Financial Performance of Pakistani Banks: Pre and Post Analysis of Mergers and Acquisitions

Zahoor Rahman
Khalil Jebran
Arshad Ali
Saima Batool
Wiqar Ahmad
Nazim Ali *

Abstract

The study focused on the financial performance of the banks before and after the phenomenon of mergers and acquisitions in Pakistan during 2002 to 2012. Four accounting parameters including net profit margin (NPM), return on equity (ROE), return on assets (ROA), and earnings per share (EPS) are taken into consideration. Our analysis indicates that most of the banks demonstrated decline in NPM, ROE, ROA and EPS, whereas a few observed a little increase in return on Equity following the phenomenon of Merger and acquisitions. Further, the results show that the transactions occurred during the financial crises (2007-2009) mostly resulted in a decline in the financial performance of the acquired Banks.

1. Introduction

Merger and acquisition (M&A) are two different phenomena but are used interchangeably. Merger refers to the transactions between two or more firms which combine their resources and become a single entity. Acquisition is a phenomenon according to which an organization acquires the ownership, full or some part of another organization. From the last few decades, merger and acquisitions are considered as most useful strategies adopted by many organizations for expanding business operations.

---

* **Zahoor Rahman** is MS scholar at Department of Management Studies, University of Malakand Pakistan. **Khalil Jebran**, PhD Scholar, School of Accounting, Dongbei University of Finance and Economics, China; **Dr. Arshad Ali** is Associate Professor, Department of Management Studies, University of Malakand Pakistan; **Dr. Saima Batool**, is Assistant Professor, Department of Management Science, Qurtuba University of Science & IT, Peshawar, Pakistan. **Dr. Wiqar Ahmad**, is Assistant Professor, Department of Management Studies, University of Malakand, Pakistan.

Approximately, four thousand M&A contacts occur around the world on yearly basis (Alao, 2010). There are many reasons due to which organizations adopt M&A transactions. First, economy of scale can be achieved when firms combine their efficient resources (Palepu & Healy, 2007). Second, increase in revenue and market share may be achieved through high sales which may not be possible when firms' have limited resources (Hauswald & Marquez, 2006). Third, synergy among organizations increases, because it is an imperative approach whereby firms exert their energy in an inclusive way rather than the individualistic manner (Seth, Song & Pettit, 2000). Fourth, M&A provides geographic diversification that may lead companies towards smooth and stable returns, which in long term may lead to stabilize the stock prices of the firm. Consequently, it establishes more confidence in market investors to invest in the firm (Amel et al., 2004). Fifth, resources are unevenly divided among firms and acquisition of resources may lead to value creation by overcoming information asymmetry or with the combination of the scarce of resources (Barney, 1991).

This study intends to examine the effects of M&A on financial performance of the banking / financial sector of Pakistan. The literature indicates that different procedures have been used to analyse the effect of M&A on the firms' performance. Many studies examined the effects on shares' value of the firms. Similarly, the accounting performance measures have been used by most of the researchers. This particular study uses accounting performance method to investigate the performance of the banks after M&A transactions. The results of this study may provide valuable insights to banks which may move towards M&A. It may also provide knowledge of possible benefits of M&A transactions to the firms acquiring other firms. Furthermore, the results may specifically provide information about the banks that have gone through the process of M&A in Pakistan. The banks will be able to get knowledge about the performance of banks after M&A and therefore may adopt suitable policies in future.

We find mixed results regarding financial performance of banks after acquisitions. The results indicated that only a few of the banks experienced an increasing trend in their return on assets while most of them experienced decline after M&A transactions. The results also suggest that most of the banks' observed decline in their EPS after M&A transactions. The notable findings suggest that M&A transactions that took place during the period of 2007 financial crises have negatively affected the financial performance of the acquirer banks in Pakistan. The rest of the

study is organized as follows: The second section briefly reviews the literature on the subject. The third section analyses the performance indicators. The fourth section discusses the results. The last section concludes the paper.

2.   Literature Review

Plethora of studies investigated the effects of merger and acquisition on financial performance of the acquirer firms. Most of the researchers investigated impact in the developed countries; however less attention has been paid to emerging economies. This may be due to the fact that the M&A contracts have been conducted more in developed countries, while less often in emerging economies. The literature indicates that M &As have affected the financial performance of the firms in different manners (positive and negative). There are studies that reported increase in financial performance after M&A transactions. Berkovitch and Narayanan (1993) examined the United States economy from 1963 to 1988 and analysed 330 M&As through market model for measuring CARs of the acquirer and acquired firms with typical estimation for cumulative abnormal returns in only 11 days. Results show positive abnormal returns for both categories of the firms. Similarly, DeLong and DeYoung (2007) found an increase in efficiency and also increase in shareholder's returns in Bank M&As, while in case of North American Bank, efficiency improved after the announcement of such transactions. Unceasingly, Guest et al., (2010) reported significant positive impact on the profitability and performance of the firms after the announcement of these transactions in the UK's financial market. Soongswang (2011) observed positive impacts of these events on shareholder's wealth in the target firms and negative returns for the acquirer firm by applying the market model.

