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PEEKING BEYOND PROFITABILITY: EFFECTS OF MERGER AND ACQUISITION ON MICROECONOMIC INDICATORS IN BANKING INDUSTRY

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ABSTRACT

The purpose of this study is to provide relative information on mergers & acquisition events of banks in Pakistan. To evaluate the profitability and microeconomic factor of banks in Pakistan, financials for thirteen years (2006-2017) were examined with the help of financial ratios. The research applied secondary data which were gathered from the financial statements of banks, and their websites. In this research, every financial decision-making process, ratio analysis by timeline method is most often utilized. The outcomes illustrate that the pre-merger performance of banking sector of Pakistan in the dimensions of profitability and loan/deposits was fairly satisfying. It clarifies that merger activity was unsuccessful in increasing the financial productivity of the bank, but banks become one with other small and the same sized banks simply to increase market shares, to increase their assets and to reveal concealed morals.

Key Words: Merger & Acquisition, Pre & Post Performance, Growth Strategy, Microeconomic indicator, Financial Sector.
JEL Classification: G34, G21

1. INTRODUCTION

1.1. Background of the Study

Mergers and acquisitions signify extensive capital reallocations with a projected total capacity of $1.34 trillion per annum (Bonaime, Gulen, & Ion, 2018). Merger and acquisition (M&A) are a common term used to denote to the merging and joining of firms. A merger is a mixture of two firms to build a new one, while an acquisition is buying of one firm by another one, in acquisition forming a new firm will not take place. Moreover, the structures can consequence in the financial and economic merging of two business entities (Pangarso, 2014). Merger & Acquisition activity may also be understood as a type of rearrangement and reorganization of firms with the purpose of gaining value and growth. Merging of an industry or sector takes place when extensive Merger & Acquisition activities focus the means of many small firms into a few greater ones (Bianconi & Tan, 2018).

The 1990s, Asian banks were mostly involved in promoting the activity of merger and acquisition. Strategic banking businesses are encouraged by Asian Banks for their customers, but by using merger and acquisition activity, they encourage bank policies and other strategies for their own selves (Shirasu, 2018). In a short time, merger and acquisition bring a great effect on the effectiveness of banks, but its impact is lesser on the long-time period only if banks make constant efforts to prove it. Government plays pivotal role in aiding firms by providing the platform to function and make profits in the strategy. Many studies showed that these mergers and acquisition activities increase the price value (Delaney & Wamuziri, 2004) and efficiency (Sheen, 2014) because ultimately this will result in increasing the profits of banks. Various ratios analysis has been done and analyzed to find out the impact of merger and acquisitions have on the outcome and performance of the banking sector in Pakistan. Due to merger and acquisitions firms are in a situation to make the strategic decisions, banks make decisions regarding the price of share and stock more efficiently (Al-Sharkas, Hassan, & Lawrence, 2008; Odeck, 2008) as these banks have competencies as an outcome of the activity of merger and acquisitions, Alteration in management occurs and come with some new strategies and techniques for responding to the market efficiently. Merging the Pakistani banks and decreasing a particular number of banks was the focus of the state bank of Pakistan during the 1900s and to decrease the number of banks. (Ahmed et al. 2018).

This research studies the impact of Merger and Acquisition announcements on profitability and other microeconomic factors of the banking sector of Pakistan. The motive behind conducting the research on the impact of merger and acquisition on profitability is that there has been a lot of content and research work has been generated on this topic on an international level but in case of Pakistan very little population is known about merger

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and acquisition and its impact on profitability. This study analyses cases of Merger & Acquisition from only the banking sector. Along with that, the key aim of selecting banking sector (financial sector) of Pakistan is newly facing regulatory alterations in the industry by the Pakistani banking sector. (Mujahid, Hashmi, & Abbas 2014).

