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Evaluating the Effects of Mergers on Financial Performance: Evidence from Nepalese Commercial Banks

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Abstract

Purpose: *This study investigates the impact of the merger between two Nepalese banks on their financial performance, with the objective of assessing whether significant improvements in key financial metrics occurred post-merger. The research aims to provide insights into the effectiveness of mergers in enhancing the financial health and operational efficiency of banks in Nepal.*

Methods: *A causal comparative research design was adopted, analyzing secondary data from the banks' financial statements and regulatory filings for the period 2016/17 to 2022/23. The study focused on key financial metrics, including Return on Assets (ROA), Net Profit Margin (NP Margin), Capital Adequacy Ratio (CAR), Debt to Equity Ratio (DE Ratio), and Debt to Assets Ratio (DA Ratio). Data analysis involved a comparison of the pre-merger and post-merger performance to assess improvements.*

Results: *The findings indicate that, following the merger, both banks experienced significant improvements in their financial metrics. Notably, the merger led to enhanced operational efficiency, increased profitability, and a stronger capital base, highlighting the positive impact of mergers on bank performance.*

Conclusion: *This research contributes to the limited frame of knowledge on mergers and acquisitions in Nepal, emphasizing the strategic importance of such activities in the banking sector. It also addresses gaps in understanding long-term effects.*

Keywords: Merger, Financial Performance, Nepalese Banking, Operational Efficiency, Strategic Advantage

I. Introduction

Mergers and acquisitions (M&A) are pivotal strategies in the banking sector, aiming to enhance financial performance, achieve economies of scale, and secure competitive advantages (Bhandari & Pradhan; 2024). In Nepal, recent trends indicate an increase in M&A activities among commercial banks, driven by regulatory mandates, the need for operational efficiency, expanded market share, and enhanced capital adequacy (Shrestha et al., 2017). This study focuses on comparing the financial performance of PCBL and KBL before and after their

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merger, analyzing key financial metrics such as Return on Assets (ROA), Net Profit Margin (NP Margin), Capital Adequacy Ratio (CAR), Debt-to-Equity Ratio (DE Ratio), and Debt-to-Assets Ratio (DA Ratio). The goal is to assess whether the merger resulted in improved performance across these metrics.

Despite the increasing prevalence of mergers in Nepal's banking sector, comprehensive research assessing the actual impact of these mergers on financial performance remains limited. Much of the existing literature is either theoretical or anecdotal, with few studies providing empirical evidence. This study addresses this gap by investigating changes in key financial performance metrics for PCBL and KBL pre- and post-merger. The findings aim to contribute valuable insights into the effectiveness of M&A activities in the Nepalese banking sector.

The primary objective of this research is to evaluate whether the merger between PCBL and KBL led to improved performance in terms of ROA, NP Margin, CAR, DE Ratio, and DA Ratio. This evaluation will also provide valuable insights for future M&A activities in Nepal's banking sector by identifying the financial impact of such strategic decisions.

II. Reviews

Mergers and acquisitions (M&A) have become widely recognized as strategic tools for banks seeking growth, improved financial stability, and operational efficiency. In Nepal, M&A activities have accelerated in recent years due to increasing competition, regulatory encouragement for consolidation, and the need to meet the central bank's capital adequacy requirements. This study specifically assesses the financial performance of PCBL and KBL pre- and post-merger, focusing on critical financial ratios like ROA, NP Margin, and CAR to gauge the merger's impact.

The dependent variable in this study is Return on Assets (ROA), while the independent variables include Net Profit Margin (NP Margin), Capital Adequacy Ratio (CAR), Debt-to-Equity Ratio (DE Ratio), and Debt-to-Assets Ratio (DA Ratio). Previous research suggests that mergers often lead to improved operational efficiency and better financial ratios, thereby positively affecting ROA (Akhtar & Saghir, 2015). These relationships serve as the foundation for examining the post-merger performance of the selected banks.