Furthermore, Goddard et al., (2012) observed that M&As have positively affected the shareholders' value of the target firms without causing any loss to the acquiring firm in examining 132 events in Asia and Latin America. Craig and Santos (1997) also observed positive impact of the M&As on profitability for both acquired and acquirer organizations particularly for the acquiring one. Moreover, Joshua (2011) also found that, banks were financially stronger after these events in the Nigerian banking sector. Most recently, Abdulazeez, et al. reported significant increase in performance of banks after M&As. San and Phing (2013) reported increase in the performance of banks in terms of ROA and ROE after M&As transactions. Most recently, Joash and Njangiru (2015) found increased financial performance of banks after M&As.

In contrast, decrease in financial performance after M&A transactions has been reported by numerous studies. Chavaltanpipat et al., (1999) observed negative impact on shareholder's wealth for acquirer organization and positive abnormal returns for the acquired organization at the time of announcement. Rau & Vermaelen (1998) also noted decrease in performance while studying 3169 transactions of M&A in US market. Moeller et al., (2005) found that the acquiring firms loosed their profits after M&As using CARs method and this loss was much higher from the gain of the acquired firm. Similarly, Masulis et al., (2007) found a decrease in ARs of acquirer firms using the market model in 3333 events (from 1990 to 2003) in the US market. Guest et al., (2010) found significantly negative impact of M&As on the shares returns of the firm after the transactions. The shares returns of the acquiring firm on event day as well as in the study period were found negative after acquisition of the target firm. Their results were similar to other studies in the UK on acquirers in M&A transactions. Cummins and Weiss (2004) also reported negative cumulative average abnormal returns (CAAR) for acquirers and positive for the target firm. Wang et al., (2014) examined post-merger performance of Asian acquiring banks in 293 events from the years 1997 to 2007. They found negative effects on the long term abnormal returns and operating performance of banks, which shows that synergy was not created.

Apart from the studies discussed above, there are studies that reported no change in financial performance of the firms after M&A transactions. Franks et al., (1987) also reported insignificant negative abnormal returns to stockholders of the acquirer firms while analyzing 399 events in the US from the year 1975 to 1984. Pawaskar (2001) reported no significant change in financial performance after the merger in 36 transactions from the year 1992 to 1995 in India. Heron & Lie (2002) did not find any difference in abnormal returns for both merged firms in 859 events from the year 1985 to 1997. Liargovas and Repousis (2011) found no improvement in operating performance after these events, and the results were not different from non-merged banks while analyzing the Greek Banking sector from the year 1996 to 2009. Houston et al., (2001) studied US banking sector from the year 1985 to 1996 and did not find any effect on returns for shareholders of the acquirer firms. Badreldin & Kalhoefer (2009) reported that M&As that took place in the past in Egypt had not shown considerable results and performance was lower as compared to recent transactions of M&As. They found no significant improvements in the profitability; however, significant improvement in the credit risk position of the banks after the announcement was observed. Tsangarakis et

al., (2013) reported insignificant increase in abnormal returns for the acquirer firm. However, their results show a significant increase in abnormal returns for small value (less than $0.5bn) and large value (over $0.5bn) deals in the European financial industry from the year 2000 to 2006. Harvey (2015) also reported decline of financial performance of firms after M&A.

The aforementioned studies provided information about mostly M&As transactions that were carried out in developed countries. The literature is limited to studies examining emerging countries like Pakistan. In reference to Pakistan, several studies have been carried out to find the effect of M&As on financial performance of firms. Abbas et al (2014) concluded that financial sectors received a lot of M&A transactions and a few of the transactions had positive, while a few of them had negative effect on the performance of the firms. Kouser and Saba (2011) found that financial performance decreased, when the firms involved in the M&As transactions in Pakistan. Similar conclusion was drawn by Kayani et al (2013) who reported decrease in performance of banks after the transaction. In contrast, Obaidullah, et al., (2010) found that financial performance of the firms increased after M&A transactions.

The M&A transactions in banking sector of Pakistan in some past years has provided an opportunity to researchers to investigate the effect of M&A transactions on the performance of banks after such transactions.

2.1 Theoretical Frame Work

There are three different theories namely Synergy theory, Hubris theory and Agency theory that explain the move towards M&As. Synergy theory describe that merged firms have greater value than single firms doing business separately (Desai, et al., 1988; Seth et al., 2000). It further explains that the revenue of the firms may be increased by acquiring more market power or by reducing the cost through economies of scales. The improvement can be achieved through future cash flow, which enhances the firms value through operating and financial synergy due to the economies of scale (enlarging firm size) or scope by adding new products (Hankir et al., 2011). The phenomena of M&As may be associated with synergy theory because the common goal of the firm is to achieve synergy by increasing the shareholders wealth (Mukherjee et al., 2004).

According to Hubris theory, firms are generally put into merger process by the management as they think that management knows better than the market due to excessive confidence. This theory usually applies to situations where the value measurement of the acquired firm is

manipulated. Management of the acquirer firm estimates that the value of an acquired firm in the market is less than the actual value of the firm. The value of the acquirer firm decreases due to payment of higher price for the acquired firm (Asimakopoulos & Athanasoglou, 2013).

The Agency theory states that M&As are the result of managerial self-interest (Goergen & Renneboog, 2004) and not for firms economic reasons (Asimakopoulos & Athanasoglou, 2013). The agency theory is similar to Hubris theory as the bidder banks/firms are valued more than the actual value, and the performance of the acquirer firm is expected to decrease after merger (Hankir et al., 2011).

