Jurnal Perspektif Pembiayaan dan Pembangunan Daerah Vol. 5. No. 4, April – June 2018. ISSN: 2338-4603 (print); 2355-8520 (online)

Merger & acquisition strategy for growth, improved performance and survival in the financial sector

Farhan Ahmed [1]; Aneeta Manwani [2]; Shafique Ahmed [1]

[1] Shaheed Zulfikar Ali Bhutto Institute of Science and Technology (SZABIST), Pakistan
[2] Allied Bank Limited, Pakistan

e-mail correspondence: farhan.mba2013@gmail.com

Abstract
This paper aims to provide comparative information on mergers & acquisition activities in the banking sector of Pakistan. This study used accounting ratios to analyze the financial performance of banks in Pakistan after merger and acquisitions. The study utilized secondary data which were taken from Thomson Financial Services Worldwide M&A database, financial statements of bank's corporate website and Pakistan stock exchange. In this study, financials for eleven years (2005-2016) were analyzed by using ratios. In spite of certain limitations, accounting ratios are still reflected as an easy and reliable analytical tool. Ratio analysis, being a time-tested method, is most frequently employed in all financial decision-making processes. The results show that the financial performance of banking sector of Pakistan in the capacities of profitability, and leverage, has been quite satisfactory before the merger deal. It means that merger deal fails to improve the financial performance of the bank, and banks merge with other small or equal size banks only to capture market share, to open Islamic window, for cost-cutting, to create synergy, to gain efficient resources and to unlock hidden values.

***Keywords**: Merger, Acquisition, Financial firms, Financial performance*

INTRODUCTION

The financial sector is the most important component of any country's economy and shares the significant percentage in the gross domestic product of the country. Pakistan's financial sector comprises banks, leasing companies, DFIs, Mutual funds, Modaraba companies, exchange companies, house finance institutes, insurance companies, investment banks, and venture capital. All these financial institutes are under the control of state bank of Pakistan & Security Exchange Commission of Pakistan. More specifically state bank regulated the banks and non-banking financial institutes are being regulated by SECP. The role of financial sector is to provide platform to foreign investor to bring investment through secure channel, to give a proper channel to domestic investor to trade internationally, through financial sector, state bank of Pakistan regulates the economy through monetary policy and to be the source of financing to new business, agriculturists, farmers and individuals at market rates.

The importance of Financial Institutions (FIs) cannot be understated, financial institutions play the role of intermediary between the sources of funds depositors and holder of securities and users of funds like businesses. The economy cannot survive and

grow without the proper and smooth working of the financial institution. The financial institute works as a catalyst for the growth of the economy. The state bank of Pakistan plays a very crucial role in maintaining smooth working of financial institute firstly it ensures the sound working of banks through prudential regulations, secondly, it pursues a growth objective under which it enables financial markets developments and improvement of access to finance. The State Bank of Pakistan (SBP) is united under the State Bank of Pakistan Act, 1956, which gives the Bank the right to function as the central bank of the country. The SBP Act orders the Bank to regulate the monetary and credit system of Pakistan and to foster its growth with a view to securing monetary stability and fuller operation of the country's productive resources. SBP executes both the traditional and developmental functions to achieve macroeconomic objectives. The traditional functions, which are generally done by central banks almost all over the world, may be classified into two groups: (1) the main functions including issue of notes, regulation and administration of the financial system, bankers' bank, lender of the last resort, banker to Government, and conduct of monetary policy, and (2) the second function includes the agency functions like supervision of public debt, management of foreign exchange, etc., and other functions like recommending the government on policy matters and maintaining close relationships with international financial institutions. The non-traditional role performed by the State Bank include the development of financial agenda, the institutionalisation of savings and investment, the establishment of training facilities to bankers, and provision of credit to priority sectors. The State Bank of Pakistan also has been playing an active part in the process of Islamization of the banking system.

State Bank of Pakistan has been trusted with the accountability to formulate and conduct financial and credit policy in a manner constant with the Government's objectives for growth and inflation and the sanctions of the Monetary and Fiscal Policies Co-ordination Board with respect to macroeconomic policy objectives. The basic objectives are the maintenance of monetary stability, leads towards the stability in the national prices, as well as the promotion of economic growth. One of the essential responsibilities of the State Bank is regulation and supervision of the banking financial system to ensure its reliability and stability as well as to protect the interests of depositors. SBP also plays to regulate foreign exchange value of country and regulate these functions under the foreign exchange Act 1947, under this Act SBP authorize the banks to buy and sell foreign exchange in order to maintain sustainability.

State of Pakistan has a control on the operation of banks by the tools of capital adequacy ratio CAR and paid-up capital. Banking sector of Pakistan is the important source of finance, import and export proceeds, financial management and payment settlement. Basel accord was applied to ensure capital obligations and to cope up with unforeseen unabsorbed losses. According to this accord, two capital standards have been forced on Pakistani banks; the first one is known as a minimum capital requirement (MCR) and the second one known as capital adequacy ratio (CAR). The banking sector of Pakistan is one of the financial sectors and it is comprised of 34 commercial and 4 specialized banks, it functions as facilitation of payment system, allocation of loanable funds, saving mobilization. Banking sector of Pakistan complies with the Basel III standards.

The banking sector in Pakistan has undergone changes since its beginning. In March 1947, 99 commercial banks listed on the Second Agenda of Reserve Bank of India were operating a network of 3,496 branches in united India. After the statement of

partition on 3rd June 1947, all the banks having their registered offices in Pakistan transferred them to India. Further, Indian banks closed a large number of their offices in Pakistan, due to which the number of scheduled bank offices declined from 487 in March 1947 to only 81 on 30th June 1948.

Over the years major changes have taken place in the banking sector, 80% of the banking assets are controlled by the private sector and the privatization of nationalized commercial banks has carried a culture of expertise and service orientation in place of bureaucracy. Banking sector in Pakistan is divided into four group: Large banks (Total assets in excess of 900 Million), medium size banks (Bank's asset is in the excess of 150 Billion and less than 900 Billion), small banks (Total Asset is less than 150 Billion) and Islamic banks (All banks in Pakistan carrying out the Islamic banking transactions). Competition in the banking sector in increasing day by day due to changes in the global environment, every other bank wants to raise its market share by providing efficient services to its clients. Many banks go for merger and acquisitions for improved performance and use this as a strategic tool in the financial sector. Banks move to mergers and acquisitions in order to increase market share and to reduce the number of competition in the market.

During last decades many theories have been conducted on the M&A's impact on banks profitability. Mehmood and Loan (2006) concluded that M&A'S provide cost efficiency, shrink banks cost which becomes the basis of increment in banks profitability. Resti (1998) argued that merger and acquisitions strategies increase efficiency if the management has full control over the organization. Lo et al, (2006) argued that there is a positive relationship between merger and acquisition and cost saving, it also effects on profitability because merger strategies increase the capacity of production and resources to attract loans, power, skills and management control. Business grows as new blood inducted with new stakeholders who have power and intelligence to control the banking operations. According to Dymski and Gary (2002) stated, organizations go for merger and acquisitions in order to strengthen their financial positions through increased financial resources, production increases and companies are able to fulfil demand .sometimes mergers are need of government policies. New markets can be accessed to increase sales, performance through mergers.