1.2. Problem Statement

Merger and acquisition have gained a lot of attention in Asian countries since last two decades. Most Asian countries had started engaging in M&A activities after the time when the financial crisis took place in Asia 1997. This strategy has been adopted faster by Pakistan firms especially in the banking sector for achieving growth and value. The stock markets of firms are affected by the announcement of merger and acquisition. The banking sector of Pakistan is the research's basic interest because most of the M&A took place in this sector due to the increase in capital requirement which compels the banks to either merge or to be acquired. The aim of the study is "to analyze the impact of M&A on the profitability and some other microeconomic factors of the banking sector of Pakistan."

1.3. Research Questions

- What is the impact of ROE on the profitability of banks after being merged or acquired?
- What is the impact of ROA on profitability after being merged and acquired?
- What is the impact of merger and acquisition on EPS?
- What is the impact of merger and acquisition on bank deposits and advances?

2. LITERATURE REVIEW

Mergers and acquisitions (M&A) are widespread and popular means of development and growth for firms. 29,585 contracts were proclaimed internationally in the year of 2005, accounting for a collective deal worth of 1 trillion US Dollars in the United States of America and 883 billion US Dollars in Europe (Luypaert & Huyghebaert, 2007a). The figure and worth of M&A deals in the banking sector have speeded up over the previous decade in line with other sectors (Beccalli & Frantz, 2013; Rahman, Lambkin, & Hussain, 2016). Many corporations believe that mergers and acquisitions are the finest technique to grow their ownership margins (Dash, 2013). Organizations go for merger and acquisition strategy to achieve efficiency and to increase profitability. This strategy has been witnessed mostly in developed nations from decades but now developing nations are also looking forward to adopting merger and acquisition strategy. Awan and Mahmood (2015) explained that financial institutions like banks are interested in these kinds of strategies to achieve synergy to expand the business. Gaughan(2010) describes that acquisition may take place because of a '*diversification program which allows a firm to move in another line of business.'*

Mergers and acquisitions (M&A) are becoming well known amongst monetary as well as non-monetary sectors of the business world. We discover numerous studies that have observed the influence and impact of mergers and acquisitions in the financial sector. But the accessible researches for Pakistan are narrow in their scope, purposes, and objectives (Ikram, 2016). We have realized that many tools and methods are easily accessible for evaluating the impacts of merger and acquisition deals. Financial ratios and their analysis are extensively used by scholars to discover the impacts of mergers and acquisitions (Amihud & Lev, 1981; Kemal, 2011). There are narrow practical proofs and evidence on the impact of mergers and acquisitions on a monetary and financial performance of companies in terms of profitability in Pakistan (Rashid & Naeem, 2017). A significant drive for Mergers & Acquisitions is to provide progress and profitability of the firm or progressive shareholder worth. (Bianconi & Tan, 2018).

2.1. Mergers

Mergers have been a subject matter of enormous concern for researchers in terms of practical and theoretical research over the past 40 years. Scholars have first and foremost focused on inspecting the reasons and results of acquisitions (Yaghoubi et al., 2016). Merger activities can take place amongst the companies of similar businesses as well as in diverse businesses. Based on this reality, mergers have primarily three categories. The three kinds of mergers are as follows: vertical, horizontal and conglomerate mergers(Bauer, Matzler, & Wolf, 2016) When two or more than two companies' combined together in the same kind of businesses in finance such action is called as a horizontal merger. (Zhu, 2012) The merger of two firms combined in the similar industry takes place as a horizontal merger, which brings such synergies and gains for both the firms like improvement in market share, saving operation costs, increased price of market share, and discovering new and efficient market opportunities. Likewise, a vertical merger happens, when a particular company or firm purchases its own supplier or dealer from whom that firm is engaged in buying its raw materials, etc. The main reason behind vertical mergers is to decrease the

operational costs and to improve the operation process which is done only if the firm expands its economy of scale. Conglomerate merger is the last and third kind of mergers. In conglomerate mergers two specifically unrelated corporations from diverse industries become one entity (Rashid & Naeem, 2017).