3. Data and Methodology

3.1 Data

This particular study intends to analyse the financial performance of the banks before and after the merger and acquisition of financial institutions in Pakistan. This study selected the M&As that took place between the banks from period 2002 to 2012. The final selection includes 11 M&As between different banks[*] as shown in Table 1. The information of the M&A transactions is obtained from Pakistan Stock Exchange (formerly Karachi Stock Exchange). The Table 1, on next page, shows that most of the financial institutions have been acquired by the other banks.

3.2 Methodology

The financial performance of banks in the sample of the study is measured by using the accounting data. The accounting performance method was used to measure the financial position of banks before and after the announcement of M&As. This particular method is important to evaluate the performance of the firms after M&A because it provides information about the various ratios as in balance sheet about financial performance of the firms. The following accounting ratios have been used to measure the financial position of the sample banks in study of the research:

1. Returns on Assets (ROA) = Profit (Loss) after taxation / Total Assets
2. Returns on Equity (ROE) = Profit (Loss) after taxation / Total shareholder's Equity
3. Net Profit Margin (NPM) = Profit (loss) after taxation / Total Revenue
4. Earnings per Share (EPS) = Profit (Loss) after taxation / No of ordinary Shares

---

[*] The sample was restricted to 11 M&As transactions because of non-availability of information about M&A transactions during the study period.

Table 1.   Sample of the study

M&As	Acquirer Banks	Acquired Institutions	Date of M & As
M-1	Faysal Bank Limited (FBL)	Al- Faysal Investment Bank (AFIB)	1st Nov. 2002
M-2	Crescent Commercial Bank Limited (CCBL)	Trust Commercial Bank Limited (TCBL)	18th Oct. 2004
M-3	First Dawood Investment Bank Limited (FDIBL)	Industrial Capital Modaraba (ICM)	6th Dec. 2004
M-4	Allied Bank Limited (ABL)	First Allied Bank Modaraba (FABM)	25th August 2006
M-5	KASB Bank Limited (KASB)	International Housing Finance Ltd (IHF)	22nd Nov. 2007
M-6	NIB Bank Limited (NIB)	PICIC Commercial Bank Ltd & (PICIC) Ltd.	1st January 2008
M-7	KASB Bank Limited (KASB)	Network Leasing Corporation Ltd. (NLL)	17th Feb. 2009
M-8	Invest Capital Investment Bank Ltd. (ICIBL)	Al-Zamin Leasing Corporation Ltd. & Al-Zamin Leasing Modaraba (ALZM)	11th January 2010
M-9	Askari Bank Limited (AKBL)	Askari Leasing Limited (ALL)	10th March 2010
M-10	Faysal Bank Limited (FABL)	The Royal Bank of Scotland Ltd. (RBS)	3rd January 2011
M-11	Summit Bank Ltd. (SMBL)	Atlas Bank Ltd. (ATBL)	11th January 2011

Following Selcuk &Yilmaz (2011), this study considered two years before and after the announcement of M&As. The results of each ratio for merged bank are compared before and after the announcement of the M&A to conclude whether the performance of the banks improved or deteriorated. The results are compared with performance of banking sector as a whole to know impact on the overall industry.

In order to analyse the impact of sample M&As, the study also analyses the sample events which took place during the financial crises (2007-08). The study is to find out whether change in performance of sample banks is due to thee crises or not.

3.3 Explanation of the performance indicators

The profit of the firm alone does not show the performance and success of any firm. The success also depends as to how much amount of money is invested in the business and how much was earned through the use of that investment (Brigham & Houston, 2007). The investors look into different ratios, like returns on assets and equity, before investing in an

organization. The long-term performance of banks is measured through ratio analysis by using accounting data of banks. These performances are measured by different studies using different periods of time in Pakistan (Kayani et al., 2013). The window period, which has been observed in long-term studies by Tuch & O'Sullivan (2007) is from zero to five years before and 3 to 18 years after the events. In this study, the performance ratios have been obtained using two-years data before and two-years data after the announcement of the event (Selcuk & Yilmaz, 2011). The commonly used ratios, namely returns on assets, returns on equity, net profit margin and earnings per share are used in this study. These ratios are explained below.

3.3.1. Returns on Assets (ROA)

The return on assets are the market expectations for the performance of the bank after M&A. Return on assets is a direct measure of banks' efficiency in the event studies. It is one of the profitability ratios commonly used to compare the profit of a firm with its total assets (Mishkin & Serletis, 2011). It is used to measure how management used its resources to generate the profit for the firm. That is why, it was chosen for comparative ratio in event studies.

The company's past ROA is compared with the current ROA in helping investors to determine the overall efficiency of the bank after the M&As. The lower or negative returns on assets show decreased or loss of efficiency, while the increase in ROA shows improvement or increase in efficiency in the bank's performance (Brigham & Houston, 2007). In this study, Return on Assets (ROA) is measured using the following formula:

Returns on Assets (ROA) = Profit (Loss) after taxation / Total Assets

The ROA is an indicator to investors that how much their investment is effectively used to generate the profit of the firm after tax. The literature indicates different studies that considered ROA to evaluate the performance of different firms after M&A. There are studies that reported increase in ROA of firms after M&A (Guest et al., 2010;Rhoades 1998), while few studies reported decrease in ROA of firms after M&As (Abbas, et al., 2014; Moctar and Xiaofang 2014; San & Phing 2013).