M&A theories emphasize three primary drivers for mergers: economic efficiency, financial restructuring, and strategic realignment. Economic theory suggests that mergers enable banks to achieve economies of scale, which can reduce costs and improve resource allocation (Jensen & Ruback, 1983; McKinsey, 2002). Financial theory posits that mergers facilitate capital restructuring and enhanced shareholder value, often reflected in better financial ratios (Myers, 1984). Strategic theory, on the other hand, emphasizes that synergies resulting from mergers can improve profitability and operational performance (Ghosh, 2001; KPMG, 2015).

Several international and Nepalese studies affirm that M&As enhance financial performance. For instance, KPMG (2015) found that firms engaging in mergers typically see improvements in ROA and NP Margin within three years. Ghosh (2001) confirmed that effective integration post-merger results in higher asset utilization, leading to enhanced ROA. In the Nepalese context, Kafle (2020) reported significant improvements in ROA and CAR in banks post-merger, underscoring the role of successful integration in boosting financial performance. However, these studies predominantly focus on short-term outcomes, leaving room for further exploration of long-term impacts.

While several studies highlight immediate performance improvements post-merger, there is a scarcity of research investigating long-term financial outcomes. Moreover, non-financial factors, such as organizational culture, employee satisfaction, and leadership, are often overlooked despite their potential influence on post-merger success, especially in the Nepalese context. This study aims to fill these gaps by providing an in-depth financial analysis over a defined period, with recommendations for future research in non-financial areas.

III. Methodology

This study employs a causal comparative research design to analyze the financial performance of Prime Commercial Bank Limited (PCBL) and Kumari Bank Limited (KBL) in the context of their merger. The analysis utilized secondary data from the banks' annual financial statements and relevant regulatory filings, covering the fiscal years 2016/17 to 2022/23. This timeframe provides a robust foundation for a pre-merger and post-merger comparative analysis, allowing for insights into the banks' operational efficiencies (Shah & Tiwari2023).

Between 2011 and 2023, Nepal Rastra Bank (NRB) introduced Merger Bylaws to encourage consolidation within the banking sector. During this period, 239 banks and financial institutions (BFIs) opted for mergers or acquisitions. This consolidation reduced the number of commercial banks in Nepal from 33 to 20. However, the mergers of Class A banks (commercial banks) were the primary focus of regulatory efforts to strengthen the sector (Nepal Rastra Bank, 2023).

This study focuses on two specific banks: Prime Commercial Bank Limited (PCBL) and Kumari Bank Limited (KBL), which underwent a merger during the specified period. The sample size is limited to these two banks due to the research objectives, which aim to analyze the financial performance post-merger.

In this study, the focus is on analyzing financial performance metrics before and after the merger, rather than developing predictive models. Therefore, the small sample size is justified (Kunwar & Paudel; 2023) as the research aims to provide insights into the specific case of PCBL and KBL.

The study adopts purposive sampling because the focus is specifically on PCBL and KBL. This technique is suitable for both qualitative and quantitative research where a particular case is of interest. By intentionally selecting these banks, the study ensures that the data directly aligns with the research objectives regarding the merger's impact on financial performance.

This study relies entirely on secondary data, sourced from the annual reports and regulatory filings of PCBL and KBL, as well as publicly available financial statements. The data used in this analysis includes key financial ratios for the fiscal years 2016/17 to 2022/23, providing insights into both the pre- and post-merger performance of these banks.

Data Analysis Tools and Techniques

The multiple linear regression model is employed to evaluate the relationship between the dependent and independent variables. The regression equations are formulated as follows:

$$ROA_{it} = \beta_0 + \beta_1 * CAR_{it} + \beta_2 * DE\ Ratio_{it} + \beta_3 * DA\ Ratio_{it} + \epsilon_{it}$$

$$NP\ Margin_{it} = \beta_0 + \beta_1 * CAR_{it} + \beta_2 * DE\ Ratio_{it} + \beta_3 * DA\ Ratio_{it} + \epsilon_{it}$$

Here:

ROA and **NP Margin** are the dependent variables representing the financial performance of the banks.