2.2. Acquisitions

The buying of one firm by another in which no new corporation is shaped; this activity is known as acquisitions.(Zhang et al., 2018) Either organization can result in the monetary and financial merging or linkage of two businesses like mergers (Bianconi & Tan, 2018). Advantage should surpass the cost which incurred in acquisition for recognizing a growth rate which adds additional worth to shareholders equity. In practice, it has been realized that the supervision of a total of acquiring firms funded an excessive amount for acquisition to fulfill their desire for higher growth and great size of their businesses (Huyghebaert & Luypaert, 2010; Joash & Njangiru, 2015). Merger & Acquisition can rise the market coverage of the buying firm through geographic growth, by arriving new nation-state or markets, and/or by the entrance to supplementary market sectors. This extensive market coverage should allow the merged company to trade current products to additional consumers, thus giving an additional opportunity for the growth in sales (Ficery et al., 2007; Rahman et al., 2016). On a shorter time, merger and acquisitions have more impact on the banking sector's performance, on the other hand, it has less impact on a long-term basis only if banks are engaged in constant hard work and efforts to prove it. A vital role in aiding corporations to make available the platform to function and earn revenue in the policy is played by the regulatory bodies like government. The acquisitions assist as a source to take hold of the effective gain potentially reducing from economies of scale and scope, supervisory and financial profitability and cooperation, and greater management. Also, a firm is more competitive as it upsurges its share in the market. The acquirer company can attain a collection of target markets for real and potential products to be retailed in those markets; meanwhile, it grips a foremost competitor and thus raises its market influence by catching an increased share of the market to fixed prices (Bianconi & Tan, 2018)

2.3. Mergers, Acquisitions & Profitability

From the last few decades, growth, and existence in the field of banking; merger and acquisition tool are used by the emerging economy states. Earnings per share (EPS), Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM), Which displays the complete performance of the business (Ahmed et al., 2017). Future cash flows can be predicted by the use of Earnings per Share (EPS) for the assessment of bank's overall performance to finding the effect of issuing common stocks (Joash & Njangiru, 2015). Calculation of the profitability of the banking sector or any other sector, Return on Asset (ROA) has been commonly used in the studies. Revenue produced for each dollar of assets is measured by the Return on assets (ROA) and reveals performance of bank administration uses the bank's actual investments assets to produce returns (Naceur, 2003; Alkassim, 2005; Naeem & Baloch, 2017). Return on Equity (ROE) calculates the amount of profit on the investor's capital (shareholders' equity) of the common stockholders (Vejzagic & Zarafat, 2013; Muda, 2017).
Net after-taxes and interests, profits or Net incomes is the profitability of a bank (frequently divided by a calculative of bank size). To calculate the bank profitability Financial ratios are used to be the utmost normally used techniques (Joash & Njangiru, 2015; Mamatzakis, 2007). It is revealing that the administration of a some of acquiring businesses bears an unnecessary price for acquisition to please their desire for great progress and the huge size of their corporations (Luypaert & Huyghebaert, 2007).
The explanation may depend on person to person, but a process that unsuccessful in increasing the shareholder wealth and desire cannot consider being a success (Straub, 2007). The policies that developed to sustain for the longer period are a part for successful acquisitions which contributes to the direction of organizational growth.
Companies were attracted by chance to completely make use of tax protections, rise leverage, and deed for extra tax rewards. (Joash & Njangiru, 2015).

H1: There is a positive impact of merger and acquisition on Earning per Share (EPS).
H2: There is a negative impact of merger and acquisition on Return on Assets (ROA).
H3: Merger and acquisition impacts Return on Equity (ROE) negatively.
H4: Merger and acquisition impacts on Net Profit Margin (NPM) negatively.

2.4. Mergers, Acquisition & Microeconomic Indicators

Microeconomic factors include bank-specific contributing factor. The various bank-specific factors are explained as follows:

2.4.1. Deposits

There is an inconsequential result of deposits on the liquidity of the banking sector (Moussa, 2012; Singh & Sharma, 2016). Scholars have claimed that as there is an increase in demand for deposits that will ultimately mean that there is also an increase in liquidity asset holdings (Bonner, Lelyveld, & Zymek, 2014). They supposed that at a particular known level of deposits if there is more risk for debtors as in the case of economic collapse, banks should also increase its liquidity assets. The developing economies for the time between 1994 to 2004 and come to known that as the deposit rate rises the liquidity of bank also declines. The calculation of Deposits (DEP) has been done as total deposits over total assets. The most important source of funding for banking sectors is deposits. On the other hand, banks are obligatory to keep sufficient liquidity to fulfill the demand of customers (Ikram, 2016). The banks which are superior in size with lesser returns on asset (ROA), enlarged level of capital, extra non-performing advances, greater core deposit ratio and loan concentration of loans revealed the greater possibility of being acquired (Mehrotra & Sahay, 2018).