3.3.2. Returns on Equity (ROE)

Return on equity (ROE) is the profitability ratio that shows how much profit is earned by using the equity of the shareholders. It gives an overview to the investors that how much the company is earning by using

their share of equity (Mishkin & Serletis, 2011). In this study, the ROE is measured by the using the following formula:

Returns on Equity (ROE) = Profit (Loss) after taxation / Total shareholder's Equity

The ROE have been used in many studies in literature that have found different results. There are studies that reported decrease in ROE after M&As (Kayani et al., (2013), Obaidullah et al., (2010) and Abbas et al., 2014) while other studies reported increase in ROA after decrease in ROE after M&As (Knapp et al., 2005; Ong et al., 2011; De-Nicolo et al., 2003;Abdul-Rahman & Ayorinde 2013; Osho 2004).

3.3.3. Net Profit Margin (NPM)

The ratio of net profit margin (NPM) shows how much income (profit) is generated from sales. The NPM is different for different industries. The company with higher NPM ratio is considered the best player (Kouser & Saba, 2011). This study calculated NPM using the following formula

Net Profit Margin (NPM) = Profit (loss) after taxation / Total Revenue

The literature indicates that studies reported different results while considering NPM as performance indicator. There are studies that reported increase in NPM (Azhagaiah & Kumar 2011; Devarajappa 2012; Agarwal & Mittal 2014) while a few of the studies reported decrease in the NPM (Khan 2011; Kayani, et al., 2013) after M&As.

3.3.4. Earnings Per Share (EPS)

The ratio 'earning per share' (EPS) of a firm shows how much income the firm has earned per share during the accounting period. The increase in profit will increase EPS; however when company issues new shares, it will decrease the EPS (Gyimah S.F. & Oscar, 2011). This study computed EPS using the following formula:

Earnings per Share (EPS) = Profit (Loss) after taxation / No of ordinary Shares

The decrease in EPS may be due to high operating expenses, higher payment of interest or cost of capital, decrease in revenue due to inefficient management and increase in competition and decrease in profit to shareholders (Mahesh. R. & Prasad, 2012). Literature on such events gives different results about the impact on EPS after such M&As. Some of the studies showed positive effect (San and Phing 2013; Agarwal & Mittal, 2014), while some others reported negative effect of M&A on EPS (Moctar and Xiaofang 2014; Kayani, et al., 2013).

4. Empirical Results

4.1 Effects of Mergers and Acquisitions on ROE

The ratio analysis used in many studies is a direct method used to measure the performance of institutions after M&As. In comparing changes in intra-industry, ratios help researchers to measure the performance of banks after M&As. The commonly used ratios such as returns on equity, returns on assets, earning per share and net profit margin have been used in the analysis of this research. The downward trend in ratio shows loss of efficiency and upward trend shows an improvement in performance of banks.

The Table 2 shows average rate of returns on equity (ROE) before and after M&As. The profitability of banks in these events was measured as a percentage change in ROE after these events. Some of the events showed improvement, while most of the banks showed decline in the ROE after M&As. The visual examination of the Table 2 elaborates that four banks showed increase, while remaining seven indicated decline in ROE after M&As. The positive results are consistent with the finding of studies like Knapp et al., (2005); Ong et al., (2011); De-Nicolo et al., (2003);Abdul-Rahman & Ayorinde (2013) and Osho (2004), while the negative ROE after M&As is consistent with findings of Obaidullah et al., (2010) and Abbas et al., (2014).

The overall results of ROE provide some interesting information about different M&As. The M&As that occurred before 2006 and after 2010 showed positive ROE after the transactions. While M&As that occurred during the period 2007 to 2010 generally showed negative ROE of the merged banks. It is because of the fact that during this period the global financial crises affected banking industries. Graham et al., (2003) reported similar results and observed decrease in ROE after financial crisis. However, Wang et al., (2014) found insignificant relation with banks performance after the Asian Financial Crisis (1997-1999). From the findings, it can be concluded that M&As have overall negative impact on ROE of merged banks.

4.2 Effects of M&As on Returns on Assets (ROA)

The Table 3 shows the effect of M&As on ROA before and after the transactions. The result highlights mixed results - 7 out of 11 banks faced decline in the ROA, while 4 banks observed increase in their ROA after M&As transactions. The positive results are consistent with findings of Ong et al., (2011); De-Nicolo et al., (2003);Abdul-Rahman & Ayorinde

(2013) and Osho (2004), while negative results are consistent with Abbas et al., (2014).