CAR, **DE Ratio**, and **DA Ratio** are the independent variables.

Each coefficient (β_1, β_2, β_3) represents the effect of each independent variable on the dependent variable. The error term (ϵ) accounts for any unobserved factors.

Operationalization of Variables

Dependent Variable

Return on Assets (ROA): A critical measure of how efficiently a bank can generate profit from

its assets. Post-merger, an improvement in ROA is expected due to enhanced operational efficiency (Akhtar & Saghir, 2015).

Net Profit Margin (NP Margin): Indicates the bank's profitability post-merger. Studies suggest that efficient integration can increase profitability by reducing operational costs (Iannotta et al., 2007).

Independent Variables

Capital Adequacy Ratio (CAR): Reflects a bank's financial stability, which mergers can strengthen by improving capital buffers (DeYoung & Yook, 2006).

Debt-to-Equity Ratio (DE Ratio): Indicates changes in the bank's leverage post-merger, particularly how the merger was financed (Rhoades, 1998).

Debt-to-Assets Ratio (DA Ratio): Represents the financial leverage, impacted by merger-related debt obligations and asset restructuring (Berger & DeYoung, 2001).

Hypotheses

Hypothesis 1: There is a significant positive change in the Return on Assets (ROA) post-merger.

Hypothesis 2: The Net Profit Margin (NP Margin) increases significantly after the merger.

Hypothesis 3: The Capital Adequacy Ratio (CAR) improves post-merger, indicating better financial health.

Hypothesis 4: The Debt-to-Equity Ratio (DE Ratio) and Debt-to-Assets Ratio (DA Ratio) show positive changes post-merger.

Reliability and Validity

The reliability and validity of the study are ensured through:

Pre-testing and Assumptions

Before conducting the regression analysis, key assumptions are tested to ensure the validity of the results:

Linearity: Pearson correlation coefficients and scatter plots are used to test the linearity of relationships between variables.

Normality: The Shapiro-Wilk test and Q-Q plots are employed to assess the normal distribution of the data.

Homoscedasticity: Residual analysis and the Breusch-Pagan test help ensure that the variance of residuals is constant across different levels of the independent variables.

Multicollinearity: Variance Inflation Factor (VIF) and tolerance values are calculated to check for multicollinearity among the independent variables.

Summary Table of Assumptions and Parameters

Assumption	Parameters	Interpretation Criteria
Linearity	Pearson Correlation Coefficients, Scatter Plots	r values close to ±1 indicate strong relationships; scatter plots should exhibit linearity.
Normality	Shapiro-Wilk Test, Q-Q Plots	p-values> 0.05 for normality, bell-shaped histograms.
Homoscedasticity	Breusch-Pagan Test, Residual Analysis	Random scatter and non-significant p-values (>0.05) for homoscedasticity.

Multicollinearity	VIF, Tolerance Values	VIF < 10 and tolerance > 0.1 indicate acceptable multicollinearity levels.

This structured methodology ensures that the analysis comprehensively evaluates the impact of the merger on the financial performance of PCBL and KBL. Consequently, this approval allows for a deeper exploration of the dataset, leading to more accurate and meaningful conclusions.

IV. Results and Discussion

To assess how mergers and acquisitions affect the financial performance of Bank and Financial Institutions (BFIs), this study examines and compares the comprehensive pre- and post-merger financial performances of two sampled banks: Prime Commercial Bank Limited (PCBL) and Kumari Bank Limited (KBL). Analyzing comparable financial statements provides insights into their performance across different time periods.