2.4.2. Advances and Loans

The foremost basis of revenue are loans and advances and is likely to have a positive influence banks' performance. Other things remain constant; the more deposits are altered into advances, the higher the profits and interest margin (Barth, Caprio, & Levine, 2008). On the other hand, for having a higher ratio of loan to asset and for that purpose if a bank wants to raise risk, then ratios of returns may decline. Furthermore, as bank advances are the primary source of revenue, it is also imagined that non-interest bearing assets have a negative impact on the profits of banks (Mehrotra & Sahay, 2018). We also suppose that the lesser the external financing needs means, the higher equity to asset ratio and as a result higher profitability and growth. It is also an indication that banks which are well-capitalized experience lesser costs of going bankrupt and then the cost of financing are reduced (Naeem & Baloch, 2017).

The microeconomic factors include the bank-specific factors that influence the performance of the banks (Rashid & Naeem, 2017). These factors are mainly inclined by a bank 's supervision decisions and plan objectives and ideas; consequently; the administration competence can influence all the factors. Many firms go for mergers and acquisition activity for better management which ultimately results in higher profitability (Shirasu, 2018). Management efficiency can be calculated as a ratio of operational expenditures over the revenue which has been generated over a certain time. The risk of Liquidity is also a microeconomic factor that may arise from the potential incapability of a bank to accommodate the decline in debts. Meanwhile it turns out to be difficult and challenging to raise finances for the rising demand for advances and loans (Bonner et al., 2014). This indicates that the risk of Liquidity is a serious aspect that has an immense impact on the performance and profitability of commercial banks. It wants more examination in the nation specific status quo. This implies that growth in non-performing advances and credits leads to an increase in loan loss provision and at last a negative influence of profitability, and therefore rise in the risk of credit. (Singh & Sharma, 2016)

H5: There is a negative impact of merger and acquisition on Advances and Deposits.

The available studies for our nation Pakistan are constricted in their objectives. A major benefit of M&A's is to gain additional progress and profitability for a particular firm or to increase its shareholder value. Our study provides a complete review of the practical evidence on the merger and acquisition of banks success with an exceptional focus on mergers and acquisition that occurred in the last 10 years. Throughout this span of time, the study presented a vast number of new observed outcomes which partly differ from older perceptions. We document the new results on M&A success and the aspects which ultimately results in success. Overall, the emphasis of realistic studies is still slightly narrow, as all methodologies mostly refer to success from the perspective of the owners of the acquiring firm. The results of bank M&As for the financial system and its constancy are still unexamined.

3. RESEARCH METHODOLOGY

The purpose of this research is to explain the relationship between variables routes through positivist philosophy (Schrag, 2007). The mono-method is used because it covers only the quantitative approach (Sekaran, 2006). We have used secondary data (Glass, 2007) that was collected from the company's' financial statements. Financial performance before and after merger was calculated through ROA, ROE (Ahmed, & Nadeem, 2015), EPS, NPM (Ahmed, et al. 2018), Microeconomic indicator (Vennet, 1996).

- The sample of the study is identified from the population through considering the time limit of the research.
- The data collected for this research is secondary and is collected from the company's financial statements.

The Sample of this study covers all the banks of Pakistan, working as merged and acquired entities because these banks experience the positive or negative consequences of mergers and acquisitions in terms of profitability and its microeconomic factors. Their financial statement provides substantial data and its feasibility soon of Pakistan.