Table 2.   Percentage Change in Returns on Equity (ROE)

Bank Merged/Acquired	Average %Pre-ROE	Average % Post-ROE	Change in ROE	Increase/ Decrease
FBL-AFIB (M-1)	9.556415741	27.13977546	17.58335972	Increase
CCBL-TCBL(M-2)	7.49604509	-24.95170168	-32.44774677	Decrease
FDIBL-ICM (M-3)	25.80998573	8.968054791	-16.84193094	Decrease
ABL-FABM (M-4)	13.83652084	24.61843483	10.78191399	Increase
KASB-IHF (M-5)	-4.289099946	-12.20294814	-7.913848191	Decrease
NIB-PICIC (M-6)	0.571370493	-12.05468982	-12.62606031	Decrease
KASB-NLL (M-7)	-12.20294814	-119.7736468	-107.5706987	Decrease
ICIBL-ALZM (M-8)	7.12415824	-118.5777162	-125.7018744	Decrease
AKBL-ALL (M-9)	5.664335149	8.242611121	2.578275972	Increase
FABL-RBS (M-10)	8.912829714	7.396294134	-1.51653558	Decrease
SMBL-ATBL(M-11)	-68.8062173	-61.08379307	7.722424231	Increase

Table 3.   Percentage Change in Returns on Assets (ROA)

Bank Merged/ Acquired	Average % Pre-ROA	Average % Post-ROA	Change in ROA	Increase/ Decrease
FBL-AFIB (M-1)	0.905799491	3.154487726	2.248688235	Increase
CCBL-TCBL (M-2)	2.04290504	-4.28105951	-6.32396455	Decrease
FDIBL-ICM (M-3)	3.964918007	1.182363457	-2.78255455	Decrease
ABL-FABM (M-4)	0.864214019	1.509058924	0.644844905	Increase
KASB-IHF (M-5)	-0.455869887	-0.697441413	-0.241571526	Decrease
NIB-PICIC (M-6)	0.027716062	-1.922937452	-1.950653514	Decrease
KASB-NLL (M-7)	-0.697441413	-5.857515989	-5.160074576	Decrease
ICIB-ALZM (M-8)	0.57366616	-13.62768122	-14.20134738	Decrease
AKBL-ALL(M-9)	0.30377096	0.393994773	0.090223813	Increase
FABL-RBS (M-10)	0.557977178	0.446054017	-0.111923161	Decrease
SMBL-ATBL (M-11)	-4.808186182	-1.648257504	3.159928679	Increase

Source: authors' formation

The results as given in Table 3 also show that the transactions announced after the year 2006 and before 2010 resulted in decrease in their ROA. This result can also be associated with the financial crises of 2007-08 which have affected the economy and similarly the banks and financial institutions. Moreover decrease in number of these M&A transactions throughout the business world was also observed during financial crises period (UNCTAD, 2012).

4.3 Effects of M & A on Earning per share (EPS)

The Table 4 shows the effects of M&A on EPS of the banks, before and after transactions. These findings indicate that M&A transactions negatively affected the EPS of the most of the banks. The 7 out of 11 banks observed decline in EPS after M&As transactions. The results are in line with Abbas et al., (2014); Amel et al., (2004) and Kemal (2011) who found negative effects after these transactions. The positive results corroborate with the findings of Lin et al., (2006).

Table 4.   Change in Earning per Share (EPS)

Bank Merged/ Acquired	Average Pre-EPS	Average Post-EPS	Change in EPS	Increase/ Decrease
FBL-AFIB (M-1)	1.508122584	5.301929868	3.793807283	Increase
CCBL-TCBL(M-2)	1.1342508	-1.876611574	-3.010862375	Decrease
FDIBL-ICM (M-3)	6.184465459	2.66559034	-3.518875118	Decrease
ABL-FABM (M-4)	3.659863342	8.681967269	5.022103927	Increase
KASB-IHF (M-5)	-0.378071131	-0.893557352	-0.515486221	Decrease
NIB-PICIC (M-6)	0.095697603	-1.228792989	-1.324490592	Decrease
KASB-NLL (M-7)	-0.893557352	-3.705108628	-2.811551275	Decrease
ICIBL-ALZM (M-8)	0.172688362	-2.106712957	-2.27940132	Decrease
AKBL-ALL (M-9)	0.030346467	0.039052984	0.008706517	Increase
FABL-RBS (M-10)	1.809637726	1.54376013	-0.265877597	Decrease
SMBL-ATBL (M-11)	-4.157733445	-1.968654342	2.189079103	Increase

Source: authors' formation

Furthermore, the announcement year of event 2 & 3 is 2004, event 5 is 2007, event 6 is 2008, event 7 is 2009, event 8 is 2010 and that of event 10 is 2011. The decline in EPS of these banks can also be associated with the global financial crisis (in the year 2007-08) as the crisis affected the banking industries.

4.4   Effect of Merger and Acquisition (M&As) on Net Profit Margin (NPM)

The effects of M&A transactions on Net Profit Margin (NPM) of the banks are presented in Table 5. The results indicate that 5 out of 11 M&As reported positive NPM ratio of the banks, while 6 showed negative trend. The positive NPM in post M&As period tallies with the findings of De-Nicolo et al., (2003); Abdul-Rahman & Ayorinde (2013) and Osho (2004). The decrease in the NPM in the post M&As transaction corroborates the results of Khan (2011) and Kayani et al., (2013).

