A Comparative Analysis of Mergers and Acquisitions and its Impact on Financial Performance of Commercial Banks

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Abstract

This study examines the impact of mergers and acquisitions (M&A) on the financial performance of commercial banks in Nepal, focusing on pre- and post-merger financial metrics. Using Global IME Bank and Kumari Bank Limited as case studies, financial data from seven quarters before and after their merger in Poush 2079 were analyzed. Performance was measured using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). A paired sample t-test revealed significant declines in all metrics post-merger, indicating a negative short-term financial impact. Global IME Bank experienced decreases in ROA (-28.48%), ROE (-32.19%), and NPM (-28.69%), while Kumari Bank showed even sharper declines in ROA (-56.68%), ROE (-53.43%), and NPM (-52.27%). These findings suggest operational inefficiencies, restructuring costs, and integration challenges contributed to diminished profitability and asset efficiency in the short term. The study highlights the complexity of achieving synergies in M&A and underscores the importance of effective integration strategies, thorough planning, and stakeholder management to mitigate financial pressure and operational disruptions. While M&A can offer long-term benefits such as market expansion and improved competitiveness, their short-term impact on financial performance requires strategic interventions to maximize synergies and minimize disruptions.

Keywords: *Merger and Acquisition, Commercial bank, Financial performance, Net profit margin, Return on assets, Return on equity*

1. Introduction

Nepal's banking industry has undergone significant transformation due to market competition, economic growth, and regulatory reforms. Nepal Rastra Bank (NRB) has actively promoted Mergers and Acquisitions (M&A) to address operational inefficiencies, low capitalization, and financial fragmentation in a sector historically dominated by small institutions with limited capital and rising Non-Performing Assets (NPA). Over the past two decades, regulatory measures and the push for M&A have reshaped the sector, aiming to enhance stability, improve operational efficiency, and strengthen capital adequacy, while reducing harmful competition. The efficiency of mergers and acquisitions in improving financial performance has become a critical issue in Nepal's banking sector, which is vital to the country's economy. Despite regulatory support, many merged banks face declining profitability, operational inefficiencies, and challenges in integrating organizational cultures and systems. These outcomes raise questions about whether M&A are achieving their intended goals or creating new challenges. M&A, intended to enhance supply chains, market share, competitive advantage, and growth, often encounter complexities in integrating operations, making it difficult to realize anticipated cost savings, economies of scale, and synergies. As a result, potentially beneficial acquisitions may become financially counterproductive. Mergers and acquisitions have a complicated and multidimensional effect on Nepal's financial performance. Cost synergies, market expansion, and better resource management can all lead to greater financial results, but there are also obstacles to overcome, including financial pressure, cultural integration, and regulatory barriers. Effective post-merger integration plans, thorough planning, and due diligence are critical to the success of M&As in Nepal. In order to provide more definitive proof of the advantages or disadvantages of such business tactics in this emerging economy, more research on the particular financial performance measures of merged or acquired companies in Nepal would be beneficial.

Nepal's banking industry has historically faced challenges such as inadequate capitalization, operational inefficiencies, rising non-performing assets (NPAs), and limited geographic reach. To address these issues, Nepal Rastra Bank has actively promoted M&A to ensure sustainable growth, enhance competitiveness, and strengthen the financial system. The success of M&As is often evaluated through financial performance indicators like return on equity (ROE), return on assets (ROA), and net profit margin (NPM). However, the impact of M&A on these profitability metrics in Nepal’s banking sector remains unclear, despite the significant rise in M&A activity driven by market competition and regulatory efforts.

Gupta, Raman, and Tripathy (2021) investigated the impact of M&As on financial performance in the real estate and construction sectors, using profitability, liquidity, efficiency, and leverage ratios to analyze pre- and post-M&A performance, providing a framework for similar studies in banking. This study is designed to fill theknowledge gap by answering the research question, what is the impact of Mergers and Acquisitions on the overall financial performance of commercial banks in Nepal? This study tries to answering the following research questions:

i. What is the impact of merger on Return on Asset of banks pre-merger and post-merger?
ii. Does Return on Equity changes after the merger or not?
iii. Is there any difference in Net Profit Margin before and after the merger?

2. Objective of Study

This research's main goal is to assess how mergers and acquisitions (M&A) affect Nepal's commercial banks' financial performance, paying particular attention by:

i. To analyze the impact of merger on Return on Asset of banks pre-merger and post-merger.
ii. To examine the impact of merger on Return on Equity of banks before and after merger.
iii. To assess the impact of merger on Net Profit Margin of banks before and after the merger.