Many studies proved that these mergers and acquisition improve the price effectiveness because of these profits of banks increases. Effective performance is not compulsory for all organizations as Hubbard (2001) stated, half of the organizations could not attain desired objectives, because of different objectives of both entities, culture, policies, mission and vision. Different ratios and analysis have been taken out to find the effect of merger and acquisitions has on the performance of banks in Pakistan. Due to merger and acquisitions organizations are in a position to take the decisions strategically, banks take actions on stock prices more accurately as they have expertise as a result of merger and acquisitions, management changes take place and bring about new policies and procedure to respond the market efficiently.

Purpose of Merger and acquisitions is to benefit organization with different cultural values and to share the control of a joint entity with another owner. In banking sector of Pakistan, major changes have been seen and reforms took by state bank of Pakistan, factors that lead to merger and acquisitions are regulatory requirements, legal framework amendments, and for-profit, state bank of Pakistan made a criteria to maintain the capital adequacy ratio and minimum paid up capital for banks to sustain its existence, otherwise banks combine together if they fail to do so.

State bank of Pakistan focus was to merge the Pakistani banks during the 1900s and to decrease the number of banks; the minimum capital requirement was 6 Million by 2009.

All banks have to fulfil these obligations imposed by SBP to sustain its existence otherwise there are merger and acquisitions takes place. The results of merger are improving value of stakeholders and enhance efficiency, enhancing personal control, and to strength the financial control over weaker banks A phenomenal change has been seen in the banking industry of Pakistan in recent years, owing to The liberal reforms executed by the State Bank of Pakistan and the effective restructuring of banks. The Industry has been changed from slow-moving, government-dominated sector into a much more active, competitive and profitable industry.

State bank of Pakistan is the authorize body that regulate all banking sector for smooth working of economy and management of financial transactions, for regularization of economy , the state bank of Pakistan announces the minimum paid-up capital and ordered to open certain number of branches also the capital adequacy ratio required to maintain and sustain in competitive market . In order to meet these challenges and to maintain paid-up capital, banks move towards merger and acquisitions. Mostly those banks which could not meet the minimum capital requirement are forced to merge with another bank. For acquiring a bank, this is one of the strategies for growth and expansion in the market but there are some risks and challenges arise after merger and acquisitions as different banks with different work behaviour, Strategy, policies combine in order to gain corporate development and growth. The vital importance of merger on the performance of banking industry has not been fully explored thereby creating a research gap in this area. Hence, this research work will examine the effect of merger and acquisitions on the performance and growth of the financial sector. How internal and external factors effect on profitability, market value and leverage of the bank.

The reason for the review is to look at the effect of merger and securing of banks on their budgetary execution. Since keeping money rebuilding is a fundamental piece of the nation, saving money specialists need to centre that whether this merger or securing increment the budgetary wellbeing of the substances or not, sound managing an accounting framework is essential for the monetary development and soundness.

For any business to get business in the marketplace and to gain a market share, it is very compulsory to beat the competitor and achieve the success. Merger and acquisition are the strategic tools adopted by most businessmen for improving performance and business enlargement. This Merger strategy has been used by the organization for decades in order to increase the efficiency and profitability. This strategy has been visible in most of the developed countries as compared to developing countries. From recent years, developing countries have also adopted this strategy as a tool for survival and growth in their respective field.

Awan and Mahmood (2015) described that merger and acquisitions are carried out by most of the banks in financial sector because of synergy they want, banks go for this strategy in order to expand their business or branches, in this way the performance of banks increase and get full resources for its working, a high network of bank branches. They argue that performance of banks also affected sometimes as the top management of acquiring bank overestimate their abilities and cannot deliver as they planned. Merger and acquisitions have a greater impact on the performance of banks on a short-term basis and less on a long-term basis only if banks make continuous efforts to

prove it. Government plays a great role in helping organizations to provide the platform to operate and earn revenue in the strategy.

Sapienza (2002) explained the effect of merger and acquisition on borrowing facilities of creditors, he explained that mergers bring efficiency to banks that are profitable for borrowers, and after merger and acquisitions the interest rate applicable to borrowers decreases. Further, if mergers occur between two large banks then the interest rate is higher and borrowers suffer, it monopolize power in the market.

Forcarelli, Panetta and Salleo (2002) described the purpose of mergers in financial sector is the financial service and integration in market, and quality of loan also affected, banks go for merger and acquisition for full integration in target market, large banks already holding the market with strong services and product portfolio so the acquirer bank need to capture the market and merge with the same bank to hold their target customers. The author argued that the efficiency of banks after merger only increases if the quality of loan increases.

Hagendorff and Nieto, (2015) described the effect of banks mergers in Europe on soundness of both acquirer and acquiring banks, it emphasize that the prudential regulations play a important factor in working and profitability of banks after merger and acquisitions, in European countries after introduction of Euro ,this study focus on the capitalization impact on short term period after merger, liquidity and earnings, acquirer bank to a lesser extent than target bank be stronger financially if the supervision and regulatory requirements of acquirer are strong, also the strict regulatory requirement make it tougher for banks to make bad mergers.

Doukas and Zhang, (2016) examined that top manager received handsome pay after merger and acquisitions of the organization, it includes compensation which increases with firm size, target size, value creation for bidders, and synergies that created from mergers are checked in the banking sector and described that managers are chasing extra pay after the merger. Manager's envy is the reason for merger and acquisition. Empirical analysis shows that bidder's market capitalization has not any change from the target banks, acquiring banks are smaller in size in early stages of merger than at the late steps of merger waves, also the transaction value at the initial stages is smaller than that of later stages, early mergers are linked with increased bidder returns than late mergers and larger long-term performance. Higher synergies tend to increase at the early stage of a merger than those of late merger. Mergers and acquisitions are also affected by envy pay. This study has less linked with envy pay from its results on the propensity of the merger. The main cause that envy pay among top managers generates bank's mergers and acquisitions waves, envy pay is the driven force behind merger and acquisitions in the banking sector at top managerial level.

Merger waves in the banking sector have not examined eagerly as compare to industrial merger waves envy is the feeling by admiration and the comparison of qualities possessed by other person, decisions are merger is also based on top managers pay scales that acquirer bank offer and target bank pay. The stock valuation has a strong impact on mergers, at the time of bull and bear market acquirer bank find the undervalued banks and target them. Mergers and acquisitions at the earlier era give higher bidder return, small targets, and high compensation gains from acquirer top managers as compared to late acquisitions in merger waves.

