



Financial performance analysis of pre-post merger of commercial bank in Nepal

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Abstract

The increase in mergers and acquisitions as a way of expanding business externally is a result of the growing trend of nations embracing higher levels of liberalization, globalization, privatization, and deregulation. This study examined the pre-post financial merger performance of commercial banks in Nepal in an effort to close a knowledge gap in the field. The research design used is descriptive; with a sample population of eight merged commercial banks in Nepal. To study the financial performance of merged banks, capital adequacy ratio, non-performing loan, spread ratio, net profit margin, return on assets, return on equity, earning per share, and cash to total assets ratio were examined. Among this variables there is positive change in capital adequacy ratio, return on equity and cash to total assets ratio, where as there is negative change in non-performing loan, spread ratio, net profit margin, return on assets, and earnings per share. From the eight sample banks, it appears that the merger and acquisition has positive impact on Global IME bank limited, Prabhu bank limited and Sanima bank limited, where as negative impact on NIC ASIA bank limited, Bank of Kathmandu limited, NMB bank limited, Laxmi bank limited and Mega bank limited.

Further, in future the area of merger and acquisition will be vast. More and more banks and financial institutions will go under merger and acquisition. Therefore, it will be complex to study the financial performance of merged banks. Hence, the researcher or students should adopted more variables, for measuring the financial performance of concerned bank. For successful merger and acquisition, banks need to identify factors affecting the financial performance in the area of merger and acquisition. The outcome of this research could provide better analysis regarding the pre-post merger and acquisition changes on financial performance and could be beneficial to financial institutions, other academic researcher, management consultant, and financial consultant.

Keywords: merger & acquisition, financial performance

Introduction

The history of Nepalese banking industry began in 1937 AD with the establishment of the Nepal Bank Limited as the country's first commercial bank with shared ownership by the government and the general public. The Nepalese financial industry has seen significant changes in the financial sector rules and regulations during the past 50 years since the establishment of Nepal Bank Limited. Many foreign banks have formed joint venture banks in Nepal as a result of economic liberalization and a shift in emphasis toward the development of the private sector, and the Nepalese financial system has seen a great growth of the banking industry as a result of the 1980s' liberalized economic policies. After restoration of democracy, the government of Nepal has taken liberal policy in banking sector. Liberalization in banking sector started after 2040 B.S. Mergers and acquisitions (M&A) have become a globally acknowledged phenomenon. To gain the competitive advantage and increase the profit, the organizations takes the path to enter into business with other companies either by selling off the unprofitable divisions or by acquiring assets like technology, skilled workforce, etc. The recent past witnessed a rise in the number and capital investment in M&A deals across all over the world including Nepal.

Merger & acquisition have been considered synonymous because both terms serve a similar purpose, i.e., achieving sustainable performance. Hogan and Overmyer-Day (1994) provide evidence that merger associates business assets,

giving equal control via an agreement, and acquisition includes purchasing of business assets of one organization by the other as a complete buyout. The difference between merger and acquisition can be explained by the mode adopted by the firms while collaborating (Roberts *et al.*, 2003). Therefore, due to the evidence of the previous research, M & A are taken as a substitute for one another in the current study.

Merger and acquisition is a very important tool for the expansion of business in different countries and the researchers from all over the world are taking interest to work in this field (Goyal and Joshi 2011). If we go into the history of Merger and Acquisition, M & A were started from the United States back in the eighteen century. In Europe, the M & A begins in nineteen century (Focarelli, Panetta and Salleo 2002). Maximum research on M & A has been done in the United States and Europe market. Comparatively little research work had been done on M & A in the developing countries like Pakistan, India, Malaysia and Bangladesh etc.

According to Singh (1971), a takeover is a business practice wherein one firm takes over the other and controls more than 50% of the equity of the acquired firm. A merger is when at least two firms are combined as a new legal entity. As per this definition, it can be $a+b=c$. Viewed from this angle, where there is a balance of power between the merging enterprises, it can be a new entity with a different name after the merger. The M&A can closely relate to various types of integration between various business

entities. These integrative transactions can range from one firm merging with another, one firm taking control over the other firm or firms, or even the managers of the organization takeover the acquisition of a firm (Linn & Mc Connell, 1983). According to Hampton (1989), a combination of two or more business entities in which one of the entities survives. However, as per this definition, $a+b = a$ or b or c . From this definition, it can be presumed that the balance of power is lacking, and one firm is dominant compared to the other entities. "Firms are increasingly using mergers and Acquisitions to strengthen and maintain their position in the marketplace" (Schuler & Jackson, 2001). "It appears that it has become impossible in our global environment for firms to compete with others without growing and expanding through deals that result in mergers or acquisitions" (Schuler & Jackson, 2001).