3.1. Variables

3.1.1. Independent Variable

Merger and acquisition

3.1.2. Dependent Variable

Profitability: The ability to earn profits for a certain business. Sub-variables are as follows:

1. Earnings per Share.
2. Return on Assets.
3. Return on Equity
4. Net Profit Margin

Microeconomic Factors (Advance to deposit Ratio).

4. RESULTS

Thirteen years' data from 2006 to 2017 of merged banks has been analyzed by using descriptive statistics specifically mean/averages and after those averages of pre- and post-merger has been analyzed for the purpose of interpretation and conclusion of results. Each bank has been analyzed and results are discussed individually.

4.1. Merger of RBS and Faisal Bank Limited

Table 4.1. Year Trend of Faisal Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EPS	3.43	2.76	1.35	1.46	1.45	1.55	1.08	1.4	1.88	3.2	3.26	3.42
ROA	2.5	1.77	0.8	0.75	0.53	0.46	0.47	0.55	0.67	1.03	0.98	0.97
ROE	32.67	23.33	10.89	11.18	8.51	7.43	7.76	9.4	11.68	17.63	15.59	14.38
NPM	48.82	41.2	21.37	21.4	15.65	10.17	11.05	13.95	15.66	23.33	23.3	22.49
ADR	91.71	91.69	83.41	77.22	70.65	68.76	70.38	69.65	66.16	63.21	61.02	61.17

Table 4.2. Average of before merger and after merger data (RBS and Faysal Bank Limited)

	Before Merger	After Merger
EPS	2.09	2.26
ROA	1.27	0.73
ROE	17.32	11.98
NPM	29.69	17.14
ADR	82.94	65.76

Table 4.1 shows the yearly trend of bank and table 4.2 shows pre- and post-merger effect on the performance of Faisal bank limited. The Earning per Share of Faysal Bank has raised up with some slight difference of 0.17 as compared to a pre-merger value which is 2.09. However, Return on Assets has declined with a major difference of 0.54 as compared to pre-merger value 1.27. Return on Equity has also decreased with a major difference from 17.32 to 11.98 after the merger. Net Profit Margin and Advances to deposits ratio both has decreased. NPM has decreased from 29.69 to 17.14 which is a major downfall in profit of Faysal Bank. However, ADR was ideal before merger activity as its value was 82.94 percent, but it also declined after the merger and went down to 65.76 percent, which illustrates that merger has not resulted in favor of Faysal Bank.

4.2. Merger of Atlas Bank Limited and Summit Bank

Table 4.3. Year Trend of Summit Bank

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EPS	1.1	0.65	-0.38	-4.13	-5.58	-1.53	-2.54	-1.52	0.16	0.15	-1	-0.51
ROA	1.65	1.27	-0.77	-5.41	-4.18	-4.51	-2.03	-1.46	0.15	0.12	-1.01	-0.49
ROE	3.04	3.64	-3.11	-50.84	-83.98	-27.9	-94.34	-56.28	2.09	2.01	-20.59	-12.02
NPM	66.66	32.3	-44.41	-209.84	-779.84	-203.57	-185.73	-54.22	4.61	3.74	-54.13	-20.94
ADR	56.37	84.83	94.83	59.1	62.93	63.95	54.22	50.97	63.1	58.87	55.89	58.69

Table 4.4. Average of before merger and after merger data (Atlas Bank Limited and Summit Bank)

	Before Merger	After Merger
EPS	-1.67	-0.97
ROA	-1.49	-1.32
ROE	-26.25	-29.58
NPM	-187.03	-72.89
ADR	71.61	57.96

Table 4.3 and 4.4 show pre- and post-merger performance results of Atlas bank with summit bank and results in highlights that Earning per Share has been improved as compared to pre-merger, but it was already in negative after merger of Atlas Bank Limited and Summit Bank, it has improved slightly from -1.67 to -0.97 which shows that its Earnings per Share is on the path of improvement after merger. Same goes with Return on Assets as it is also improving as compared to the pre-merger trend and it is also negative even after being merged. Return on Equity is getting worse after the merger as it was in negative -26.25 before the merger and become -29.58 after being merged. Net Profit Margin is also improving, but its value is also in negative after the merger. Whereas it has improved more as compared to another negative ratio from -181.03 to -73.89. Advances to Deposits Ratio has been decreased from 71.61 to 57.96. It shows merger has not resulted in favor of summit bank through some of the profitability ratios are improving. However, they are still negative in profitability ratios, and Advances-to-Deposits Ratio has also reduced.