Pre- and Post-Merger Comparison of Performance

Return on Assets (ROA)

Table 1

Return on Assets (ROA)

Bank	Pre-Merger (2016/17 - 2018/19)	Post-Merger (2020/21 - 2022/23)	% chg.
PCBL	Mean: 1.20, SD: 0.10, CV: 0.08	Mean: 1.50, SD: 0.10, CV: 0.07	+25.00%
KBL	Mean: 1.20, SD: 0.05, CV: 0.04	Mean: 1.45, SD: 0.05, CV: 0.03	+20.83%

The table 1 presents a comparison of financial performance metrics for PCBL and KBL before and after their merger. The Pre-merger data (2016/17 to 2018/19) shows that both banks had an average performance (Mean) of 1.20, indicating similar performance levels prior to the merger. However, PCBL had a higher Standard Deviation (S.D) of 0.10 compared to KBL's 0.05, suggesting more variability in PCBL's performance. The Coefficient of Variation (C.V) further illustrates this, with PCBL at 0.08 and KBL at 0.04, highlighting greater relative risk in PCBL's returns. In the Post-merger period (2020/21 to 2022/23), both banks showed improvement, with PCBL's mean increasing to 1.50 and KBL's to 1.45. The stability of performance is reflected in the unchanged S.D values for both banks, suggesting that the merger led to enhanced consistency. The decrease in C.V post-merger (PCBL at 0.07 and KBL at 0.03) indicates reduced variability in performance. Notably, the Change in Mean was greater for PCBL at 0.30 (25.00%) compared to KBL's 0.25 (20.83%), signifying that PCBL experienced a more significant percentage increase in performance following the merger.

Net Profit Margin (NP Margin)

Table 2

Net Profit Margin (NP Margin)

Bank	Pre-Merger	Post-Merger	Chg.
PCBL	Mean:18.17 S.D: 0.88 C.V: 0.05	Mean: 20.17 S.D: 0.88 C.V: 0.04	+11.02%
KBL	Mean: 17.83 S.D: 0.38C.V: 0.02	Mean: 19.50 S.D: 0.50 C.V: 0.03	+9.34%

Table 2 shows the Pre-merger phase (2016/17 to 2018/19), PCBL exhibited an average performance (Mean) of 18.17, slightly higher than KBL's average of 17.83. The Standard Deviation (S.D) for PCBL was 0.88, indicating higher variability in its performance compared

to KBL's 0.38. This is further confirmed by the Coefficient of Variation (C.V), where PCBL's C.V of 0.05 reflects greater relative risk in comparison to KBL's lower C.V of 0.02. During the Post-merger period (2020/21 to 2022/23), both banks demonstrated improvements in their performance metrics. PCBL's mean performance increased to 20.17, while KBL's mean rose to 19.50. Despite PCBL maintaining the same S.D of 0.88, KBL's S.D increased to 0.50, indicating that KBL experienced more variability in performance after the merger. The C.V for both banks showed a decrease for PCBL (to 0.04) and a slight increase for KBL (to 0.03), reflecting improved stability in KBL's performance post-merger. Notably, the Change in Mean for PCBL was 2.00 (11.02% increase), compared to KBL's 1.67 (9.34% increase). This indicates that while both banks improved post-merger, PCBL achieved a more substantial increase in performance metrics than KBL.

Capital Adequacy Ratio (CAR)

Table 3

Capital Adequacy Ratio (CAR)

Bank	Pre-Merger (2016/17 - 2018/19)	Post-Merger (2020/21 - 2022/23)	Change (%)
PCBL	Mean:14.17 S.D: 0.77	Mean: 15.50 S.D: 0.50	+9.39%
KBL	Mean: 13.50 S.D: 0.25	Mean: 15.00 S.D: 0.50	+11.11%

In the Pre-merger period (2016/17 to 2018/19), PCBL achieved an average performance (Mean) of 14.17, which is notably higher than KBL's average of 13.50. The Standard Deviation (S.D) for PCBL was 0.77, indicating more variability in its performance compared to KBL's lower S.D of 0.25. In the Post-merger phase (2020/21 to 2022/23), both banks exhibited improvements in performance metrics. PCBL's mean performance increased to 15.50, while KBL's mean also rose to 15.00. The S.D for both banks was equal at 0.50, indicating similar variability in performance post-merger. The Change in Mean for PCBL was 1.33 (9.39% increase), while KBL experienced a greater increase of 1.50 (11.11% increase), indicating that although both banks improved their performance following the merger, KBL had a slightly better percentage change in mean performance compared to PCBL.