Table 5.	Percentage Change in Net Profit Margin (NPM)			
Bank Merged/ Acquired	Average % Pre-NPM	Average % Post NPM	Change in NPM	Increase/ Decrease
FBL-AFIB (M-1)	14.54155202	30.62115653	16.07960451	Increase
CCBL-TCBL (M-2)	30.8209678	-75.98390912	-106.8048769	Decrease
FDIBL-ICM (M-3)	41.81807502	12.16208505	-29.6559899	Decrease
ABL-FABM (M-4)	14.43154686	19.29351887	4.861972007	Increase
KASB-IHF (M-5)	-7.789673207	-6.238544997	1.55112821	Increase
NIB-PICIC (M-6)	-0.82136139	-19.47490164	-18.6535402	Decrease
KASB-NLL (M-7)	-6.238544997	-56.8931973	-50.6546523	Decrease
ICIBL-ALZM (M-8)	62.17298666	-165.5617986	-227.734785	Decrease
AKBL-ALL (M-9)	3.034646697	3.905298441	0.870651744	Increase
FABL-RBS (M-10)	5.5765654	4.033310613	-1.54325478	Decrease
SMBL-ATBL (M-11)	-41.58924611	-19.06846808	22.52077803	Increase

Source: authors' formation

The results also indicate that M&A transactions announced between the years 2007 and 2010 had negative impacts on the NPM of the merged banks. The decrease in these transactions may also be associated with the financial crisis of 2007. These results are inconsistent with the findings of Wang et al., (2014), who found no impacts of Asian Financial crises on banking sector, while consistent with the finding of Graham et al., (2003) who found decrease in financial performance after crises.

Graphical Representation of Ratio of Each Transaction
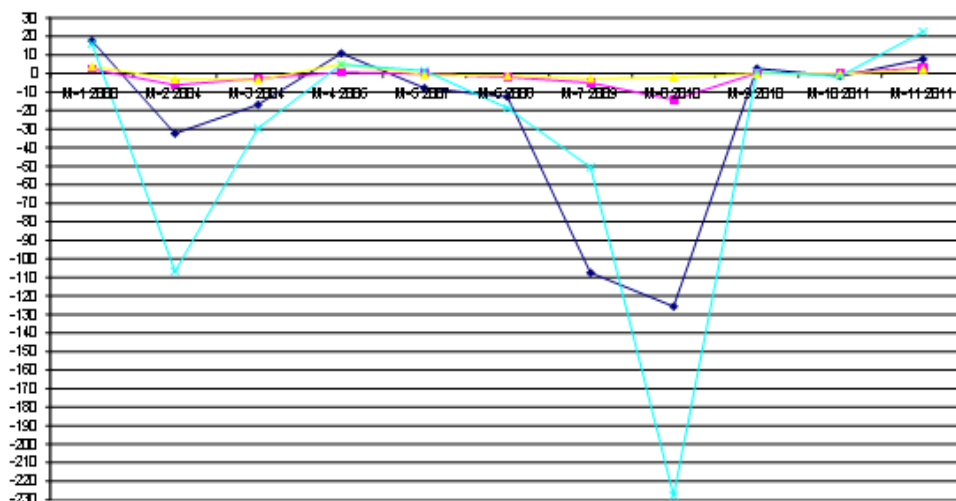
The Figure 1 shows graphical movement in the average ROE of all M&As transactions. The results show that four out of eleven M&A transactions (i.e. M-1, M-4, M-9, and M-11) resulted in increasing trend in their

average ROE, while the remaining showed decreasing trend in their average ROE. Furthermore, four out of eleven M&A transactions (M-1, M-4, M-9 and M-11) showed increase while the remaining seven events indicated decline in their ROA after M&A transactions. The results also suggest that most of the banks observed decline in their EPS after M&A transactions. The notable findings suggest that M&As transactions that take place in the period of financial crises (2007 – 2010) had negatively affected the financial performance of the merged banks in Pakistan.

5. Conclusion and Implications

This study is carried out to investigate the impact of M&A on the financial performance of the banks for the period from 2002 to 2012. It analysed 11 M&A transactions carried out during the period and considered four performance ratios namely net profit margin (NPM), return on equity (ROE), return on assets (ROA) and earnings per share (EPS).

The results highlighted that most of the banks observed decline, while others observed increase in the ROE after M&As. More specifically, four banks showed positive, while remaining seven indicated decline in ROE after M&As. The results also revealed that 7 out of 11 M&As observed decrease in their ROA, while the remaining witnessed increase in their ROA after M&A transactions. Furthermore, it has been found that M&A negatively affected the EPS of 7 out of 11 banks after the merger. The results also show that M&A negatively affected the NPM of the most of the merged banks while a few of the banks reported positive effects of M&A transactions. The results indicate that 5 out of 11 M&As showed positive NPM ratio of the banks. The notable findings of the study indicate that M&A transactions carried out during the period of the financial crises (2007 -2009) had mostly resulted in decline in their ROE, ROA, EPS and NPM after the M&A transactions.

Based on the above results, it is suggested that firms may carefully formulate strategies when moving towards M&A transactions. The results evidence both positive and negative effect of M&As on firms after transactions. Such results suggest that there are no universal factors for successful or unsuccessful M&As. However, these depend upon the condition of firms, industry and economy of the country in which M&As have been announced.

****

References

Abbas, Q., Hunjra, A. I., Azam, R. I., Ijaz, M. S., & Zahid, M. (2014). Financial performance of banks in Pakistan after Merger and Acquisition. *Journal of Global Entrepreneurship Research, 4*(1), 1-15.

Abbas., Q., Hunjra., A. I., Saeed., R., Hassan., E., & 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), 177-190.

Abdul-Rahman, O., & Ayorinde, A. (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.

Agarwal, P., & Mittal, R. (2014). Mergers and acquisitions analysis With the case study method. *International Journal of Management and Commerce Innovations., 2*(1), 236-244.

