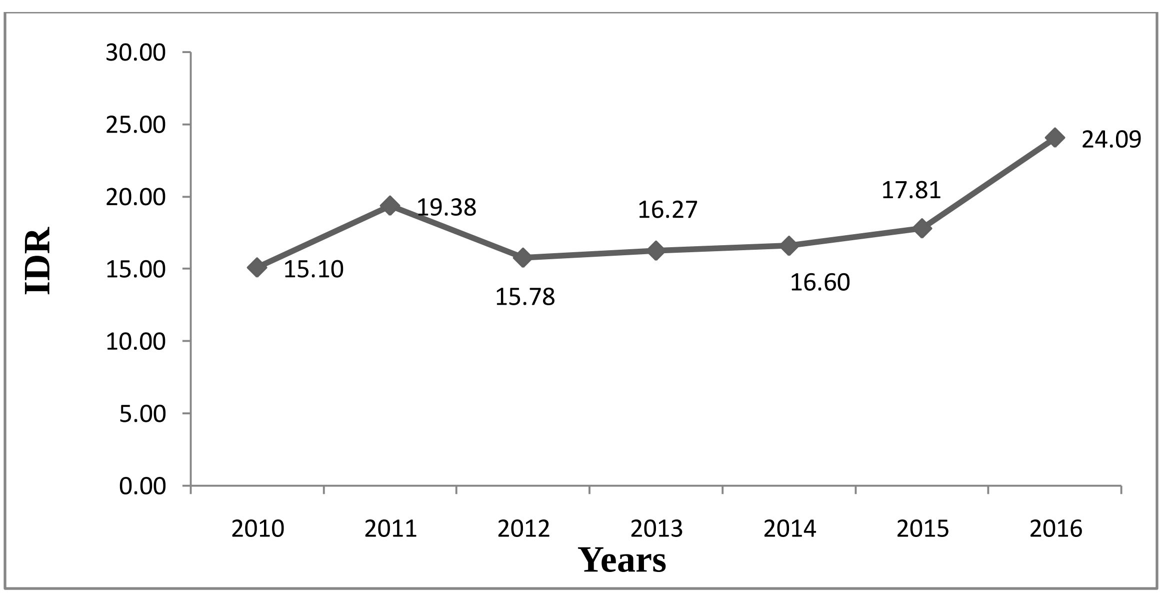
Figure: 5.5. Investment Deposit Ratio



As shown in the table 5.5 and figure 5.5, the Investment Deposit Ratio which is 15.10 percent in year 2010, where as it increases to 19.38 percent in 2011, but decrease to15.78 percent in 2012 in the year of merger in 2013 it was 16.27 percent, and again in 2014 reaches to 16.60 percent. In 2015 it raises to 17.81 percent in year 2016 it roses to 24.09 percent.

Furthermore Chart 5.5 helps to find out the trend of bank Investment Deposit Ratio over the last seven years period.

Chart: 5. 5. Investment Deposit Ratio



The bank's investment deposit ratio showed a generally shows increasing trend. Starting from 15.10 percent in 2010, the ratio rises to 19.38 percent in 2011where as it decrease in 2012 to 15.78 percent. But again starts to rise in 2013 and 2014 as 16.27 percent, 16.60 percent respectively. It was continuously increasing in 2015 to 17.81 percent and further rose to 24.09 percent in 2016. The fluctuation in bank IRD after the merger was due to the merge of another commercial bank with Global IME bank.