Hagendorff and Keasey, (2009) examined European banks adopted a cost-cutting policy by improving efficiency level and also cost-cutting at both levels that is labour cost and lending. The United States of America on the other side, try to increase

interest and non-interest income after the merger and acquisitions period. Efficiency can be seen through the return of assets ratio, return on equity ratios, banking sector of the USA and Europe differ structurally, as in the United States of America, series of deregulatory measures examined, and in Europe, introduction of Euro, its integration in capital market in Eurozone has increased competitive pressure for banks from customers and capital market. Here two strategies are defined to increase efficiency that is cost cutting (labour) and by increasing revenue (financial products offering), European banks try to minimize the non-interest expenses and retreat the lending procedures after merger period. The US engaged in revenue increment strategy that focuses on increasing non-interest and interest based income. European banks give small gains performance wise but the US does not show any changes in performance level after the merger of banks, Europe focus on product diversity and cross-border mergers, in Europe it takes three years for banks to generate revenue performance wise, several studies are predominant in Europe and USA.

Pasiouras et al., (2011) concluded the empirical investigations linked with bank's capital market and has the impact of the regulatory framework and capital adequacy requirements, disciplinary power, accounting information and liquidity. This study focuses on the regularity framework and supervisory power to find the bank acquisition as target and acquirer as compare with non-acquirer. Acquirer and acquiring bank both are larger in size, capitalize and little cost-efficient, target bank is less profitable and low growth opportunities than those of acquires. Highly liquidity firm less likely to open itself for merges. Acquisitions and mergers occurred to gain market power in European countries to maintain their position within national borders. Banks working in the strong regulatory environment are less intend for mergers also banks need to maintain high capital adequacy ratio standards. Low regulatory requirements like less control on accountability, less disciplinary actions and diversifications force the acquirers to involve in merger and acquisitions.

Karceski, Ongena and Smith, (2005) estimated the impact of merger and acquisitions on bank's borrowers share value price. Target bank always gets lost in equity value and acquiring bank get positive returns, debtors welfare in affected by strategic focus, target bank's debtors lose their long-term relationship with negative returns. This study examines how share price effects and shows volatility after the news of banks merge and borrowers buying pattern also switch in Norway. These mergers also bring various changes like services offered by bank and removal of personnel who are valued by target borrowers.

Haushalter and Lowry (2011) showed the relationship between the stakeholders and analyst of investment bankers, a bundle of information from an analyst of investment bankers flow to many departments of banks, any changes in shareholdings of acquirer are linked with changes in the wording of analyst. This theory shows that recommendations by an advising bank's analyst are more valuable for an acquirer following a merger. There is a conflict of interest exist between investment banker's analysis and acquirer bank that relies less on recommendations. Variations between recommendations occur are based on the different viewpoints that change in analysts and information set and incentives behind these recommendations.

Kumar (2013) described that for the banking system to maintain its position and gain market share, consolidation is necessary between banks as it has a major impact on profitability and efficiency of acquirer bank. He concluded that improvement and proper working is necessary for banks to sustain and earn profitability in all departments after

merger and acquisitions. He argued that competition is necessary between local and foreign banks and every bank need a global identity to remove excess capacity and also public structure and policy is the base for banks to merge, banks merge to be a strong financial sector. Central bank's main concern is the financial stability as integration reduced cost, brings down competition, better access to market and use of technology and reduced economic dependence.

The author discussed that various reason is required to exist for merger and acquisition to implement effectively that is growth, cost and improved return on asset. These attributes are necessary to compete internationally. Controlling bank maintains stability by managing functions of banks by trying not to give them the power to monopolize in the market after the merger, but this step only leads to the public interest. The last strategy to absorb loss is the capital acts, therefore, merged entities should be adequately capitalized to meet requirements. Merger and acquisitions create the large financial conglomerates, no single shareholder or group is powered to influence the banks and authorities should confirm that existing practices are strong and control such entities.

Nadia, (2015) explained the performance of the targeted banks in Pakistan that is an Allied bank, NIB bank and Faysal bank. After the merger, banks do not show performance in long run but after continuous improvement of three to four years, it shows improvement and growth. This study shows the empirical results and measure performance on return on Assets, return on equity and earning per share. Results show that asset efficiency of two banks increases and one bank decreases after merger and acquisition, but on the average performance decline in the merged year and increases after few years. Return on equity also shows the mix results, increase in 1 bank and decreases in other banks.

Kemal, (2011) concluded that merger and acquisitions do not guarantee the performance increment in the area of profitability, liquidity, leverage and cash flows. Twenty ratios have been used to analyse the performance within four years; the average of these ratios shows that merger of royal bank of Scotland into Faysal bank fails to increase its profitability; this merger proves to be a failure in banking history.

Smirnova, (2014) analyzed the factor that motivates the merger and acquisition process in banking sector, thirty-eight second-tier banks have been analyzed and their behavior in merger and acquisition deals .empirical findings suggest that there have been two waves of merger and acquisitions in Kazakhstan .the first wave was base of weak insolvent banks, government reorganization program and privatization of banks. The second waves took place on the 2000s when foreign banks attracted and started their investment; the government took action and nationalize insolvent banks, study shows that banks faced liquidity issues at the time of merger and acquisitions and to stabilize the situation, the government of Kazakhstan implemented the nationalize program and obtained control in the insolvent banks. Some merger and acquisitions in Kazakhstan are the results of desire to grow and expand its operations internationally and to raise fund, increase shareholder's value and grow revenue, increase the client portfolio and to provide diversified products and services, and other bases of merger and acquisition are the competitive forces, economic, legal and political pressure and technology-driven forces.

Ahmed and Nadeem (2015) defined merger and acquisitions by which banks raise their resources and enjoy the benefits, merger and acquisitions gives an organization a joint effort to work effectively, a large number of resources, knowledge,

skilled team members all these factors combine together and provide positive results after merger and acquisitions. The author described that in Pakistan figures of merger and acquisitions are not effective and proven as compared to developed countries because in Pakistan, the decision of merger and acquisitions done without proper working and considerations. Results of this study concluded that in Pakistan, not all merger and acquisitions are effective and result oriented as banks need to get more information before going for merger and acquisitions and consider all other factors like the environmental factors, stake holder's value, market viability, market value and market position of target bank.

Ghosh and Dutta (2015) explored that for Indian banking industry , merger and acquisitions is a tactical move for capital restructuring and to increase performance through selected HR and financial parameters .three parameters have been selected in this study that is Return on capital employed and earning per share and capital adequacy ratio showed a positive performance indicators in post-merger period. These parameters show a little change in post-merger phase.

Abbas et al., (2014) explained banks use merger and acquisitions as a strategy to survive in the dynamic business environment. Pre and post- merger and acquisitions financial ratios have been analyzed and result defined that there is no such improvement after merger and acquisitions, there is visible low profitability, liquidity and efficiency; only the portion which increases after merger and acquisitions is the investment bucket. The reason which is explored of low performance after merger is the financial crises of 2007 and another reason is the globalization and liberalization .it is concluded that merger and acquisitions do not perform well in banking sector of Pakistan, in this country regulatory bodies should evaluate the policies and procedures and have a strict compliance on merger and acquisitions , security and exchange commission of Pakistan must have a strict checking on these deals, top management does not play an important role to adopt the latest techniques to change the structure of banks, instead they opt for merger and acquisitions without proper knowledge and expected returns.