The Nepalese financial sector has been experiencing significant changes since the 1980s when the government adopted the financial sector liberalization process (Gajurel & Pradhan, 2012). Flexible licensing policy and deregulation in the financial sector encouraged foreign joint venture banks, domestic private banks, and finance companies to operate in the Nepalese Market (Gajurel & Pradhan, 2012). The trend of establishing banks and financial institutions (BFIs) grew more and more. By December 2011, the number of commercial banks, development banks, and finance companies reached 31, 87, and 79, respectively.

Mergers and acquisitions are vital tools to facilitate the financial industry's sound and efficient performance while subjugating the system's underlying problems. The instrument also plays a crucial role in bringing down the cost of operations and increasing the market competitiveness and profitability of the firms (Gautam, 2016).

Objective of the study

- To examine whether the profit position changes after the merger.
- To measure the capital adequacy position of the banks before merger.

Review of Literature

Empirical Review

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.

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.

Patel (2017) ^[41] compared the pre- and post-merger financial performance of selected Indian banks from 2003-2004 to 2013-2014. The research found that the merger had a negative impact on measures of profitability such as return on equity, return on assets, net profit ratio, and yields on advances and investments. On the other hand, variables like earnings per share, profit per employee, and business per employee showed positive growth after the merger.

Harrison *et al.* (1991) ^[9] analyzed the post-acquisition performance of 1100 US firms in the period of 1970-1989 and demonstrates that the acquisition remains beneficial for the acquiring firms & resulted in improvement of profitability ratios.

Lees (1992) found that the merger remains beneficial for the acquiring firm and in the post-merger period the profitability has increased with higher rate as compared to the pre-merger period. Shanmugam and Nair (2004) analyzed the impact of merger on financial performance of 54 Malaysian banks. By applying the paired t-test on 1990-2000 data, it is found that merger has strengthened the financial position of banks and resulted in improvement in profitability ratios.

Feroz *et al.* (2005) ^[8] found that financial performance enhanced significantly after merger. The financial ratios are in improved version after merger. Mumcu and Zenginobuz (2005) examine the pre- and post-merger financial performance of the Turkish banking industry. They find that merger has significant and positive impact on financial performance and resulted in improved profitability.

Kilic (2011) examined the pre- and post-merger financial performance of 10 Turkish banks using data envelopment analysis and finds positive impact of merger on profitability. After the merger, the financial performance improved pointedly

Francoeur *et al.* (2012) using the 1990 to 2003 data of Canadian firms, found that the merger improves the profitability. The profitability ratios increases significantly after the merger and shows better results.

Meghouara and Sbai (2013) find that the merger of the commercial bank of morocco remains beneficial. The profitability ratio increased significantly after the merger.

Marengo (2012) ^[37], conducted the thesis on the impact of mergers and acquisition on the financial performance of commercial banks in kenya. The study set to establish whether the many mergers that have happened in Kenya's banking Sector had influenced financial performance based on the causal research design. This study covers 28 commercial banks mergers during the period of 1994 to 2010 as a population. Collect the data from financial statement of selected banks. This study concluded that merger/acquisition brings about higher capital and customer base which important ingredients in firm performance. With increased commercial banks' stability and ability to lend, the commercial banks in turn make higher profit.

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-post merger and acquisition financial performance of acquiring companies in terms of operating cash flows. The results of the analysis revealed that merger 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 merger and acquisitions phase. Merger and acquisitions have resulted to better and improved performance.