Table: 5. 6 Mean of Global IME Bank performance ratios before and after the exercise

Ratio	Pre mergers period	Post Merger Period
CAR	11.37	12.47
RPL	98.33	97.78
ROA	0.86	1.53
PBT	4.33	25.44
IDR	16.75	19.50

(Sources: Appendix 2)

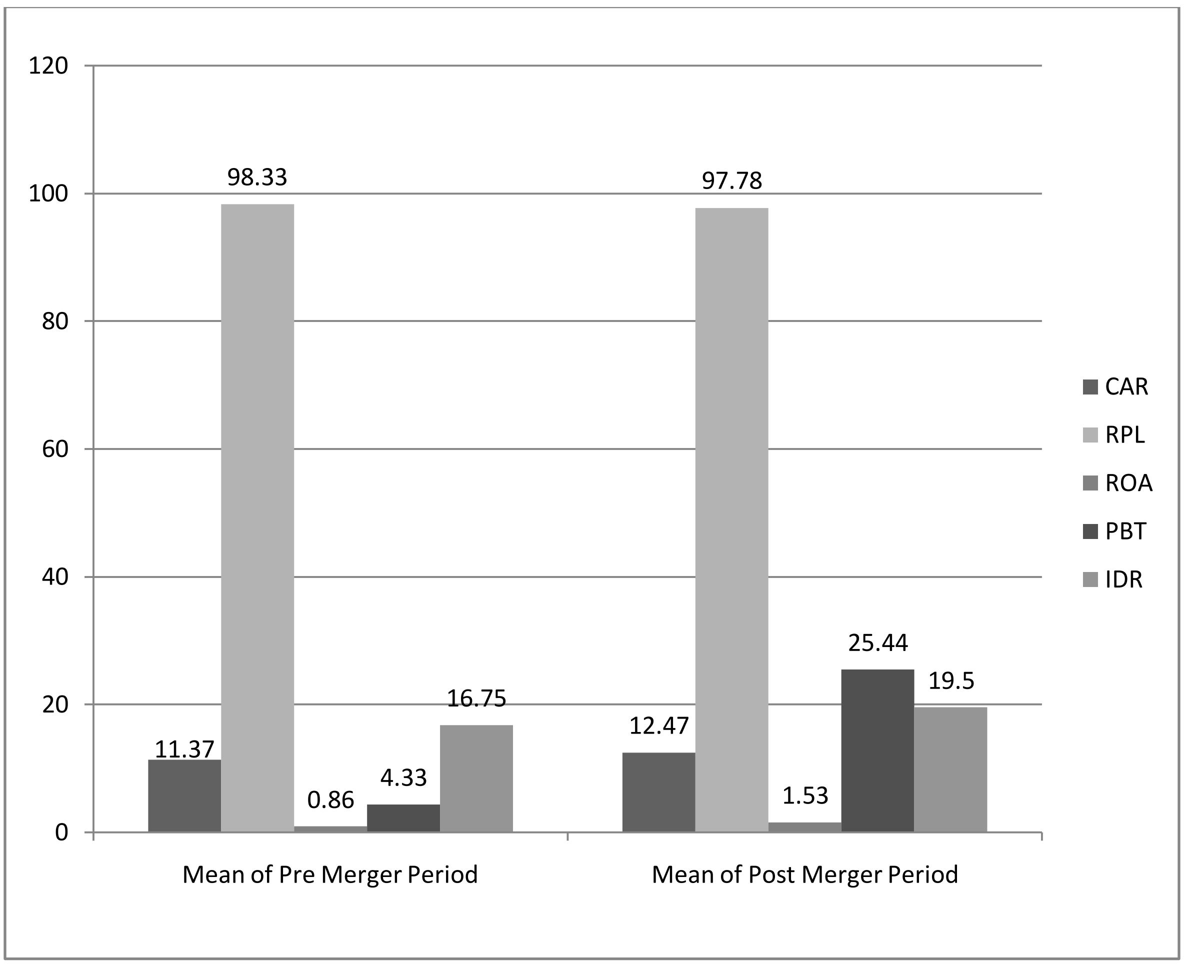
Since the mean of the CAR for the period after the mergers and acquisition as presented in Table 5.6 and figure 5.6 is higher than the mean before the exercise, we can say that the exercise had improved the performance of the bank in terms of capital adequacy.

Furthermore, it is evident that the exercise had not improved the bank performance in terms of assets quality since the mean of the period before the exercise is greater than that of the period after.