Rahman and Ayorinde (2013) analyzed the Nigerian banking sector to check the impact of merger and acquisitions on bank performance, and the results show that there is a strong and positive relationship of bank performance with the merger and acquisitions as the latter is the strategic decisions taken by top management to gain market. Bank merger results into improved performance, in Nigerian banks merger and acquisitions, has increased in return on equity, return on asset and profit margin. Merger and acquisitions have increased both the operational and financial efficiency, banks have significantly increased their profit strength after merger and acquisitions. The merger has been used as a strategic tool in gaining profitability and performance, capital structure, asset profile, credit risk. This strategic decision has strongly and positively influenced bank performance.

Shanmugam and Nair (2004) identified the factors that have to lead the merger and acquisitions also in Malaysia, factors are information technology developments, liberalization and globalization have created an eagerness for the competitive financial system in Malaysia. Merger and acquisitions have been seen as a pre-condition and strategic tool to create a competitive, efficient and strong banking systems, merger and acquisitions with other tools like expertise, professionalism, corporate governance and effective policies brings a change in performance of banks. The author declared the merge and acquisitions as the first step in the mission, less branch network, saving on manpower, services of banks has been available at low cost, now after merger and

acquisitions merged banks now draw more attention towards a smooth transition in the integration process of the businesses.

Estanol, Heidhues, Nitsche and Seldeslachts (2010) described that acquirers screen the target bank for proposed merger according to their skills to generate revenue and synergies, during booms, large and small mergers becomes smaller, during booms merger process is intense and low in recessions. In favourable environments, benefits and return of merger are less efficient. As horizontal merger model explained that positive difference in fundamentals generates high in merger activity.

Carletti, Hartmann and Spagnolo (2007) defined the impact of merger and acquisitions on bank's loan competition, liquidity and holdings, merger and acquisitions create money supply internally and creates liquidity that leads to financial cost efficiency , after merger and acquisitions banks increase their reserve and holdings through the internal system and through diversification effect it decrease the same. Merger and acquisitions also have an impact on loan competition as it modifies as diversification increases further, merger and acquisitions among large banks tends to increase liquidity through a monetary system of the central bank. This study analyzed the bank's merger on market competition, liquidity within the banking system and reserves, merger and acquisitions increases and decreases the holding, liquidity either decreasing or diversification effect.

Panetta, Schivardi and Shum (2009) confirmed that merger and acquisitions lead to informational improvements, merger and acquisitions has correspondence between individual risk and interest rates of market, this study explored that after merger and acquisitions, larger bank charge higher interest rates from high risk borrowers and less risk holder borrowers get low interest rate on loan facility, after merger and acquisitions , merged bank has strong working on interest rate and individual profiles, results shows that after merger and acquisitions price of loan differs across banks, high working or high-quality firm get negotiable rates from banks while risker firm get high-interest rates from banks.

Abbas, Hunjra, Azamijaz and Zajid (2014) explained the merger and acquisitions as a growth strategy implemented by organizations to meet the requirements of a dynamic world, this study concluded that there is no positive improvement in the financial performance of banks after merger and acquisitions. The financial ratio has been analyzed to identify the performance of banks after merger and acquisitions, results show there is no improvement in the financial sector, there is a visible decrease in efficiency, liquidity, profitability and leverage of banks instead there is a negative improvement and decrease efficiency.

Oloye and Osuma (2015) concluded from its study that merger and acquisitions are the reforming strategies to revive the banking sector, profit after tax and funds of shareholders are taken are variables to analyze the efficiency of banks pre and post-merger and acquisitions eras in Nigeria .merger and acquisitions use the resources effectively and create the synergies. This synergy created the shareholder's value and profit after tax in Nigeria.

Further research need to be done as to clarify the picture that why banks go for merger and acquisitions as this decision does not only aim to gain profitability, increase market value and reduce leverage ratios but other economic factors also affect the post-merger financials of banks, so all those need to consider before going towards merger and acquisition. There is area to research further, about bank's policies, interest rate, inflation rate, cost of deposit all factors have room to conduct further research. There is

a need to analyse why state bank of Pakistan allows for merger and acquisitions to smaller banks which fail to maintain CAR and MCR, not play the role of lender of last resort and does not support financially to debt-burdened banks.

METHODS

The study is the quantitative base so first is to set variables that encourage the merger and acquisitions, collect secondary data from bank's financial statement, a convenient method is used to gather data and apply scientific tools to analyse the results and represent the data in the generic form. Population consists of all merger and acquisitions have been made during the period of 2005 to 2016 in the banking sector of Pakistan. We have selected the banks as discussed: Meezan Bank Ltd, Habib Bank Ltd, Summit Bank Ltd, Standard Chartered Bank Pakistan Ltd, and Allied Bank Ltd, NIB, Faysal Bank Ltd, JS Bank Ltd, Askari Bank Ltd and Bank Islami Ltd. Various proxies for growth, improved performance and survival are taken. Earning per share (EPS) is calculated as a proxy for growth, return on assets (ROA), return on equity (ROE) and net profit margin (NPM) as a proxy for improved performance and debt to equity as a proxy of survival. These ratios are undertaken to assess the pre and post-M&A (Mergers and Acquisition) effects.

RESULTS AND DISCUSSION

Ten years data 2005- 2016 often banks has been analyzed by using descriptive statistics specifically averages/mean, and then average pre-merger and post-merger data are used to interpret and conclude the results.

Table 1. List of M&A banks in Pakistan

List of merged banks in Pakistan	M &A activity
HSBC and Meezan bank ltd	2014
Barclays and Habib bank limited	2015
Arif Habib and Summit Bank	2010
Union Bank and Standard Chartered Bank of Pakistan	2006
Ibrahim Leasing and Allied Bank limited	2005
Picnic and NIB	2007
RBS and Faysal bank limited	2011
Jahangir siddiqui investment bank and JS Bank	2006
Askari Leasing Ltd and Askari Bank	2010
KASB Bank and Bank Islami	2015

Source: Thomson Reuters DataStream

Individual analysis of each bank has been done and results are discussed individually.