Debt to Equity Ratio (DE Ratio)

Table 4

Debt to Equity Ratio (DE Ratio)

Bank	Pre-Merger (2016/17 - 2018/19)	Post-Merger (2020/21 - 2022/23)	Change(%)
PCBL	Mean:7.08 S.D: 0.50	Mean:6.96 S.D: 0.50	-1.69%
KBL	Mean:7.09 S.D: 0.50	Mean:9.31 S.D: 0.50	+31.31%

In the Pre-merger period (2016/17 to 2018/19), both banks had comparable average performances, with PCBL's mean at 7.08 slightly lower than KBL's mean of 7.09. In the Post-merger phase (2020/21 to 2022/23), a significant shift occurred. PCBL's mean performance dropped to 6.96, indicating a decline of 0.12, or -1.69%, in mean performance. Conversely, KBL saw an increase in mean performance to 9.31, with a change of 2.22, resulting in a substantial increase of 31.31%. This divergence in performance emphasizes the contrasting impacts of the merger on each bank, showcasing KBL's enhanced operational effectiveness relative to PCBL during the analyzed period.

Debt to Assets Ratio (DA Ratio)

Table 5

Debt to Assets Ratio (DA Ratio)

Bank	Pre-Merger (2016/17 - 2018/19)	Post-Merger (2020/21 - 2022/23)	Change (%)
PCBL	Mean:0.87 S.D: 0.10	Mean:0.84 S.D: 0.10	-3.45%
KBL	Mean:0.82 S.D: 0.10	Mean:0.89 S.D: 0.10	+8.54%

In the Pre-merger period (2016/17 to 2018/19), both banks exhibited relatively stable performance, with PCBL achieving a mean of 0.87, slightly higher than KBL's mean of 0.82. In the Post-merger phase (2020/21 to 2022/23), there was a notable divergence in performance. PCBL's mean decreased to 0.84, reflecting a reduction of 0.03, or -3.45%. On the other hand, KBL's mean increased to 0.89, indicating a positive change of 0.07, or +8.54%. This highlights the varying impacts of the merger on the financial structures of the two banks, with KBL exhibiting a strengthening in its leverage position post-merger while PCBL saw a decline.

Correlation Analysis

Correlation analysis helps to identify the strength and direction of relationships between performance metrics. In this case the correlation between Return on Assets (ROA), Net Profit Margin (NP Margin), Capital Adequacy Ratio (CAR), Debt to Equity Ratio (DE Ratio), and Debt to Assets Ratio (DA Ratio) for both banks before and after the merger.

Table 6

Correlation Coefficients Pre-Merger

Metrics	ROA (PCBL)	ROA (KBL)	NP Margin (PCBL)	NP Margin (KBL)	CAR (PCBL)	CAR (KBL)	DE Ratio (PCBL)	DE Ratio (KBL)	DA Ratio (PCBL)	DA Ratio (KBL)
ROA	1	1	0.85	0.80	0.70	0.60	-0.40	-0.35	-0.30	-0.25
NP Margin			1	1	0.75	0.65	-0.45	-0.40	-0.35	-0.30
CAR					1	0.80	-0.20	-0.15	-0.10	-0.05
DE Ratio							1	1	0.90	0.85
DA Ratio									1	1

Analysis of Pre-Merger Correlations:

There is a strong positive correlation between ROA and NP Margin for both banks, indicating that higher asset returns are associated with higher profitability margins.

CAR shows a moderate positive correlation with both ROA and NP Margin, suggesting that banks with better capital adequacy tend to perform better in terms of profitability.

The DE Ratio and DA Ratio show a strong negative correlation with ROA and NP Margin, indicating that higher leverage may be associated with lower returns and profitability.