Based on the findings of Table 5.6 and figure 5.6, we conclude that the exercise had improved the performance of the bank in term of management competency since the mean of the ratio for the period after the exercise is greater than that of the period before the exercise.

As the mean ratio of PBT for the period after the exercise is greater than that of the period before the exercise, we conclude that the exercise had improved the bank performance in term of earnings efficiency.

Figure: 5. 6 Mean of Global IME Bank performance ratios before and after the exercise



Furthermore, it is evident from Table 5.6 and Chart 5.6 that the exercise had improved the performance of the bank in terms of liquidity efficiency since the mean of IDR for the period after the exercise is greater than that of the period before the exercise.

Thus, it shows that the merger and acquisition is done to improve the bank overall performance the result shows that period after the exercise is greater than that of the period before the exercise.

5.3 Testing of hypothesis

Figure: 5. 7 Pair sample t-test output

Performance indicators Before and After Merger		**Mean**	**Mean Difference**	**Standard Deviation**	**t-Cal Value**	**Prob (one-tail)**	**Prob (two-tail)**	**t-Critical Value(∝)**
CAR	Before	11.37	-1.1	0.66	-5.27	0.02	0.03	1.96
	After	12.47						
RPL	Before	98.33	0.55	0.60	1.92	0.07	0.15	1.96
	After	97.78						
ROA	Before	0.86	-0.67	0.42	-2.12	0.08	0.17	1.96
	After	1.53						
PBT	Before	4.33	-21.11	11.26	-8.74	0.01	0.01	1.96
	After	25.44						

IDR	Before	16.75	-2.75	3.09	-0.94	0.22	0.45	1.96
	After	19.5						

Source: Extract from Excel.

The research hypothesis states that there is no significant difference in the performance of Global IME Bank before and after the mergers and acquisitions exercise. The study used the CAMEL criterion for measuring bank performance - capital adequacy, assets quality, management competency, earnings, and liquidity efficiency – to test this hypothesis. Appropriate proxies were used where the variables could not be observed directly. The test statistic was the paired sample t-statistic. The results for the various ratios before and after the mergers and acquisitions are presented in Table 5.7. As stated earlier, the decision rule is to reject H_0 if the absolute value of the calculated t-ratio is greater than 2.447 which is the critical value of the t distribution at the 5% level of significance with 6 degrees of freedom. Otherwise, H0 is accepted.

Table 5.7 shows that the mean difference of the bank's capital adequacy ratio is -1.1. With a *t* -ratio of -5.27, the difference is statistically significant, indicating that the bank is more capital adequate after the mergers and acquisitions. Hence, it can be concluded that mergers and acquisitions had improved the bank's performance in terms of capital adequacy.

Table 5.7 shows that the mean difference of the bank's ratio of performing loans to total loans which measures the assets quality of the bank is 0.55 with a *t*- ratio of 1.92. This indicates that the bank's assets quality has not improve after the merger period while the *t*-ratio does not exceeds its critical value shows that this difference was statistically insignificant. Hence, mergers and acquisitions had neither significantly improved nor worsened in terms of asset quality.

The return on assets which measures the bank's management competency yielded a mean difference of -0.67 with a *t*-ratio of -2.12. Since the *t*-statistic is less than its critical value of 2.447, the difference in the performance of the bank in terms of management efficiency is not statistically significant. In other words, mergers and acquisitions had neither significantly improved nor worsened the competency of the bank's management.

The mean difference of the ratio of the bank profit before tax was -21.11 with a *t*- ratio of -8.74 indicating that the bank fared significantly better after mergers and acquisitions in terms of earnings.

The bank's liquidity measured by its investment deposit ratio for the period under review gave a mean difference of -2.75 with a *t*-ratio of -0.94. This implies that the bank performed better in terms of liquidity after the mergers and acquisitions as mean ratio after merger is greater. Furthermore, the *t*-statistic ratio of bank is -0.94, shows that the performance is not statistically significant. Hence, there was no significant difference in the performance of the bank in terms of liquidity efficiency.