Research gap

Numerous researchers have discovered the Mergers and Acquisitions in banking sectors through estimation of financial ratios, to justify its success or failure. Merger and acquisition is assumed as a tool for strengthen banks capacity and level of performance, but all merged and acquiring institution is not delivering the expected performance. Various researchers concluded that post-merger banks have found their decreased ROE, ROA, decreased profit, negative feeling towards merged organization and strong evidence of uncertainty over the very existence of economics of scale. Through extensive literature review, the following gaps have been identified to further explore the knowledge in learning the impact of on financial performance. There is a lot of confusion about the merger and acquisition on the long-term growth and profitability in banking sector. Mergers have become the main means of attaining higher performance which is the ultimate goal of every firm, including banks. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a merger.

Research Methodology

Research Design

This study uses a Descriptive and inferential research design. Descriptive research design is important to describe the characteristics of a population or a particular phenomenon and analytical research design aims to understand phenomena by discovering and measuring causal relations among them. In this research, through descriptive and inferential study, how merger and acquisition impact pre-post financial performance of commercial bank is being studied.

Population and sample size

This research will target the commercial banks in Nepal who has gone through merger and acquisition. As of Jul, 2022 (Licensed by NRB) there are 26 commercial banks operating in Nepal so, all the merged and acquiring commercial banks operating in Nepal are consider as the population.

A sample is a collection of items or elements from a population. Hence, a sample is only a portion of subset of the population. Out of 26 commercial banks eight banks are taken as a sample by following simple random sampling

method. They are NIC Asia bank Ltd, Global IME bank Ltd, Prabhu bank Ltd, Bank of Kathmandu Ltd, NMB bank Ltd, Laxmi bank Ltd, Sanima Bank Ltd, and Mega Bank Ltd.

Sampling method

Simple random sampling techniques:

Data collection

Quantitative nature of secondary data has been used for conducting the study. The secondary sources of data has been collected from the website of respective commercial banks annual reports especially from profit and loss accounts, balance sheet and other publications made by banks. Likewise some other related information are gathered from related banks and related agencies like Nepal Rastra Bank, sharesansar, Nepal Stock Exchange Limited.

Data analysis

Both descriptive and inferential statistics tools are used for analysis of data. Mean, standard deviation, correlation and T-test are used for the purpose of presentation and analysis of data. Microsoft Excel and E Views are used for the presentation, classification, and analysis of the data.

The following are the hypotheses of the study:

H1: There is significant change in Capital Adequacy Ratio (CAR) after merger.

H2: There is significant change in Non-Performing Loan (NPL) after merger.

H3: There is significant change in the Spread Ratio (SR) after merger.

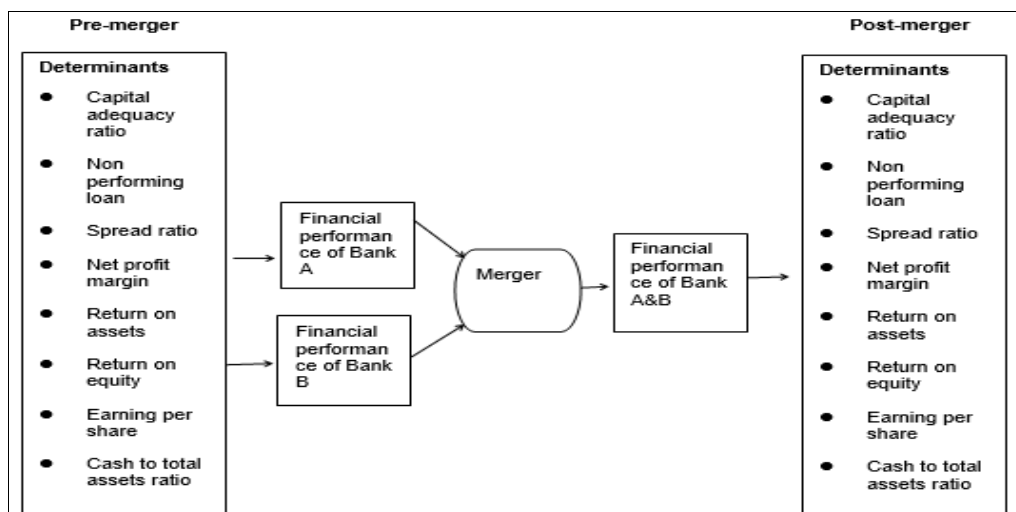
H4: There is significant change in Net Profit Margin (NPM) after merger.