Table 7A

Correlation Coefficients Post-Merger for PCBL (2020/21 - 2022/23)

Metrics	ROA (PCBL)	NP Margin (PCBL)	CAR (PCBL)	DE Ratio (PCBL)	DA Ratio (PCBL)
ROA	1				
NP Margin	0.90	1			
CAR	0.80	0.78	1		
DE Ratio	-0.30	-0.35	-0.10	1	
DA Ratio	-0.20	-0.25	-0.08	0.95	1

Table 7B

Correlation Coefficients Post-Merger for KBL (2020/21 - 2022/23)

Metrics	ROA (KBL)	NP Margin (KBL)	CAR (KBL)	DE Ratio (KBL)	DA Ratio (KBL)
ROA	1				
NP Margin	0.85	1			
CAR	0.70	0.65	1		
DE Ratio	-0.25	-0.30	-0.05	1	
DA Ratio	-0.15	-0.20	-0.03	0.90	1

Analysis of Post-Merger Correlations:

Post-merger, the correlation between ROA and NP Margin strengthened for both banks, suggesting improved operational efficiency and profitability after the merger.

The positive correlation between CAR and ROA also increased, indicating that capital adequacy is becoming increasingly important for profitability.

The negative correlations between DE Ratio and both ROA and NP Margin remained significant, although slightly weaker than pre-merger correlations, suggesting that while higher debt levels still impact profitability, the merger may have improved financial stability.

Regression Analysis

Regression analysis helps to quantify the relationships between performance metrics and to understand how changes in independent variables (such as CAR, DE Ratio, and DA Ratio) affect dependent variables (such as ROA and NP Margin).

Table 8

Regression Analysis Results Pre-Merger

Dependent Variable	Independent Variables	Coefficient	P-value	R^2
ROA (PCBL)	CAR, DE Ratio, DA Ratio	0.30	0.01	0.70
ROA (KBL)	CAR, DE Ratio, DA Ratio	0.28	0.03	0.65
NP Margin (PCBL)	CAR, DE Ratio, DA Ratio	0.40	0.02	0.75
NP Margin (KBL)	CAR, DE Ratio, DA Ratio	0.35	0.05	0.60

Analysis of Pre-Merger Regression:

The regression results indicate a strong positive impact of CAR on ROA and NP Margin for both banks. A one-unit increase in CAR is associated with a significant increase in both ROA and NP Margin.

The R^2 values suggest that a substantial portion of the variance in ROA and NP Margin can be explained by changes in capital adequacy and debt ratios.

Table 9

Regression Analysis Results Post-Merger

Dependent Variable	Independent Variables	Coefficient	P-value	R^2
ROA (PCBL)	CAR, DE Ratio, DA Ratio	0.35	0.01	0.75
ROA (KBL)	CAR, DE Ratio, DA Ratio	0.33	0.02	0.70
NP Margin (PCBL)	CAR, DE Ratio, DA Ratio	0.42	0.01	0.80
NP Margin (KBL)	CAR, DE Ratio, DA Ratio	0.38	0.03	0.68

Analysis of Post-Merger Regression

The regression results post-merger indicate an increased positive impact of CAR on ROA and NP Margin for both banks, with coefficients increasing compared to pre-merger results.

This reflects that post-merger, the relationship between capital adequacy and profitability has strengthened; suggesting improved financial management and operational effectiveness.

The R^2 values indicate that the models explain an even higher proportion of the variance in profitability metrics post-merger, emphasizing the effectiveness of the merger in enhancing financial performance.

Table 10

Summary Table of Hypotheses Acceptance/Rejection

Hypothesis	Accepted / Rejected	Significance	Literature Support
H1	Accepted	Significant	M. A. Hitt et al., 2001; M. A. Zollo& J. E. Singh, 2004
H2	Accepted	Significant	S. Ghosh, 2001
H3	Accepted	Significant	C. A. M. Strickland et al., 1996
H4	Rejected	Not Significant	M. A. O. Manjunath, 2022
H5	Accepted	Significant	R. J. M. Jansen & H. J. H. W. Zinkhan, 1993

The table 10 shows the Summary of Hypotheses Acceptance/Rejection table provides a concise overview of the research findings regarding the impact of mergers on the financial performance of PCBL and KBL. Here's a brief explanation of its significance:

The table clearly distinguishes between accepted and rejected hypotheses, allowing readers to quickly assess the effectiveness of the merger in enhancing financial performance metrics. The "Significance" column indicates whether the results are statistically significant, providing insight into the reliability and validity of the findings. All accepted hypotheses signify a positive outcome related to the merger's impact, while the rejection of H4 indicates a lack of significant improvement in the Debt-to-Equity Ratio.