Thus, the null hypothesis is accepted. Consequently, it is concluded that there is no difference in the performance of Global IME Bank before and after the mergers. More specifically, Global IME Bank performed after the mergers and acquisitions had neither significantly improved nor worsened the competency of the bank's as its competent has improved.

CHAPTER- SIX

SUMMERY, CONCLUSION AND RECOMMENDATION

6.1 Summary of the Findings

The main object of the study is to identify whether the financial performance of the selected merged commercial bank improved after the merger. Moreover, to identify the financial performance the CAMEL criteria was used and their trend were analyze.

To fulfill the objective of the study, Global IME bank was selected and the data on the variables for the study covered the period 2010-2016. The year 2013, the deadline for the recapitalization, was taken as the base year while the period 2010-2012 was taken as the pre-merger period with the period 2014-2016 serving as the post-merger period. The secondary data were used to compare which is collected through published annual report of the bank. The summary of the study are as follow:

- The M&A activities are increasing in Nepalese Banking and Financial Institutions. It is basically due to the Merger bylaws 2011 imposed by NRB on Nepalese BFIs.
- Initially the NRB had to apply force merger for the BFIs, which were not performing well in the market. Later BFIs themselves opted for merger activities. The basic reasons were liquidity crunch, capital requirement and open market.

Capital adequacy ratio (CAR)

Capital Adequacy Ratio of bank is 11.01 percent in 2010 where it is 11.43 percent in 2011. In 2012 it increases to 11.66 percent while it decrease in 2013 to 11.14 percent at the year of Merger. After the merger in 2014 bank CAR was at 12.38 percent, while in 2015 it was in its highest point 12.69 percent, but slight decreases to 12.35 percent in 2016.

The mean of the CAR for the period after the mergers and acquisition 12.47, is higher than the mean before the exercise 11.37, we can say that the exercise had improved the performance of the bank in terms of capital adequacy. With a *t* -ratio of -5.27, which is greater than that of its absolute value 2.447, the difference is statistically significant, indicating that the bank is more capital adequate after the mergers and acquisitions.

Ratio of performing loans to total loans (RPL)

The Performing Loan Ratio of the bank is 99.15 percent in 2010 where as it is 97.48 percent in 2011, it increase to 98.36 percent in 2012 while it decreases in 2013 to 97.73 percent at the year of Merger. After the merger in 2014 bank performing loans was at 97.45 percent, while it was 97.77 percent in 2015, and again in 2016 it increases and reached to 98.11 percent.

It is evident that the exercise had not improved the bank performance in terms of assets quality since the mean of the period before the exercise is greater than that of the period after. With a *t*-ratio of -2.12, since the *t*-statistic is less than its critical value of 2.447, the difference in the performance of the bank in terms of management efficiency is not statistically significant.

Return on assets (ROA)

The bank returns on assets increase from 0.42 percent in 2010 to1.28 percent in 2011. It decline in 2012 to 0.87 percent but in 2013 the year of the merger it start to rose 1.15 percent. Continue increase to 1.62 percent in 2014 and then fell to 1.39 percent in 2015. It rose to 1.58 percent in 2016.

The exercise had improved the performance of the bank in term of management competency since the mean of the ratio for the period after the exercise is 1.53 percent, which is greater than that of the period before the exercise which is 0.86 percent. With a *t*-ratio of -2.12, since the *t*-statistic is less than its critical value of 2.447, the difference in the performance of the bank in terms of management efficiency is not statistically significant.

Profit before tax (PBT)

The bank's profit was 2.45 percent in 2010 which increase in 2011 to 4.27 percent, and it increases to 6.26 percent in 2012. The merged year its profit again increase to 10.71 percent in 2013 and further increase to 21.13 percent in 2014 and then continue to increase 22.99 percent in 2015. It rose to 32.20 percent in 2016 which is also a highest point among the study years.