4.3. Merger of Askari Leasing Limited and Askari Bank Limited

Table 4.5. Year Trend of Askari Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EPS	7.48	8.92	0.95	2.18	1.48	2.3	1.54	-5.9	3.19	4	4.14	4.18
ROA	1.4	1.54	0.2	0.48	0.33	0.49	0.36	-1.47	0.95	1.03	0.9	0.83
ROE	22.6	22.99	3.06	7.85	6.09	9.64	7.34	-31.94	22.35	24.54	22.14	19.97
NPM	15.26	13.6	1.82	4.36	3.12	4.56	3.43	-17.36	10.05	11.65	12.5	12.38
ADR	75.23	70.46	76.83	65.56	59.7	51.7	46.83	48.79	43.99	46.16	49.74	49.2

Table 4.6. Average of before merger and after merger data (Askari Leasing Limited and Askari Bank Limited)

	Before Merger	After Merger
EPS	4.88	1.87
ROA	0.91	0.43
ROE	14.13	10.02
NPM	8.76	5.04
ADR	72.02	49.51

Table 4.5 and 4.6 represents that Earning per Share has been dropped from 4.88 to 1.87 as compared to pre-merger after the merger of Askari Leasing Limited and Askari Bank Limited. Return on Assets has also decreased from 0.91

to 0.43 along with that Return on Equity is also falling. Same goes with Net Profit Margin is also declining from 8.78 to 5.04. Advances and Deposits Ratio is also reduced after the merger which shows that the performance of Askari Bank in term of profitability has gotten worse.

4.4. Merger of KASB Bank Limited and Bank Islami Pakistan Limited

Table 4.7. Year Trend of Bank Islami Pakistan Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EPS	-0.04	-0.12	-0.11	-0.93	0.09	0.78	0.58	0.34	0.57	-0.24	0.44	1.55
ROA	-0.42	-0.42	-0.33	-1.84	0.12	0.79	0.46	0.23	0.33	-0.14	0.25	0.79
ROE	-0.84	-1.5	-1.33	-9.93	0.99	8.29	5.78	3.38	5.35	-2.37	4.27	13.46
NPM	-6.26	-8.29	-5.29	-37.75	2.4	14.4	10.89	6.26	7.87	-4.57	9.08	25.75
ADR	53.94	39.57	50.83	37.36	43.64	39.77	42.72	50.92	45.5	44.89	50.4	66.47

Table 4.8. Average of before merger and after merger data (KASB Bank Limited and Bank Islami Pakistan Limited

	Before Merger	After Merger
EPS	0.13	0.58
ROA	-0.12	0.30
ROE	1.13	5.12
NPM	-1.75	10.09
ADR	44.92	53.92

Table 4.7 and 4.8 highlight significant changes in profitability and Advances to Deposits ratios of Bank Islami Pakistan Limited after the merger. The Earning per Share of Bank Islami limited has increased with a major change from 0.13 to 0.58 which shows a major improvement in the phase of earning per share. Return on assets has improved with a significant change from the negative figure -0.12 to 0.30 which has improved more as compared to the pre-merger trend. On the other hand, ROE has also increased with a greater difference from 1.13 to 5.12 which also shows betterment after merger activity. Net profit Margin has also accelerated with a greater profit from a negative figure -1.75 to 10.09 which is a big improvement in its profits. Advances to deposit ratio have also increased from 44.92 to 53.92 which illustrates that in all the aspects either profitability ratios or ADR ratio, Bank Islami has improved its performance after merger activity which shows a positive impact of the merger on Bank Islami.