H5: There is significant change in Return on Assets (ROA) after merger.

H6: There is significant change in Return on Equity (ROE) after merger.

H7: There is significant change in Earning per Share (EPS) after merger.

H8: There is significant change in Cash to Total Asset (CTA) after merger.



Sources: Shrestha et al., 2017

Fig 1: Conceptual Framework

Results and Analysis
Descriptive Statistics

Table 1: Descriptive analysis of NIC ASIA Bank Limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	CtoTA
Before	Mean	17.282	0.632	3.398	41.212	1.431	21.3215	28.249	1.977
	Std.	2.755	0.825	0.221	4.828	0.419	2.440	3.616	0.289
After	Mean	13.072	0.306	3.636	20.802	1.316	17.602	26.794	5.85
	Std.	0.684	0.316	0.822	8.459	0.290	3.882	7.080	2.298

Descriptive analysis of Global IME Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	C to TA
Before	Mean	13.015	1.584	4.07	25.341	1.316	13.528	16.076	5.072
	Std.	1.088	0.596	0.508	5.232	0.282	2.502	4.143	1.735
After	Mean	12.84	1.585	4.47	31.645	1.135	13.985	18.62	5.92
	Std.	0.509	0.247	0.057	4.533	0.106	1.718	0.891	1.994

Descriptive analysis of Prabhu Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	CtoA
Before	Mean	10.041	11.949	3.367	-52.68	-1.105	-39.958	-28.151	3.614
	Std.	3.794	10.831	0.376	102.704	1.916	59.594	59.686	0.946
After	Mean	11.696	3.424	4.346	27.41	1.084	11.45	17.506	5.212
	Std.	0.839	1.096	0.690	13.574	0.439	4.800	6.532	3.525

Descriptive analysis of Bank of Kathmandu Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	CtoTA
Before	Mean	14.264	1.669	4.317	33.828	1.796	13.945	32.481	2.463
	Std.	1.848	0.538	0.743	5.472	1.005	5.522	5.563	0.281
After	Mean	14.182	1.838	4.204	16.412	1.508	11.896	19.73	12.038
	Std.	0.524	0.816	0.795	2.447	0.233	2.012	2.541	12.227

The performance of NIC ASIA bank limited before and after a merger shows that the merger had both positive and negative impacts on the performance of the company. The average capital adequacy position decreased from 17.28 to 13.07, but the non-performing loans improved from 0.632 to 0.306 and became more stable. The average spread ratio improved, but the stability decreased. The net profit margin and EPS decreased with increased variability. The return on assets decreased, but became more stable. The return on equity and earning per share decreased with increased variability. The cash to total assets ratio increased, but with increased variability.

The financial performance of Global IME Bank Limited improved in several key areas after the merger. The average capital adequacy position and non performing loan remained relatively unchanged. The average spread ratio, NPM, ROE, EPS and cash to total assets ratio increased from 4.07 to 4.47, 25.34 to 32.65, 13.528 to 13.985, 16.076 to 18.62 and 5.072 to 5.92 respectively.

From the descriptive analysis, Prabhu Bank Limited has seen improvements in several financial metrics. The average

capital adequacy position has increased from 10.041 to 11.696 and its standard deviation has decreased, which is a positive sign for the bank's financial health. The average non-performing loan has decreased from 11.949 to 3.424 significantly, which is also a positive indicator. The average spread ratio (3.367 to 4.35), net profit margin (-52.68 to 27.41), return on assets (-1.105 to 1.084), return on equity (-39.958 to 11.45), earning per share (-28.151 to 17.506) and the average cash to total assets ratio (3.614 to 5.212) have also improved after the merger, which can be interpreted as a sign of improved profitability for the bank.

There is negative impact of merger and acquisition on the financial performance of Bank of Kathmandu limited as there is decrease in capital adequacy position (14.264 to 14.182), spread ratio (4.317 to 4.204), NPM (33.828 to 16.412), ROA (1.796 to 1.508), ROE (13.945 to 11.896), and EPS (32.481 to 19.73). The average non-performing loan has slightly increased from 1.669 to 1.838 after the merger with higher standard deviation which is a negative indicator.