3. Review of Literature

Varikunta and Lashitha (2024) evaluated the impact of mergers and acquisitions (M&A) on the performance of Indian banks by analyzing financial metrics and ratios of three major banks over six years. Their findings showed no improvement in financial performance following the M&A. The study used indicators such as net profit margin, operational profit margin, return on equity, return on capital employed, earnings per share, capital adequacy ratio, and dividend per share to assess post-merger performance. The results emphasize the importance of strategic factors, revealing that financial performance did not increase after the merger. Prajapati and Tiwari (2024) analyzed Punjab National Bank's financial performance from 2017 to 2023, before and after its merger with United Bank of India and Oriental Bank of Commerce. The study found that the merger improved financial performance, enhancing capital, assets, profitability, and liquidity while reducing non-performing assets (NPAs), demonstrating the benefits of mergers in strengthening banks' overall performance.

Ayagre and Aboagye (2024) studied the impact of mergers and acquisitions (M&A) on bank performance in Sub-Saharan Africa (SSA) from 2003 to 2019. Their findings showed a decline in profitability across all metrics post-M&A, contradicting regulators' claims that M&A enhance bank performance in SSA. Conversely, Adhikari (2023) found that M&As positively affected the financial performance of Nepalese commercial banks. Using data from six mergers before mid-July 2022, the study revealed significant improvements in EPS, ROA, and NPM post-merger, though NRB-regulated metrics like CD ratio, CAR, and NPL ratio showed no significant changes.

Satyanarayana (2023) analyzed the impact of mergers and acquisitions (M&A) on capital structure and financial performance in the banking industry, focusing on their effects on bank stability and prosperity. The study compared financial performance two years before and after M&A transactions using tools like leverage and ratio analysis. It examined changes in capital structure, including debt-to-equity ratios and financial leverage. The findings revealed mixed outcomes, with some banks experiencing significant benefits from M&A, while others faced challenges. Shailaja and Prasanna (2023) analyzed the impact of a merger on Canara Bank's financial performance, focusing on management quality, capital adequacy, and asset quality. Using a mixed-methods approach, the study evaluated financial ratios and management strategies over a five-year period, comparing pre- and post-merger performance. The findings revealed significant improvements in asset quality, capital sufficiency, and management efficiency, with post-merger performance growth reflecting effective strategic planning despite initial integration challenges.

Chopra & Agrawal (2024) investigates the effects of mergers and acquisitions on public sector banks, emphasizing the environment for research and development, cultural performance, and economic performance. This seeks to evaluate the degree of agreement between the respondent's viewpoint and the body of previous research on the premises. Nadeem, Irfan, and Ali (2024) researched on the long-run value-to-book ratio as a stand-in for growth prospects during mergers and acquisitions, as well as the firm-specific errors (FSSE) as a stand-in for misevaluation. The researcher in this study broke down the market-to-book ratio in the combined organization of the Pakistani financial sector using the RKRV approach, which was created in 2004 and was used to examine firm-specific faults and future growth potential. Darayseh and Alsharari, (2022) identified the variables influencing the merger and acquisition (M&A) procedure in the banking industry of the United Arab Emirates (UAE). It makes a distinction between external and internal factors that could spur M&A activity in the banking industry. Alvarez-González and Otero-Neira (2020) examined the effects on client loyalty to evaluate banking M&A form a marketing standpoint. In light of the total amount of M&A articles produced year, this paper examines the effect of M&A on clients using data from customer surveys, an area that is currently understudied.

4. Research Hypothesis

H_{01} : *There is no significant difference in the ROA between pre and post-merger of selected commercial banks.*

H_{02} : *There is no significant difference in the ROE between pre and post-merger of selected commercial banks.*

H_{03} : *There is no significant difference in the NPM between pre and post-merger of selected commercial banks.*

5. Research Methodology

This study employed a quantitative research design to analyze financial performance changes resulting from mergers, using numerical data for objectivity and generalizability. The population includes Nepalese banks as regulated under the Company Act 2063 and Banking and Financial Institutions Act (BAFIA, 2063) with Global IME Bank and Kumari Bank selected as samples due to their contrasting capital structures, post-merger performance, and significance in the banking sector. Data is sourced from quarterly and annual reports, financial statements, and NRB directives, covering seven quarters before and after the merger in Poush 2079. Financial ratios and statistical tools, including mean, standard deviation, and paired t-tests, are employed to compare pre- and post-merger performance.