As the mean ratio of PBT for the period after the exercise 25.44, which is greater than that of the period before the exercise is 4.33 percent, we conclude that the exercise had improved the bank performance in term of earnings efficiency. With a *t*- ratio of -8.74 indicating that the bank fared significantly better after mergers and acquisitions in terms of earnings.

Investment deposit ratio (IDR)

The Investment Deposit Ratio which is 15.10 percent in year 2010, where as it increases to 19.38 percent in 2011, but decrease to15.78 percent in 2012 in the year of merger in 2013 it was 16.27 percent, and again in 2014 reaches to 16.60 percent. In 2015 it raises to 17.81 percent in year 2016 it roses to 24.09 percent.

The exercise had improved the performance of the bank in terms of liquidity efficiency since the mean of IDR for the period after the exercise 19.50 percent, which is greater than that of the period before the exercise which is 16.75 percent. With the *t*-statistic of -0.94 shows that the performance is not statistically significant.

6.2 Conclusion

The purpose of this research is to study the impact of merger and acquisition in the performance of commercial bank when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. It assesses and evaluates the impact of M&A on the performance of bank through CAMEL criterion.

From this study, it is concluded that, the bank is running with the adequate capital as NRB directive include minimum 11 percent CAR. So the bank is capitally sound and sufficient to meet the banking operation as per the NRB standard. Bank capital has bettered after the merger with negative mean and it was also was statistically significant.

The decreasing trend of performing loans ratio helps to conclude that the in week in term of asset quality after the merger as its mean before the merger is greater.

The increasing of ROA concludes that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to converting the bank's assets into net earnings is increasing.

Merger has created noticeable positive impact on earning position of the bank as the bank PBT have shown massive improvement which in terms reduce liquidity risk as well.

The bank's liquidity measured by its investment deposit ratio implies that mean difference indicates that the bank liquidity was more competent before the mergers and acquisitions. However, the performance of the bank in terms of liquidity is not statistically significant.

There are mixed evidences from researchers on the performance of bank in term of mergers and acquisitions, as Capital and Earning shows that the bank performance has improved as it was statistically significant but as Assets, Management, Liquidity mean difference indicates that the bank was more competent after the mergers and acquisitions. However, the performance of the bank has not improved after the merger as it is not statistically significant.

It may be the cause of the onslaught of continuous excessive liquidity, non-existent investment avenue, the devastating earthquake and the India imposing an undeclared blockade on Nepal in 2015. As all performance has improved after the merger but in 2015 they have all decreased and are improving in further year.

6.3 Recommendation

Based on the findings, the following recommendations have been made:

1. Capital Adequacy Ratio of bank is as per Nepal Rastra Bank standard over the review period but is in fluctuating trend. So maintain stable if possible, this is necessary as a higher CAR connotes a stronger the bank.
2. The assets quality of bank is not satisfactory. So, the recommendation is to maintain Performing loan ratio as higher as possible.
3. The management efficiency seems to be satisfactory. So, the recommendation is that the Global IME Bank should increase Net Profit after Tax than that of its total assets.
4. The earning of bank is in increasing trend. So, it is recommended that to increase more profit of the bank should minimized its operating cost by increasing the operating efficiency of its employees. Which in return also increase bank assets quality and management efficiency.
5. The bank should improve its investment. The bank should invest its depositor money wisely to enhance its income. Which will improve the banks Liquidity position.
6. The NRB has to carry out frequent appraisals and reappraisals so to know the bank performance of merged bank. So, it is done to know their financial status which will be helpful for formulating new or changing the existing merger by law policies.
7. This study was restricted to Global IME Bank. It may be necessary to extend the analysis to other banks. This would provide a basis for comparison.

Finally, this study is mainly concentrated towards the performance of commercial bank which has enter into merger and acquisition in Nepal with special reference to Global IME Bank, which is very important current issue of Nepalese economy. As large number of banks are into the merger activities to enhance its operation. Therefore, this study can be helpful for other commercial bank which are about to go through or want to strength its operation through Merger and acquisition.

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