Table 2: Descriptive analysis of NMB Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	C to TA
Before	Mean	16.465	0.974	4.061	18.224	1.758	14.151	20.781	3.763
	Std.	5.219	0.335	0.812	1.365	0.107	1.153	2.871	3.969
After	Mean	15.08	2.475	3.3	14.695	1.06	10.51	13.92	6.095
	Std.	0	0.290	0.537	3.896	0.156	2.220	3.875	0.134

Descriptive analysis of Laxmi Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	CtoTA
Before	Mean	13.39	1.07	4.59	31.13	1.39	8.71	17.86	7.33
	Std.	0.774	0.576	0.177	4.794	0.269	0.919	4.342	7.043
After	Mean	12.333	0.967	3.227	41.093	1.327	10.850	15.647	8.080
	Std.	0.616	0.205	1.032	2.715	0.325	1.625	1.890	1.439

The financial performance of NMB bank limited before and after the merger is mixed. The average capital adequacy position (16.465 to 15.08), net profit margin (18.224 to 14.695), return on assets (1.758 to 1.06), and return on equity (14.151 to 10.51) decreased after the merger while the average spread ratio (4.061 to 3.3), earning per share (20.781 to 13.92), and cash to total assets ratio (3.763 to 6.095) increased. The standard deviation of most financial performance metrics decreased after the merger, indicating greater stability.

The financial performance of Laxmi Bank Limited after the merger shows mixed result, such as the capital adequacy position (13.39 to 12.33), spread ratio (4.59 to 3.227), ROA (1.39 to 1.327) and EPS (17.86 to 15.647) has decreased after the merger. The net profit margin (31.13 to 41.09), return on equity (8.71 to 10.85) and cash to total assets ratio (7.33 to 8.08) has increased after the merger. There is a slight decrease in non-performing loans (1.07 to 0.967) which is a positive indicator.

Table 3: Descriptive analysis of Sanima Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	C to TA
Before	Mean	17.188	0.872	4.002	32.884	1.57	14.618	14.808	3.024
	Std.	7.081	0.307	1.675	7.417	0.360	6.960	5.807	0.434
After	Mean	12.38	1.114	3.466	40.6	1.726	15.67	13.69	3.512
	Std.	1.398	0.328	0.231	4.343	0.289	1.932	0.889	1.423

Descriptive analysis of Mega Bank limited

		CAR	NPL	SR	NPM	ROA	ROE	EPS	C to TA
Before	Mean	16.949	0.725	4.979	28.689	1.95	17.314	21.21	3.478
	Std.	1.322	0.213	0.512	2.175	0.269	6.065	6.633	1.464
After	Mean	13.09	1.19	4.275	31.715	1.45	10.13	14.685	10.96
	Std.	0.212	0.057	0.163	1.351	0.269	1.867	1.761	1.556

The capital adequacy position of Sanima bank limited has decreased with an average of 12.38 after the merger, compared to 17.188 before the merger. The average non-performing loan has increased after the merger. The spread ratio, net profit margin, return on assets, return on equity, earning per share, and cash to total assets ratio have also increased after the merger, although the standard deviation of some metrics has also increased. Overall, the financial performance of Sanima bank limited appears to have improved after the merger.

The financial performance of Mega Bank Limited after the merger has shown negative results. There is decrease in average capital adequacy position (16.949 to 13.09), SR (4.979 to 4.), ROA (1.95 to 1.45), ROE (17.314 to 10.13) and EPS (17.314 to 10.13) with increased standard deviation. The average non-performing loan has increased from 0.725 to 1.19 which is a negative indicator. On the other hand, there is increase in the average net profit margin (28.689 to 31.715) and average cash to total assets ratio (3.478 to 10.96).