6. Results and Discussion

6.1 Comparison of Financial Ratios of Global IME Bank

Table 1: Comparison of Financial Ratio of Global Ime Bank before and after merger

Financial Ratios	Pre-Merger	Post-Merger	Change	Relative Change
ROA	1.38	0.99	(0.39)	-28.48%
ROE	13.76	9.33	(4.43)	-32.19%
NPM	35.48	25.30	(10.18)	-28.69%

Table 1 compares Global IME Bank's financial ratios before and after the merger, revealing a decline in performance. ROA decreased by 0.39% (-28.48%), indicating reduced asset efficiency, while ROE dropped by 4.43% (-32.19%), reflecting lower shareholder returns, likely due to higher equity or reduced profitability. Net Profit Margin (NPM) also fell by 10.18% (-29%), highlighting a significant decline in profitability relative to revenue. These declines suggest that operational inefficiencies, decreased profitability, and higher expenses negatively impacted the bank's post-merger performance, with ROE experiencing the sharpest drop.

6.2 Comparison of Financial Ratios of Kumari Bank

Table 2: Comparison of Financial Ratios of Kumari Bank before and after merger:

Financial Ratios	Pre-Merger	Post-Merger	Change	Relative Change
ROA	1.24	0.54	(0.70)	-56.68%
ROE	12.57	5.85	(6.72)	-53.43%
NPM	32.85	15.68	(17.17)	-52.27%

Table 2 highlights a significant decline in Kumari Bank's financial ratios post-merger. ROA dropped by 0.70% (-56.68%), reflecting a substantial loss in asset efficiency, while ROE fell by 6.72% (-53.43%), indicating sharply reduced shareholder returns, likely due to higher equity or lower earnings. Net Profit Margin (NPM) also decreased by 17.17 percentage points (-52.27%), showing a notable drop in profitability relative to revenue. These declines suggest that the merger negatively impacted Kumari Bank's financial performance, driven by operational inefficiencies, higher expenses, or reduced

Hypothesis Testing

6.3 Paired two Sample t-tests for means performance ROA of Global IME Bank

Table 3: Paired two Sample t-tests for means performance ROA of Global IME Bank before and after merger

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre & Post Merger on ROA	0.3943	0.2996	0.1132	0.1172	0.6714	3.4819	6	0.0131

(Source: SPSS Output)

Table 3 indicates the paired two sample t-tests for mean performance of ROA of Global IME Bank. This indicates that after the merger, the ROA dropped by 0.3943. Since the ROA difference's 95% Confidence Interval ranges from 0.1172 to 0.6714, the actual difference is probably within this range. This is the calculated t-statistic value, which is used to determine if the difference is statistically significant. The critical t-value is impacted by the little amount of data points we have with 6 degrees of freedom. The difference in ROA before and after the merger is statistically significant, as indicated by the p-value of 0.0131, which is less than 0.05. The alternative hypothesis is accepted while the null hypothesis is rejected because the p-value (0.0131) is less than 0.05. This indicates that the difference between the return on assets before and after the merger is statistically significant. Following the merger, the ROA has dramatically dropped, suggesting a drop in asset efficiency.

6.4 Paired two Sample t-tests for means performance ROE of Global IME Bank

Table 4: Paired two Sample t-tests for means performance ROE of Global IME Bank before and after merger

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre & Post Merger on ROE	4.4285	2.5855	0.97723	2.03738	6.81976	4.532	6	0.004

(Source: SPSS Output)

Table 4 indicates the paired two sample t-tests for mean performance of ROE of Global IME Bank. After the merger, ROE dropped by 4.43 percentage points, with a 95% confidence interval ranging from 2.04 to 6.82. The calculated t-statistic, influenced by 6 degrees of freedom, and a p-value of 0.004 (less than 0.05) indicate a statistically significant difference in ROE before and after the merger. These results support the alternative hypothesis and reject the null hypothesis, confirming a significant decline in ROE. This suggests that the bank’s ability to generate returns on shareholders’ equity has diminished post-merger.