Alao, R. O. (2010). Mergers and Acquisitions (M&As) in the Nigerian Banking Industry: An Advocate of three Mega Banks. *European Journal of Social Sciences, 15*(4), 554-563.

Amel, D., Barnes, C., Panetta, F., & Salleo, C. (2004). Consolidation & Efficiency in the Financial Sector: A Review of the International Evidence. *Journal of Banking & Finance*, 2493-2519.

Asimakopoulos, I., & Athanasoglou, P. P. (2013). Revisiting the merger and acquisition performance of European banks. *International Review of Financial Analysis, 29*, 237-249.

Azhagaiah, R., & Kumar, T. S. (2011). Corporate Restructuring & Firms' Performance: An Empirical Analysis of Selected Firms of Across Corporate Sectors in India. . *Interdisciplinary Journal of Research in Business 1*(4), 58-82.

Badreldin, A., & Kalhoefer, C. (2009). *The Effect of Mergers and Acquisitions on Bank Performance in Egypt* Working Paper No. 18, (Available   at: mgt.guc.edu.eg/wpapers/018badreldin_kalhoefer2009.pdf) 30th April, 2012. Faculty of Management Technology. German University in Cairo.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*, 99-120.

Berkovitch, E., & Narayanan, M. P. (1993). Motives for Takeovers An Empirical Investigation. . *Journal of Financial And Quantitative Analysis, 28*, 347-362.

Bradley, M., Desai, A., & Kim, E. H. (1988). Synergistic gains from corporate acquisitions and their divisions between stockholders of target and acquiring firms. *Journal of Financial Economics, 21*, 3–40.

Brigham, E. F., & Houston, J. F. (2007). *Essential of Financial Management.* (2nd ed.): Singapore: Cengage Learning Asia Pte Ltd.

Chavaltanpipat, A., Kholdy, S., & Sohrabian, A. (1999). The wealth effects of bank acquisitions. *Applied Economics Letters, 6*(1), 5-11.

Cummins, J. D., & Weiss, M. A. (2004). Consolidation in the European Insurance Industry: Do Mergers and Acquisitions Create Value for Shareholders? *Brookings-Wharton Papers on Financial Services, 2004*, 217-258.

De-Nicolo, G. (2003). Bank Consolidation, Internationalization and Conglomeration": Trends and Implications for Financial Risks. *IMF Working Paper, 3*(158).

DeLong, G. L., & DeYoung, R. (2007). Learning by Observing: Information Spillovers in the Execution and Valuation of Commercial Bank M&As. *Journal of Finance, 62*, 181-216.

Devarajappa, S. (2012). Mergers in Indian banks: a study on mergers of HDFC Bank ltd and centurion Bank of Punjab ltd. *International Journal of Marketing, Financial Services & Management Research 1*(9), 33-42.

Focarelli, Panetta, & Salleo. (2002). Why Do Banks Merge? *Journal of Money, Credit, and Banking, 34*(4), 1047-1066.

Franks, Harris, & Mayers. (1987). Means of payment in takeovers: Results for the U.K. and U.S. *Working paper, University of North Carolina.* .

Goddard, J., Molyneux, P., & Zhou, T. (2012). Bank mergers and acquisitions in emerging markets: evidence from Asia and Latin America. *The European Journal of Finance, 18*(5), 419-438.

Goergen, M., & Renneboog, L. (2004). Shareholder wealth effects of European domestic and cross-border takeover bids. *European Financial Management, 10*(1), 9-45.

Graham, Zweig, & Buffett. (2003). *The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel (Revised Edition).* New York: Harper, Collins Publisher.

Guest, P. M., Bild, M., & Runsten, M. (2010). The effect of takeovers on the fundamental value of acquirers. *Accounting and Business Research, 40*(4), 333-352.

Gyimah S.F., & Oscar, A. J. (2011). Effects of Share Pricing on Firms' Performance in Ghana. *Journal of Economics and Sustainable Development., 2*(4), 140- 153.

Hankir, Y., Rauch, C., & Umber, M. P. (2011). Bank M&A: a market power story? . *Journal of Banking and Finance, 9*, 2341-2354.

Harvey, S. K. (2015). The role of mergers and acquisition in firms performance: A Ghanaian case study. *Journal of Applied and Business and Economics, 17*(1), 66-77.

Hauswald, R., & Marquez, R. (2006). Competition and strategic information acquisition in credit markets. *Review of Financial Studies, 19*(3), 967-1000.

Heron, R., & Lie, E. (2002). Operating Performance and the Method of Payment in Takeovers. *The Journal of Financial and Quantitative Analysis, 37*(1), 137-155.

Houston, J. F., James, C. M., & Ryngaert, M. D. (2001). Where Do Merger Gains Come from? Bank Mergers from the Perspective of Insiders and Outsiders. *Journal of Financial Economics, 60*, 285-331.

Joshua, O. (2011). Comparative analysis of the impact of mergers and acquisitions on financial efficiency of banks in Nigeria. *Journal of Accounting and Taxation, 3*(1), 1-7.

Joash, G, O., & Njangiry, M, J. (2015). The effect of Merger and Acquisition on Financial Performance of Banks (A survey of Commercial Banks in Kenya). *International Journal of Innovation Research & Developmemt, 4(8),* 101-113.