Table 4: Correlations

variable	CAR	NPL	SR	NPM	ROA	ROE	EPS	C to TA
CAR	1							
NPL	-0.4725	1						
SR	0.0440	-0.1517	1					
NPM	0.3753	-0.9222	0.1673	1				
ROA	0.4462	-0.8562	0.3450	0.8452	1			
ROE	0.4167	-0.9503	0.2123	0.9580	0.8974	1		
EPS	0.3828	-0.8865	0.2342	0.9171	0.8641	0.9603	1	
C to TA	-0.1322	-0.0438	-0.1217	-0.0105	-0.0029	-0.0005	-0.0005	1

The CAR is positively correlated with SR (0.0440), NPM (0.3753), ROA (0.4462), ROE (0.4167) and EPS (0.3828) which indicates that increase in CAR result in an increase in these metrics, but negatively correlated with NPL (-0.4725) and cash to total assets (-0.1322). The Non-Performing Loan ratio has a strong negative correlation with the SR (-0.1517), NPM (-0.9222), ROA (-0.8562), ROE (-0.9503), EPS (-0.8865) and cash to total assets (-0.0438) meaning that an increase in non-performing loans will likely result in a decrease in these metrics. The SR is positively correlated with the NPM (0.1673), ROA (0.3450), ROE (0.2123), and EPS (0.2342) but negatively correlated with cash to total assets, indicating that an increase in the SR may result in an increase in NPM, ROA, ROE, and EPS but a decrease in cash to total assets (-0.1217). The Net Profit Margin is

positively correlated with the ROA (0.8452), ROE (0.9580), and EPS (0.9171), indicating that an increase in the net profit margin is likely to result in an increase in these metrics as well but negatively correlated with cash to total assets (-0.0105). The ROA, which measures the profit generated by a company in relation to its total assets, has a strong positive correlation with the ROE (0.8974) and EPS (0.8641), meaning that an increase in return on assets is likely to result in an increase in these metrics but negatively correlated with cash to total assets (-0.0029). The ROE, which measures the profit generated by a company in relation to its shareholder equity, has a strong positive correlation with the EPS (0.9603), indicating that an increase in ROE is likely to result in an increase in EPS.

Table 5: Hypothesis testing comparing pre and post merger performances

variable	Alternative hypothesis	T-statistics (One tail)	P-values	Remark
CAR	There is significant positive change in CAR after merger	1.94	0.03 (p<0.05)	Reject null hypothesis
NPL	There is significant reduction in NPL after merger.	1.26	0.11 (p>0.05)	Do not reject null hypothesis
SR	There is significant reduction in the Spread Ratio (SR) after merger and acquisition.	-0.11	0.46 (p>0.05)	Do not reject null hypothesis
NPM	There is significant reduction in NPM after merger.	-1.29	0.10 (p>0.05)	Do not reject null hypothesis
ROA	There is significant reduction in ROA after merger.	-1.11	0.14 (p>0.05)	Do not reject null hypothesis
ROE	There is significant positive change in ROE after merger.	-2.06	0.02 (p<0.05)	Reject null hypothesis
EPS	There is significant reduction in EPS after merger.	-0.76	0.23 (P>0.05)	Do not reject null hypothesis
C to TA	There is significant positive change in C to TA after merger	-2.87	0.00 (P<0.05)	Reject Null hypothesis

From Table 4.18, we can see that p-values for CAR, ROE and C to TA before and after merger are less than 0.05 except for the NPL, SR, NPM, ROA and EPS. Based on this, Hypotheses H₁, H₆, and H₈ are accepted. Hypothesis H₂, H₃, H₄, H₅ and H₇ are rejected. The implication of this test is that there is strong evidence of a relationship between the pre-merger capital adequacy ratio, return on equity, and the ratio of cash to total assets and the post-merger capital adequacy ratio, return on equity, and the ratio of cash to total assets. This is indicated by the P-values of 0.0285, 0.0222, and 0.0028, respectively, which are all below the commonly used significance level of 0.05. On the other hand, there is weak evidence of a relationship between the pre-merger non-performing loans, net profit margin, return on assets, and earnings per share and post-merger non-performing loans, net profit margin, return on assets, and earnings per share, with P-values of 0.1066, 0.1020, 0.1358, and 0.2251, respectively. The P-value of 0.4567 for the spread ratio suggests that there is no evidence of a relationship between the pre-merger spread ratio and post-merger spread ratio.

In this case, the pre-merger capital adequacy ratio has evidence of a positive relationship with the post-merger capital adequacy ratio with a t-statistic of 1.9437. The pre-merger non-performing loan, spread ratio, net profit margin, return on assets, earnings per share, and return on equity have weak evidence of a negative relationship with the post-merger variable with t-statistics ranging from -0.7603 to -2.0573. The pre-merger cash to total assets ratio has strong evidence of a negative relationship with the post-merger cash to total assets ratio with a t-statistic of -2.8707.