Table 2. Performance indicators of HSBC & Meezan Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	0.72	0.8	0.83	0.96	1.61	3.31	3.43	3.87	4.47	4.74	6.04
ROA	0.7	0.6	0.73	0.98	1.18	1.91	1.48	1.31	1.19	1.04	1.03
ROE	9.3	9.9	10.4	13.53	16.28	27.28	23.13	22.3	21.36	20	20.64
NPM	16.4	15.1	15.55	19.35	24.45	32.48	28.16	28.2	26.01	22.43	24.25
D/E	0.7	0.93	0.83	0.96	1.61	3.31	3.43	3.87	4.47	4.74	6.04

Source: Bank's Annual Report

Table 3. Average of pre-merger and post-merger data (HSBC & Meezan Bank Limited)

	Pre merger	Post merger
EPS	1.94	5.08
ROA	1.11	1.09
ROE	16.52	20.67
NPM	22.46	24.23
D/E	1.95	5.08

As per table 2 and 3 show the Pre-Merger and Post-Merger effects on Banks Profitability. The result shows average Earning per share, Return on Assets, Return on Equity, Net Profit Margin and Debt to Equity Ratio, Which shows the overall performance of the company. We have taken the ratio of the profit because we want to analyze the profit trend. How companies get higher profit by using acquired banks synergy. As per above chart, It is easily observed that Post merger results are better than pre mergers, which is very rare in the banking industry of Pakistan, Normally in the banking industry of Pakistan after M&A the performance of the firm does not increase significantly. Here is the reason for the significant change in the profitably of the Bank having multiple factors. One the main reason for the M&A of Meezan Bank to HSBC, Which was a European Bank, is to take over the Multinational Clients. As this statement is also being discussed by (Asad & Mehmood, 2017) in their study that banks want to acquire the synergies of another bank. So for the Meezan banks, corporate clients of HSBC was Synergy for them. As per an article published in the Express Tribune in Pakistan on Dated, SEP-17-2014, The Main Reason for the merger is to take corporate clients of HSBC I.E Multinational Company having a head office in Europe were maintaining accounts with HSBC. Furthermore, Pakistan is the second most populous Muslim county in the world. It was part of their strategy to increases Branch Network as well, so it was the golden opportunity for the Meezan to take over HSBC and to expand more and increase its profitability. Meezan Bank has a competitive advantage such as its Islamic Bank and having a wide network of branches. As per the appended chart, the results shows the significant impacts on companies Profitability and overall performance.

Table 4. Performance indicators of Barclays & Habib Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	18.3	14.49	11.83	14.7	14.17	18.82	16.17	14.94	21.21	24.18	21.69
ROA	0.21	0.01	0.02	0.02	0.02	0.02	0.14	0.14	0.18	0.17	0.13
ROE	0.28	0.19	0.18	0.18	0.17	0.20	0.18	0.17	0.20	0.20	0.18
NPM	0.24	0.27	0.28	0.30	0.32	0.35	0.33	0.31	0.348	0.33	0.31
D/E	0.63	0.5	0.72	0.63	0.43	0.36	1.49	0.77	0.28	1.98	1.72

Source: Bank's Annual Report

Table 5. Average of pre-merger and post-merger data (Barclays & Habib Bank Limited)

	Pre merger	Post merger
EPS	16.07	22.94
ROA	0.08	0.15
ROE	0.19	0.19
NPM	0.30	0.32
D/E	0.65	1.85

Table 4 and 5 above show profitability and leverage data of Habib Bank Ltd (HBL) over the ten years and averages of financial ratios shown in this column. The

ratios that are used in this research are earning per share, return on Asset, and return on equity, net profit margin, debt to equity ratio. 10 years data has been taken from 2006 till 2016 to analysis the pre and post effects of merger and acquisition in this specific bank of Pakistan. Habib bank ltd has acquired and merger into Barclays bank in 2015, states that earning per share of HBL after acquiring Barclays has increased from 16.07 to 22.935 which is a significant change. Return on Asset, Return on Equity, net profit margin has also increased but not significantly, the debt of HBL has also risen significantly. The reason of increased Profitability ratios is the position of Barclays bank, as it was the 28th largest bank of Pakistan in 2014 and the trend of capturing international clients and expanding of the portfolio was prevailing on that year.

Another reason was the global crisis in 2008 which has strengthened the rules and regulatory requirements and it became very difficult for banks to maintain capital adequacy ratio and to maintain paid-up capital so international banks like Barclays decide to wind up its operations so HBL acquired it in 2015 and due to strong market value and international consumer portfolio of Barclays leads the earning of HBL's share to high side. After merger profit of HBL has decline in 2016 which has reduce, also the debt burden has increased as it also take over the debt of Barclays, the merger has not provided the significant results as the improved earnings per share ratio leads to other reasons also like, HBL involvement in CPEC in 2015 and its interest in opening branch in Urumqi.

Table 6. Performance indicators of Arif Habib and Summit Bank

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	1.1	0.65	-0.38	-4.13	-0.65	-1.53	-2.54	-1.52	0.16	0.15	-0.11
ROA	0.01	1.93	-0.9	-6.64	-5.68	-1.3	-1.93	-1.06	0.000	0.034	0.0089
ROE	0.02	4.89	-3.07	-40.5	-80.22	-30.79	-65.14	-89.97	0.000	2.39	0.1513
NPM	0.04	0.89	-0.39	-4.02	-0.613	-0.7	-19.8	-0.17	0.004	0.215	0.691
D/E	0.13	33.7	31.7	43.48	161.2	385.7	1128.5	1291.7	341.8	523.3	489.23

Source: Bank's Annual Report

Table 7. Average of pre-merger and post-merger data (Arif Habib and Summit Bank)

	Pre merger	Post merger
EPS	-0.69	-0.86
ROA	-1.40	-1.42
ROE	-9.67	-37.65
NPM	-0.87	-2.91
D/E	27.27	617.38

Analysis has been done for the profitability and leverage ratios of Summit bank (See Table 6 and 7 above) from the years 2006 till 2016 to show the difference in pre and post-merger in the financial ratios in order to conclude that how much changes merger and acquisitions bring for acquiring a bank. This financial ratio shows that earning per share has further reduced from -.69 to -.862 which shows that EPS has been in the negative side for the three years till 2013 after that it shows a positive indicator for the growth of summit bank. Return on asset shows a further decline in values as bank incur losses from 2010 till 2014, although assets base has increased over the year due to the merger due to profit (loss) after tax, there is no improvement shown in results after the merger. Return on equity shows the same loss in profit and constant shareholder's equity which has increased the gap on ROE before and after merger after merger total liabilities of summit bank has increased sharply which shows a Hugh negative debt to equity ratio.

From the data, it shows there are no general reserves available for the company to use it in operations in order to increase its shareholder's equity. In fact, the merger has increased the debt ratio for summit bank, from 2014 values and ratios turn into a positive and increasing trend when bank inject 500 million advances from shareholder and number start to rise. From 2014 onwards, due to PSX and economic indicators shows positive indicators and move market upward. This marginal fall in deposits is reflective of the Bank's focus on cost reductions and growth of low cost and CASA deposit base. Economic indicators affect less improved ratios after the merger that are high inflation 2010 onwards, low growth, lesser revenue collection and high fiscal debt leads to low investment and spending of public and leads to high debt.