Kouser, R., & Saba, I. (2011). Effects of Business Combination on Financial Performance: Evidence from Pakistan's Banking Sector. *Australian Journal of Business and Management Research, 1*(8), 54-64.

Kayani, A., Benish, J., Majeed, A., & Shaukat, A. (2013). Impact of merger and acquisition on operating performance and shareholder wealth in Pakistan Banking Sector. *Interdisciplinary Journal of contemporary research in business., 5*(6), 385-391.

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.

Khan, A. A. (2011). Merger and Acquisitions (M&As) in the Indian Banking Sector in Post Liberalization Regime. *International Journal of Contemporary Business Studies, 2*(11), 31-45.

Knapp, M., Gart, A., & Becher, D. (2005). Post-Merger Performance of Bank Holding Companies, 1987–1998. *The Financial Review, 40*, 549-574.

Kouser, R., & Saba, I. (2011). Effects of Business Combination on Financial Performance: Evidence from Pakistan's Banking Sector. *Australian Journal of Business and Management Research, 1*(8), 54-64.

Liargovas, P., & Repousis, S. (2011). The Impact of Mergers and acquisitions on the Performance of the Greek Banking sector: an event study approach. *International Journal of Economics and Finance, 3*(2), 89-100.

Lin, B., Hung, S., & Li, P. (2006). Mergers and Acquisitions as a Human Resource Strategy. . *International Journal of Manpower, 27*(2), 126-142.

Mahesh. R., & Prasad, D. (2012). Post merger and acquisition financial performance analysis : a case study of select Indian airline companies. *International Journal of Engineering and management sciences., 3*(3), 362-369.

Masulis, R. W., Wang, C., & Xie, F. (2007). Corporate Governance and Acquirer Returns. . *Journal of Finance. , 62*(4), 1851-1889.

Mishkin, F. S., & Serletis, A. (2011). *The Economics of Money, Banking and Financial Markets.*: Toronto: Pearson Addison Wesley.

Moctar. B., & Xiaofang., C. (2014). The Impact of Mergers and Acquisition on the financial performance of West African Banks: A case study of some selected commercial banks. *International Journal of Education and Research 2*(1), 1-10.

Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2005). Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. *Journal of Finace., 60*(2), 757-782.

Mukherjee, T. K., Kiymaz, H., & Baker, H. K. (2004). Merger Motives and Target Valuation: A Survey of Evidence from CFOs. *Journal of Applied Finance, Fall/Winter 2004*.

Obaid-ullah, Sabeeh-ullah, & Usman, A. (2010). Post-merger Performance of Atlas Investment and Al-Faysal Investment Bank Ltd. in Pakistan. *International Research Journal of Finance and Economics, 60*, 168-174.

Ong., T. S., Teo., C. L., & Teh., B. H. (2011). Analysis On Financial Performance And Efficiency Changes Of Malaysian Commercial Banks After Mergers And Acquisitions *International Journal of Business and Management Tomorrow, 1*(2), 1-16.

Osho, M. (2004). Consolidation through Merger and Acquisitions: The African Experience. *Conference Proceedings on Consolidation of Nigeria's Banking Industry, Central Bank of Nigeria, Abuja.*

Palepu, K. G., & Healy, P. M. (2007). *Business Analysis and Valuation: IFRS Edition*: Hampshire: Cengage Learning EMEA.

Pawaskar, V. (2001). Effect of mergers on corporate performance in India. *Vikalpa, 26*(1), 19-32.

Rau, P. R., & Vermaelen, T. (1998). Glamour, value and the post-acquisition performance of acquiring firms. *Journal of Financial Economics, 49*, 223-253.

Rhoades, S. A. (1998). The effciency effects of bank mergers: An overview of case studies of nine mergers. *Journal of Banking & Finance, 22*, 273-291.

San, O. T., ., & Phing, N. P. (2013). Capital structure before and after merger and acquisition: banking industry in Malaysia. *International Journal of Management Sciences and Business Research, 2*(1), 1-22.

Selcuk, E. A., & Yilmaz, A. A. (2011). The Impact of Mergers and Acquisitions on Acquirer Performance: Evidence from Turkey. *Business and Economics Journal, 2011: BEJ-22*, 1-8.

Seth, Song, & Pettit. (2000). Synergy, Managerialism or Hubris? An Empirical Examination of Motives for Foreign Acquisitions of US Firms. *Journal of International Business Studies, 31*(3), 387-405.

Soongswang, A. (2011). Total gains: Do mergers and acquisitions pay investors in the event firms? *Asian Journal of Business and Management Sciences, 1*(2), 136-149.

Tsangarakis, N. V., Tsirigotakis, H. K., & Tsiritakis, E. D. (2013). Shareholders wealth effects and intra-industry signals from European financial institution consolidation announcements. *Applied Financial Economics, 23*(23), 1765-1782.

Tuch, C., & O'Sullivan, N. (2007). The impact of acquisitions on firm performance: A review of the evidence. *International Journal of Management Reviews, 9*(2), 141–170.

UNCTAD. (2012). World Investment Report (WIR) 2011: Towards a new generation of investment policies, United nation conference on trade and development, Geneva.

Wang, S.-F., Shih, Y.-C., & Lin, P.-L. (2014). The Long-Run Performance of Asian Commercial Bank Mergers and Acquisition. *Modern Economy, 5*(04), 341-359.