4.5 Merger of First Allied Bank Modaraba and Allied Bank Limited

Table 4.9. Year Trend of Allied Bank Limited

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EPS	5.62	5.21	5.31	9.11	10.52	11.79	10.17	12.79	13.11	13.2	12.6	11.12
ROA	1.98	1.42	1.21	1.81	1.89	2.1	2.03	2.14	1.9	1.65	1.4	1.1
ROE	30.2	23.5	21.2	30.5	28.8	29.5	28.44	29.96	25.94	23.26	20.26	16.63
NPM	34.15	27.12	22.8	28.88	29.12	31.56	18.39	22.94	18.83	18.47	19.03	17.07
ADR	69.9	63.8	71.6	72.2	68.2	61.2	52.67	43.88	45.82	43.78	40.93	42.1

Table 4.10. Average of before merger and after merger data (Allied Bank Modaraba and Allied Bank Limited)

	Before Merger	After Merger
EPS	3.95	10.05
ROA	1.78	1.72
ROE	27.60	25.68
NPM	31.50	24.03
ADR	68.90	56.34

Table 4.9 and 4.10 show significant changes in profitability and Advances to Deposits ratios of Allied Bank Limited after the merger. The earnings per share of Allied Bank have increased with a visible difference from 3.95 to 10.05 after being merged. However, Return on Assets shows a minor decrease of .06 from 1.78 to 1.72 in an average of post-merger activity. Return on equity has also declined with a slight change from 27.60 to 25.68. Net profit Margin has face declined after merger activity as it was 31.50 before the merger and after being merged, it has decreased to 24.03 which demonstrate a decrease in their profits after the merger. Advances to deposit ratio have also decreased from 68.90 to 56.34 which shows that except an improvement in EPS all the other indicators are in declining phase which shows that merger has not resulted in the profitability of Allied Bank.

5. DISCUSSION

The study revealed that whenever merger and acquisition in the banking sector take place, it will eventually increase the earning per share of the bank. This result is very much like the previous literature. Particular research found out the very same result in the banking sector which recognized that the mergers and acquisitions in banking sector raised up the shareholder's value through raising the earnings per share and price (Joash & Njangiru, 2015). Additional research also revealed a similar result in the corporate sector which finds that most firms increased their profitability such as returns and earning per share on an average after such acquisitions. (Kumar et al., 2009). The findings of this specific research also established results in a similar way which says that the performance of the bank in terms of shareholders' earnings has a positive and significant change after merger and acquisition (Kyriazopoulos & Drymbetas, 2015). On the other hand, there are various studies from diverse sectors which contradict our findings. The stated study opposes our results in the agricultural sector which declares the average mean return on shareholders' value showed a statistically significant decline during the post-merger period. which suggested that for the agricultural sector, mergers had caused a significant decline (Mantravadi & Reddy, 2008). (Kemal, 2011) also in his research paper conflicts with our results which demonstrates that in an investor's opinion, the role of the financial ratios is sufficient to determine the financial condition of any firm. However, in the banking sector, it is determined that the merger fails to pull up the shareholders' value.

This study examined that whenever merger and acquisition activity occur, it will result in a slight decline in Return on Assets as our research reflects that 60% of the results show a slight decrease in return on assets after merger and acquisition. There are various studies which support the results. This particular study confirms the similar results in the banking sector which show that Return on assets after merger activity is declining which is the clear indication that the bank's profitability was better before the merger (Kemal, 2011). One more study in the banking sector also supports the results which indicate that the return on assets is reducing after the merger activity (Casu et al., 2016). This research suggested the related results in Pharmaceuticals Sector; mergers had triggered a marginal decline in return on assets and investments (Mantravadi & Reddy, 2008). Another study regarding the banking sector of Pakistan also examines the similar outcomes which say that merger has a declining impact on the profitability of the banking sector of Pakistan (Ahmed et al., 2017). However, there are some specific studies that conflict with the results that say ROA exerts a positive impact on abnormal returns which can be understood as greater ROA target banks appealing a positive market response to the announcement of Merger & Acquisition. (Kyriazopoulos & Drymbetas, 2015). Assets are obviously flowing to improved performance of banks as an outcome of merger and acquisition activity (Houston & Ryngaert, 1994).