Table 8. Performance indicators of Union Bank & Standard Chartered Bank of Pakistan

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	3.06	2.8	1.5	0.72	0.19	0.95	1.41	1.54	2.28	2.45	2.39
ROA	2.78	1.18	0.27	0.38	1.29	1.78	1.81	2.1	2.52	2.24	2.46
ROE	5	6.62	1.38	1.66	7.87	10.96	11.64	19.08	16.49	15.05	17
NPM	24	30.1	5.03	-1.54	5.52	11.14	15.88	20.44	27.41	23.18	24.18
D/E	73.15	35.49	23.8	49.54	47.05	47.81	71.6	74.8	60.86	82.83	70

Source: Bank's Annual Report

Table 9. Average of pre-merger and post-merger data (Union Bank & Standard Chartered)

	Pre merger	Post merger
EPS	3.06	1.62
ROA	2.78	1.60
ROE	5	10.78
NPM	24	16.13
D/E	73.15	56.38

Standard chartered bank has entered into Pakistan in 2005, pre and post merger data shows its overall efficiency and effectiveness, earning per share shows decline on average from 3.06 to 1.623, which means net profit shows a downward trend as bank has not express any profitability therefore, return on asset also declines from 2.78 to 1.603 as SCB asset has increased after merger but have not used its resources efficiently, return on equity increased significantly from 5 to 10.775 on average as improves shareholder's equity has given a rise to ROE, again due to low-profit revenue has also declined which bring down to net profit margin significantly, due to increased shareholder's equity ,debt to equity has reduced more significantly from 73.15 to 56.378, this is positive trend for bank after merger that its debt has reduced and has the capability to pay its long term debt from its equity portion (See Table 8 and 9).

Table 10. Performance indicators of Ibhrahim Leasing and Allied Bank limited

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	-0.01	2.8	3.84	3.56	4.27	6.25	6.58	8.95	10.38	9.41	13.28	13.37
ROA	-0.03	1.99	1.43	1.24	1.87	1.96	2.17	2.1	2.27	2	1.71	1.44
ROE	-0.55	31.83	23.54	20.91	30.68	29.04	29.75	29.33	26.48	20.51	17.84	15.32
NPM	-0.6	31.76	21.74	13.77	10.77	15.97	17.97	18.99	16.94	23.03	18.37	19.92
D/E	15.7	142.88	157.14	160.1	187.4	97.43	157.5	116.9	55.78	84.71	153.0	124.1

Source: Bank's Annual Report

Table 11. Average of pre-merger and post-merger data (Ibhrahim Leasing and Allied Bank Ltd)

	Pre merger	Post merger
EPS	-0.01	7.989
ROA	-0.03	1.819
ROE	-0.55	24.34
NPM	-0.6	17.747
D/E	15.7	129.444

In Table 10 and 11, Allied bank shows a positive trend after acquiring ibhrahim leasing in 2005, earning per share shows a positive improvement on average as it rises -.01 to 7.989 it means bank has earned significant profit and number of share has also increased which gives a positive and upward movement in earning per share, that leads to growth of bank and improve market value, return on asset also increase from -.03 to 1.8 but not significantly due to inefficiency of bank in utilization of assets, and return on equity also gives positive sight with increasing trend from -.55 to 24 , it has increased significantly as profitability and improved shareholder's equity has to move ROE in positive side . due to profit and improved revenue bank's NPM shows a significant change from -.6 to 17.747, overall profitability ratios have shown positive trend and upward movement, only debt to equity has shown negative trend as it debt has increased from 15.7 to 129.44 on average. This bank has shown overall upward and shows there is a positive sign after merger and acquisition in this bank.

Table 12. Performance indicators of PICIC and NIB

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	0.13	0.11	0.37	0.25	0.31	0.18	0.13	0.19	0.15	0.21	0.25
ROA	1.75	-0.06	-4.96	1.15	-5.09	-0.92	0.53	1.04	1.32	1.38	1.43
ROE	2.92	-0.99	-23.79	3.63	-39.05	-18.76	1.8	10.21	-4.41	14.47	17
NPM	0.003	-0.005	-0.09	0.008	-0.61	-0.14	0.002	0.94	-0.03	0.16	0.17
D/E	214.17	51.09	72.03	162.83	604.34	375.55	573.6	370	431.93	608.83	689

Source: Bank's Annual Report

Table 13. Average of data pre-merger and post-merger

	Pre merger	Post merger
EPS	0.13	0.215
ROA	1.75	-0.418
ROE	2.92	-3.989
NPM	0.003	0.0405
D/E	214.17	393.92

The tables 12 and 13 above shows the averages of financial ratios done to analyse the performance of bank after merger and acquisition, data has been taken from 2006 till 2016, where the merger of NIB has taken place in 2007, table describes the pre-merger data and post-merger data. There is an increase in EPS after M&A which is an indicator of positive improvement in the profitability of bank after Merger and acquisition. Nib bank faces loss after merger from (490) in 2007 to (7475) in 2008 which contributes to EPS and lower return on asset, although total asset has increased after merger loss has reduced the over efficiency of bank which leads to reduced ROA and ROE, debt burden has increased after merger shows high number from 214 pre-merger to 393 in post-merger years. Financials of nib bank shows the overall positive sign in variables, it means merger has taken favourable climate to NIB to increase profitability and decrease its debt ratio but other economic factors hit the bank and show

a loss in few years after the merger. After the merger in 2007, the overall profitability of bank in 2008 decline as high inflation and high-interest rate results in high cost of deposit and operating expenses. Non-performing loans also increased due to the weaker economic environment and higher cost of borrowing.

Table 14. Performance indicators of RBS and Faysal Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	2.56	2.35	1.9	1.9	1	1	1.06	1.18	1.54	2.06	3.52
ROA	2.47	1.78	0.91	0.91	0.54	1.13	1.03	0.56	0.67	1.04	0.98
ROE	32.17	22.61	10.92	11.21	8.52	7.43	7.79	8.56	10.22	14.91	15.59
NPM	29.26	17.17	10.93	4.66	11.63	0.87	3.02	5.01	5.32	11.14	12.79
D/E	211.58	129.34	153.14	329.29	254.42	265.09	234.97	236.01	256.94	320.44	405

Source: Bank's Annual Report

Table 15. Average of pre-merger and post-merger data (RBS and Faysal Bank Limited)

	Pre merger	Post merger
EPS	.942	1.73
ROA	1.322	0.90
ROE	17.086	10.75
NPM	14.73	6.36
D/E	215.554	286.41

In table 14 and 15, comparison of profitability and leverage ratios of Faysal bank before and after its merger and acquisition with RBS bank 2011 is given that shows the 10 years data before and after merger data on Faysal bank's operations and profitability and leverage. Here the earning per share has reduced after merger and acquisition in 2011 which indicates decrease in profit of bank and increase in share capital and outstanding share, the overall decline in profitability of bank has reduced return on asset, return on equity and net profit margin and earnings per share although there is growth in share outstanding, there is upward trend in total liabilities which has increase debt to equity ratio, table shows increasing trend in earning per share after merger, and slow improvement in ROA and ROE and NPM has also increased, but overall on average EOS, ROA, ROE, NPM has not shown any significant improvement and debt to equity has increased significantly which is negative indicator for faysal bank.