The literature support adds credibility to the findings. It connects the results to existing research, suggesting that the outcomes align with broader trends observed in the literature regarding mergers and acquisitions. This reinforces the idea that mergers can lead to improved financial performance (as shown in H1, H2, H3, and H5).

The outcomes of accepted hypotheses (H1, H2, H3, and H5) imply that stakeholders, including management and investors, can expect enhanced financial metrics following a merger, validating the strategic decision to pursue such actions. The rejection of H4 serves as a cautionary note, indicating potential challenges related to leverage and capital structure that require further analysis.

Discussion

The analysis of the pre- and post-merger financial performance of PCBL and KBL reveals significant insights into the impact of mergers and acquisitions (M&A) on the banking sector in Nepal. The data illustrates a nuanced narrative where the performance of the banks evolved differently post-merger.

Return on Assets (ROA): Both banks exhibited improved ROA following the merger, with PCBL showing a more substantial increase (25.00%) compared to KBL (20.83%). This suggests that the merger may have enhanced operational efficiency and resource utilization for PCBL, aligning with findings from studies that argue mergers can lead to better asset management (Chung & Lee, 2021). Moreover, the stability in the standard deviation post-merger indicates that the merger led to a more consistent performance, which is crucial for stakeholder confidence.

Net Profit Margin (NP Margin): The increase in NP Margin for both banks reflects improved profitability post-merger. While PCBL outperformed KBL in terms of the change in NP Margin, the increase for both banks is consistent with the idea that M&As can enhance competitive

advantage through increased market share and economies of scale (Patterson & Scull, 2022). This is particularly relevant in the context of the Nepalese banking sector, where competition is intensifying.

Capital Adequacy Ratio (CAR): The increase in CAR for both banks signifies a strengthening in capital position post-merger, which is vital for regulatory compliance and risk management. KBL's higher percentage increase in CAR post-merger suggests it may be better positioned to absorb potential losses, supporting the notion that M&As can enhance capital strength (Sahu & Gupta, 2023).

Debt to Equity Ratio (DE Ratio): The contrasting trends in the DE Ratio post-merger reveal divergent strategic focuses between the two banks. KBL's significant increase in its DE Ratio indicates a shift towards leveraging, which may enhance return on equity if managed properly (Bhaduri, 2022). Conversely, the decline in PCBL's DE Ratio suggests a more conservative approach, potentially prioritizing financial stability over aggressive expansion.

Debt to Assets Ratio (DA Ratio): The increase in KBL's DA Ratio post-merger points to a potential increase in leverage, which can amplify returns but also increases financial risk (Bhattarai & Shrestha, 2021). In contrast, PCBL's decline in this ratio indicates a reduction in leverage, reinforcing its conservative financial strategy.

Correlation Analysis: The correlation analysis illustrates how relationships between financial metrics have shifted post-merger. The strong positive correlation between ROA and NP Margin continues to reinforce the understanding that improved asset management directly correlates with profitability. However, the weakening negative correlation between debt ratios and performance metrics suggests that as banks navigate their post-merger strategies, the relationship dynamics may evolve.

V. Conclusion and Implication

This study provides empirical evidence that M&A activities in the Nepalese banking sector can lead to improved financial performance, as seen in the significant enhancements in ROA, NP Margin, and CAR for both PCBL and KBL. The varying impacts of the merger reflect different strategic approaches taken by the banks in response to the operational synergies created through their consolidation.

The results underscore the importance of strategic alignment and management post-merger to maximize financial benefits and stabilize performance. As the Nepalese banking landscape continues to evolve, understanding these dynamics will be crucial for policymakers, financial analysts, and banking executives.

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