Discussion

There is significant positive change in CAR after merger. This result is consistent with the development of (Desai and Stover, 1985)^[7]; (Williams, 2011)^[49]. However, this result contradicts the findings of (Sushka and Bendeck, 1988) and (Wall and Gup, 1989)^[8]. There is significant reduction in NPL after merger. The result also follows the previous study on the banking sector (Knapp & Gart, 2014). However, this result contradicts the findings of (Behr & Heid, 2011). There is significant reduction in the Spread Ratio (SR) after merger and acquisition. This result is consistent with the finding of (Abbas *et al.*, 2014)^[1]; (Allah Yar, 2012)^[3]. This result is unlike the findings of (Kemal, 2011); (Ahmed and Ahmed, 2014). There is significant reduction in NPM after

merger. This result is consistent with the result of (Herzberg, 1986); Simon and Enz (1995); Wiley (1997). However, this result contradicts the findings of (Singh and Das, 2018)^[27]. There is significant reduction in ROA after merger. This result is consistent with the finding of (Sufian and Majid, 2007); (Ghosh and Jain 2000) and (Williams, 2011)^[49]. This result is unlike the findings of (All-Yar, 2012)^[3]. There is significant positive change in ROE after merger. The result also follows the previous study on the banking sector (Sufian and Majid, 2007); (Ghosh and Jain 2000);(Ong *et al.*, 2011)^[44] and (Williams,2011)^[49]. However, this result contradicts the findings of (All-Yar, 2012). There is significant reduction in EPS after merger. This result is consistent with the result of (Amel *et al.*, 2004)^[4]; (Muhammad, 2010). However, this result contradicts the findings of (Lin *et al.*, 2006)^[36]; (Sinha & Kaushik, 2010). There is significant positive change in C to TA after merger. The result also follows the previous study on the banking sector (Yadav *et al.*, 2015)^[42]. However, this result contradicts the findings of (AllahYar, 2012)^[3].

Conclusion and Implications

Conclusion

This study was conducted on the topic of financial performance analysis of pre-post merger and acquisition of commercial banks in Nepal. The estimated results descriptive analysis and hypothesis test reveals merger and acquisition have significant negative impact on profitability. From the eight sample banks, it appears that the merger and acquisition has positive impact on Global IME bank limited, Prabhu bank limited and Sanima bank limited, where as negative impact on NIC ASIA bank limited, Bank of Kathmandu limited, NMB bank limited, Laxmi bank limited and Mega bank limited. P-value indicates that there is positive change in capital adequacy position, ROE and cash to total assets ratio but there is negative change in NPL, SR, NPM, ROA, and EPS. Therefore in overall it can be concluded that merger and acquisition has negative impact on banks profitability.

Implication

The conclusion of the study on the financial performance analysis of pre-post merger of commercial banks in Nepal shows that merger and acquisition have significant negative impact on banks profitability. To study the financial performance of merged banks I adopted capital adequacy

ratio, non-performing loan, spread ratio, net profit margin, return on assets, return on equity, earning per share, and cash to total assets ratio. Among this-variables there is positive change in capital adequacy ratio, return on equity and cash to total assets ratio, where as there is negative change in non-performing loan, spread ratio, net profit margin, return on assets, and earning per share.

Further, in future the area of merger and acquisition will be vast. More and more banks and financial institutions will go under merger and acquisition.

Therefore, it will be complex to study the financial performance of merged banks. Hence, the researcher or students should adopted more variables than I adopted in my research study, for measuring the financial performance of concerned bank. In the context of Nepal we can adopt different factors like bank size, liquidity ratio, leverage ratio, working capital etc. Factors affecting the financial performance in the area of merger and acquisition should be identified and should use appropriate method to control those factors.

The outcome of this research could provide better analysis regarding the pre-post-merger and acquisition changes on financial performance. This information can be useful for increasing competitive advantage in value and performance among others after M& A. Further, this research could be an advantage to financial institutions, other academic researcher, management consultant, and financial consultant.

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