Table 16. Performance indicators of Jahangir Siddiqui Investment Bank and JS Bank

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	31.9	47.7	0.09	0.11	-0.98	-0.66	0.42	0.7	0.33	0.99	1.74	1.77
ROA	0.07	0.08	0.5	0.53	-1.64	-1.16	0.79	1.06	0.4	0.585	0.1752	0.173
ROE	0.24	0.25	0.87	1	-10.43	-7.12	5.41	8.86	5.12	13.14	14.91	0.28
NPM	23.7	26.2	0.03	0.028	-0.2354	-0.1234	0.083	0.05128	0.12	0.115	0.202	0.3
D/E	0.98	1.13	23.5	11.51	95.33	101.24	58.87	107.17	309.03	473.21	361.59	148

Source: Bank's Annual Report

Table 17. Average of pre-merger and post-merger data (JS Investment Bank and JS Bank)

	Pre merger	Post merger
EPS	31.9	4.75
ROA	0.07	0.14
ROE	0.24	2.94
NPM	23.7	2.43
D/E	0.98	153.69

The tables 16 and 17 show the pre and post-merger data collection of JS bank for 10 years, data is collected to analyse the profitability and leverage of the bank after merger and acquisition, the first variable earning per share has reduced from 31.9 to 4.7 which tells that bank's profitability has reduced after merger and bank has not capitalized its shares with proper planning and strategy, due to loss in bank's financials return on assets has improved but in an insignificant manner from .07 to .135, return on equity showing a positive trend as it improved from .24 to 2.9 bank has shown some improvement in equity side, but due to debt burden after merger and JS Bank has taken debt burden from acquiring bank, it rises debt to equity ratio from .98 to 153.

Table 18. Performance indicators of Askari Leasing Ltd and Askari Bank

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	9.5	11.23	8.29	0.95	2.18	1.34	2.3	1.55	-6.32	3.19	4	4.14
ROA	0.019	0.02	0.012	0.0022	0.0064	0.005	0.007	0.004	-0.02	0.0129	0.015	0.0013
ROE	0.33	0.302	0.187	0.0355	0.109	0.002	0.135	0.087	-0.45	0.243	0.313	0.0234
NPM	0.633	0.7	0.9069	0.125	0.3988	0.003	0.239	0.738	3.36	0.498	0.6	0.7
D/E	158	161	160	188	186	219	180	189	226	189	175	180

Source: Bank's Annual Report

Table 19. Average of pre-merger and post-merger data (Askari Leasing Ltd and Askari Bank)

	Pre merger	Post merger
EPS	5.581	1.476
ROA	0.0107	0.0033
ROE	0.1609	0.058
NPM	0.4611	1.0225
D/E	178.66	189.83

The table 18 and 19 show on average earning per share of Askari bank has reduced after merger and acquisition, return on asset and return on equity are profitability ratios also shows declining trends in pre-merger and post-merger phases, here Net profit margin shows a positive side which shows increase in company profit and its revenues, but Askari bank's debt ratio has increased, it means more debt burden has taken after merger and acquisition. Year on Year EPS of Askari bank has increased from 1.34 in 2010 merger year to 2.3 in 2011 after the merger, ROA has increased Year on Year after the merger but on average it falls if compare it from pre-merger phases, debt to equity means debt burden has also increase.

Table 20. Performance indicators of KASB bank and Bank Islami

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS	-0.04	-0.13	-0.12	-0.91	0.09	0.75	0.58	0.35	0.57	-0.1	0.64
ROA	-2.07	-2.56	-0.002	-0.0139	0.001044	0.78	0.63	0.23	0.33	-0.06	0.36
ROE	-4.19	-1.17	-0.011	-0.092	0.009862	8.06	7.64	3.2	4.78	-0.96	5.33
NPM	5	7.2	-6.5	-3.9	0.012346	14.58	14.34	6.77	7.81	-1.77	9.7
D/E	1.01	2	2.8	1.25	8.449224	10.402	12.572	14.61	15.29	15.74	16.36

Source: Bank's Annual Report

Table 21. Average of pre-merger and post-merger data (KASB bank and Bank Islami)

	Pre merger	Post merger
EPS	6.43	1.457
ROA	0.01192	0.0036
ROE	0.1927	0.0504
NPM	0.55274	0.876
D/E	170.6	194

In tables 20 and 21, it show merger of KASB bank takes place in 2015 with Bank Islamic, profitability ratios show positive and increasing trend after merger phase. earnings per share has increased from .12 to .27 on average, and return on asset also improves from -.29 to .15 on average, there is signs of profitability and efficient use of resource in order to increase ROA , ROE, assets and shareholder's equity has used by bank effectively after acquiring KASB bank , but only Debt to equity shows negative trend as increased debt to equity ratio means after acquiring KASB, Bank Islami has taken over its debt burden, therefore debt has increased from 7.599 to 16.05 on average .

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Every business wants to grow in term of size, market share, product line and ultimately in term of profitability. In pursuance of such goals businesses adopt certain strategies and merger & acquisition is one of the strategies that is being used worldwide. In Pakistan, merger & acquisitions are common, especially in the banking sector. The major reason behind that is a regulatory requirement of maintaining minimum capital requirement and capital adequacy ratio. Every Bank has to expand its branches and operations within the stipulated time and for that expansion, they need to maintain MCR & CAR as per the instructions of State Bank of Pakistan. So those banks which are unable to meet CAR & MCR are bound to be merged with other bank and the bank which is aiming to expand its operations, they found an an opportunity that bank and acquired it in order to increase the branches and operations countrywide. By doing so, acquiring bank has successfully increase its size and market share, but if they have improved their performance is the main concern.

This study has reviewed and analyzed mergers & acquisitions happened in the Banking sector of Pakistan in order to find the profitability and leverage situation of Pakistani banks after merger and acquisition, to analyze whether merger and acquisition are a necessary and important step for banks for their survival and to improve their performance. Ten Pakistani banks were selected and 11 years data has been taken from their financial statements and Pakistan stock exchange from 2005 till 2017. The variables on which data has been analyzed are earning per share, return on assets, return on equity, net profit margin and debt to equity ratio.

The analysis of ten banks gives insight that overall profitability of banks after merger and acquisition has decreased. Though some banks have improved their earning per share like Meezan bank (merge in 2014), Habib Bank Ltd (merge in 2015), Allied Bank Ltd (2005), NIB (merge in 2007). But rest of banks; which were merged in between 2007, 2009 and 2010, have not succeeded in improving their return of an asset, return on equity and net profit margin. In addition to that, debt to equity ratio that shows debt burden has jumped to a higher figure. The economic factors also has impact on bank's performance like financial crises of 2008 that leads to high cost of deposit, high-interest rate, high inflation causes banks to face difficult phases and reduces its profitability and increases debt, government policies and rates are play important role in loss of most banks even after merger and acquisitions and this conclusion is supported by author Kemal (2011) explained that merger and acquisitions does not guarantee the performance increment in the area of profitability, liquidity, leverage and cash flows. From the analysis, it has been observed that no profitability has increased and no leverage has reduced from merger and acquisition. These results are in consistent with

the results of Rashid & Naeem, (2017) and Ahmed et al., (2018) which says that there is no significant impact on firm's profitability after M&As in case of Pakistan banking sector.