4.5 Paired two Sample t-tests for means performance NPM of Global IME Bank

Table 5: Paired two Sample t-tests for means performance NPM of Global IME Bank before and after merger

Paired Samples Test

Pre & Post Merger on NPM	Paired Differences					T	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
	10.18143	8.21404	3.10461	2.58471	17.77815	3.279	6	0.017

(Source: SPSS Output)

Table 5 indicates the paired two sample t-tests for mean performance of NPM of Global IME Bank. Immediately after the merger, the Net Profit Margin dropped by 10.18 percentage points, with the 95% confidence interval for the difference ranging from 2.58 to 17.78. The calculated t-statistic and a p-value of 0.017 (less than 0.05) indicate a statistically significant difference in NPM before and after the merger. These results support the alternative hypothesis and reject the null hypothesis, confirming a significant decline in NPM. This sharp drop reflects a substantial reduction in profitability following the merger.

4.6 Paired two Sample t-tests for means performance ROA of Kumari Bank

Table 6: Paired two Sample t-tests for means performance ROA of Kumari Bank before and after merger:

Paired Samples Test

Pre & Post Merger on ROA	Paired Differences					T	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
	0.70286	0.16276	0.06152	0.55233	0.85338	11.425	6	0.000

(Source: SPSS Output)

Table 6 presents the paired two-sample t-test for ROA performance of Kumari Bank before and after the merger. The average ROA decreased by 0.70286 post-merger, with a standard deviation of

0.16276 and a standard error of 0.06152. The 95% confidence interval (0.55233, 0.85338) likely captures the true mean difference in ROA. A t-value of 11.425 indicates a highly significant difference, with a p-value of 0.000 (far below $\alpha = 0.05$), leading to rejection of the null hypothesis. These results confirm a statistically significant difference in ROA before and after the merger, showing a substantial impact on ROA post-merger.

4.7 Paired two Sample t-tests for means performance ROE of Kumari Bank

Table 7: Paired two Sample t-tests for means performance ROE of Kumari Bank before and after merger

Paired Samples Test

Pre & Post Merger on ROE	Paired Differences					T	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
	6.71429	1.28359	0.48515	5.52717	7.90141	13.840	6	0.000

(Source: SPSS Output)

Table 7 reports the paired two-sample t-test results for Kumari Bank's ROE performance before and after the merger. The analysis reveals a significant decrease in ROE, with t(6)=13.840t(6) = 13.840t(6)=13.840 and p=0.000p = 0.000p=0.000 (two-tailed). The mean decline was 6.71429, with a 95% confidence interval of 5.52717 to 7.90141. As p<0.05p < 0.05p<0.05, the null hypothesis is rejected, and the alternative hypothesis is accepted, confirming a statistically significant difference in ROE pre- and post-merger. This indicates a sharp decline in the bank’s ability to generate returns from shareholders' equity after the merger.

4.8 Paired two Sample t-test for means performance NPM of Kumari Bank

Table 8: Paired two Sample t-test for means performance NPM of Kumari Bank before and after merger

Paired Samples Test

Pre & Post Merger on NPM	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
	17.17429	3.69549	1.39676	13.75653	20.59204	12.296	6	0.000

(Source: SPSS Output)

Table 8 presents the paired two-sample t-test for the Net Profit Margin of Kumari Bank before and after the merger. The mean NPM decreased by 17.17429, with a 95% confidence interval of 13.75653 to 20.59204. The large t-value and a p-value of 0.000 (less than 0.05) confirm that this decline is statistically significant and not due to chance. The significant drop in NPM indicates that the bank's ability to convert sales into profits has deteriorated post-merger, likely due to higher expenses, slower revenue growth, and operational inefficiencies. These findings support the alternative hypothesis and reject the null hypothesis confirming a substantial impact of the merger on NPM.

7. Conclusion

This study aimed to examine the effects of mergers and acquisitions on the financial performance of commercial banks in Nepal, focusing on Global IME Bank and Kumari Bank Ltd. as samples. The analysis, based on financial performance indicators such as Return on Assets, Return on Equity and Net Profit Margin revealed a significant decline in financial performance following mergers. Kumari Bank Ltd. experienced greater financial degradation compared to Global IME Bank Ltd. The findings indicate that integration challenges, increased operating expenses, resistance to change, and organizational disruptions are the primary factors contributing to the short-term negative impact of M&A on financial performance. Despite the potential for long-term synergies and efficiency gains, the immediate post-merger period is often marked by reduced profitability and operational inefficiencies. In the short run, M&A in the banking sector tend to introduce higher costs, complexities, and interruptions, outweighing their advantages. However, these obstacles can be mitigated through effective planning, robust integration strategies, and efficient management, paving the way for long-term success. This study underscores the importance of strategic execution to address the inherent challenges of M&A and optimize their outcomes in the highly competitive banking industry.

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