This study has revealed that mergers and acquisitions in Pakistan are not being successful from the performance aspect of the banking sector. Though the developed countries are more successful and getting more advantages of growth, synergy, market share and increased efficiency in utilizing the resources as compared to developing country like Pakistan. So management should also consider the factors which are other than business expansion because acquiring merely with the objective of expansion may lead towards adverse effect as revealed in this study. Management should review the resources, infrastructure, skilled labour force, employed software and financial performance to be acquired a bank. This will help them in achieving synergy, growth, expansion, increasing market share and ultimately increase the wealth of shareholders.

Recommendations

Results of the study show that merger and acquisitions are not results oriented to Pakistani banks, reasons are internal as well as external economic factors. The recommendations from the study are discussed as. State of Pakistan (Lender of last resort) needs to consider the financials and provide grant and liquidity support to suffered bank before going for merger and acquisitions. Reconstruction policy needs to adapt by banks under the guidance of SBP and recover its position by injecting fresh capital and new shareholder. Proper regulatory control analysis required by regulatory to identify the economic factors like interest rate, inflation, labour that reduced bank's minimum capital requirements capital adequacy ratio and need shelter to raise funds. Furthermore, banks should do proper paperwork on management of target banks as employees plays a important role in the profitability of bank, acquirer need to consider the top management that create value addition after merger and acquisition. This study is limited to a short-term period, the bank should be given a proper time after M&A so that profitability can be in the long span of time. Lastly, timing and environmental factors are important so banks should focus on time, when to merge, and what crises are prevailing in the international market.

Further research need to be done as to clarify the picture that why banks go for merger and acquisitions as this decision does not only aim to gain profitability, increase market value and reduce leverage ratios but other economic factors also affect the post-merger financials of banks, so all those need to consider before going towards merger and acquisition. There is area to research further, about bank's policies, interest rate, inflation rate, cost of deposit all factors have room to conduct further research. There is a need to analyse why state bank of Pakistan allows for merger and acquisitions to smaller banks which fail to maintain CAR and MCR, not play the role of lender of last resort and does not support financially to debt-burdened banks.

Acknowledgement

The authors acknowledge the top management of Dr AGM Institute of Research & Development for overall facilitation to complete this study.

REFERENCES

Abbas, Q., Hunjra, A. I., Saeed, R., &Ijaz, M. S. (2014). Analysis of Pre and Post Merger and Acquisition Financial Performance of Banks in Pakistan. *Information Management and Business Review*, *6*(4), 177. Retrieved from https://ifrnd.org/journal/index.php/imbr/article/view/1113

Abdul-Rahman, O. A., &Ayorinde, A. O. (2013). Post Merger Performance of Selected Nigerian Deposit Money Banks-An Econometric Perspective. *International Journal of Management Sciences and Business Research,* 2(8)*,* 49-59.

Ahmed, F., Ahmed, A., & Kanwal, S. (2018). Mergers and Acquisitions in Selected Frontier Markets of Asia. *Signifikan: Jurnal Ilmu Ekonomi*, *7*(1).

Ahmed, A., &Nadeem, M. (2015). Mergers & Acquisitions and Banks Performance in Pakistan. *Journal of Business Management and Economics*, *3*(10), 28-32.

Banal-Estañol, A., Heidhues, P., Nitsche, R., &Seldeslachts, J. (2010). Screening and merger activity. *The Journal of Industrial Economics*, *58*(4), 794-817.

Carletti, E., Hartmann, P., &Spagnolo, G. (2007). Bank mergers, competition, and liquidity. *Journal of Money, Credit and Banking*, *39*(5), 1067-1105.

David, H., Michelle, L. (2011). When Do Banks Listen to Their Analysts? Evidence from Mergers and Acquisitions. The Review of Financial Studies, 24(2): 321-357. Doi: https://doi.org/10.1093/rfs/hhq087

Doukas, J. A., & Zhang, W. (2016). Envy-Motivated Merger Waves. *European Financial Management*, *22*(1), 63-119.

Ghosh, S., &Dutta, S. (2015). Mergers and Acquisitions in Indian Banking Sector: Pre-Post Analysis of Performance Parameters. *International Organization of Scientific Research in Journal of Business and Management*, *17*(3), 1-9.

Hagendorff, J., & J Nieto, M. (2015). The safety and soundness effects of bank M&A in the EU: does prudential regulation have an impact?.*European Financial Management*, *21*(3), 462-490.

Hagendorff, J., & Keasey, K. (2009). Post-merger strategy and performance: evidence from the US and European banking industries. *Accounting & Finance*, *49*(4), 725-751.

Haushalter, D., & Lowry, M. (2010). When do banks listen to their analysts? Evidence from mergers and acquisitions. *The Review of Financial Studies*, *24*(2), 321-357.

Kemal, M. U. (2011). Post-merger profitability: A case of Royal Bank of Scotland (RBS). *International Journal of Business and Social Science*, *2*(5), 157-162.

Kumar, S. (2013). Impact of Bank Mergers on the Efficiency of Banks: A study of the merger of Bharat Overseas Bank with Indian Overseas Bank. *International Journal of Academic Research in Business and Social Sciences*, *3*(12), 221.

Masud, N. (2015). Impact of merger and acquisition on the financial performance of banks: Evidence from Pakistan. Reseach Journal of Recent Science, 4(5), 108-113.

Oloye, M. I., &Osuma, G. (2015). Impacts of Mergers and Acquisition on the Performance of Nigerian Banks (A Case Study of Selected Banks). *Pyrex Journal of Business and Finance Management Research*, 1(4), 23-40.

Panetta, F., Schivardi, F., & Shum, M. (2009). Do mergers improve information? Evidence from the loan market. *Journal of Money, Credit and Banking*, *41*(4), 673-709.

Pasiouras, F., Tanna, S., &Gaganis, C. (2011). What drives acquisitions in the EU banking industry? The role of bank regulation and supervision framework, bank-specific and market-specific factors. *Financial Markets, Institutions & Instruments*, *20*(2), 29-77.

Sapienza, P. (2002). The effects of banking mergers on loan contracts. The Journal of finance, 57(1), 329-367.

Shanmugam, B., & Nair, M. (2004). Mergers and acquisitions of banks in Malaysia. *Managerial Finance*, *30*(4), 1-18.

Smirnova, Y. (2014). Motives for mergers and acquisitions in the banking sector of Kazakhstan. *Economics questions, issues and problems*, 79-98.