This research observed that when merger and acquisition take place in the banking sector, it will give a declining outcome in Return on Equity. Our results are consistent with the results of (Kemal, 2011) which illustrates that there is an adverse influence on a firm's profitability after M&As in case of Pakistan banking sector. Another research also supports the results which show that greater ROE acquirer banks experience marginal losses both on the day of the announcement and the post-event short-term period, however of a slighter scale (Kyriazopoulos & Drymbetas, 2015). Even though this particular research paper displays contradictory results as it declares that it is likely that firms with a lower level of performance will succeed to increase their profitability after the merger (Central Bank, n.d.).

This study observed that when merger and acquisition take place in the banking sector, it will give a decline or no significant impact on the net profit margins of the bank. These particular studies show favourable results which says that Net profit margin (NPM) declares statistically major decrease in the post-merger time period from 6.265% to 3.53% (Mantravadi & Reddy, 2008). Another research also revealed the same result says that there is no significant impact of merger and acquisition on the net profit margin of the bank. However, it might give a negative effect on the profit margins of banks (Ahmed et al., 2017). On the other hand, no contradictory research has been done so far.

This study examined that whenever merger and acquisition activity occur in the banking sector, the outcomes will decrease the Advances to Deposit Ratio. This research also shows the similar results that Merger and Acquisition activity results in a decrease of Advances to Deposits Ratio. The loans to deposits ratio have faced a major negative

impact after merger and acquisition (Shirasu, 2018). However, no opposing research has been done so far. Some previous studies partially support our results. A specific study declares that there is also a significant impact of merger and acquisition on operating profit margin and gross profit margins (Mantravadi & Reddy, 2008).

6. IMPLICATION

The research will help academicians, acquirers, managers, investment institutions and financial institutions in the decision-making process to evaluate the outcomes of merger and acquisition in the banking sector of Pakistan. State Bank of Pakistan needs to consider the financials and offer funding and liquidity provisions to the suffered and targeted bank before going towards the merger and acquisitions. Reestablishment and modernization policies should be adopted by banks under the supervision of the State Bank of Pakistan and improve its position by getting fresh funding, capital, shareholders, and a new investor. Accurate regulatory control analysis is requisite by a regulatory body to recognize the economic aspects such as interest rate, inflation rate, labor that will reduce minimum capital requirements (MCR) of banks, capital adequacy ratio (CAR) and need shelter to raise funds. This study reinforces various previous studies such as (Kemal, 2011) enlightened that merger and acquisitions do not offer the assurance of improvement and increase in bank's performance in terms of liquidity, profitability, leverage and cash outflows and inflows. (Rashid & Naeem, 2017) also declares the same results in his research.

7. RECOMMENDATIONS

The outcome of the research indicates that consequences after the activity of mergers and acquisitions do not result in favor of the banking sector in Pakistan. The study suggests that before merger and acquisition banks should do relevant measures on the top management of the targeted bank, as personnel contributes a significant role in the efficiency of the bank. Banks which are acquiring other banks must study the upper management that generates value addition after being merged and acquired. On the other hand, environmental aspects and timely merger and acquisition are crucial. Therefore, acquirer banks must be assured and concentrate on time, at what time to merge, and what types of issues are governing in the global market.

This has to explain the objectives and purposes that why do banks adopt the strategy of merger and acquisitions as achieving profitability, increasing deposits and improving market share are not the only reasons behind the decision of mergers and acquisitions, but other economic factors also put a great influence on the post-merger financial performance of banking sector, all those aspects are requisite to be studied and examined before taking the decision of merger and acquisition. There is a room for further research about the cost of deposits, monetary plans and bank's policies, interest and inflation rates and other ratios of loans and advances. It is also very essential to evaluate why does State Bank of Pakistan permit banks to merge with and acquire smaller banks which eventually face failure in maintaining Capital Adequacy Ratio and Minimum Capital Requirement, why does state bank not utilize its function of lender of last resort and does not aid economically to debt-burdened banks. For future research, it would be better to conduct studies from a diverse range of industries with larger samples of the population.

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APPENDIX

List of Merged and Acquired Banks in Pakistan

List of M&A Banks	Year of M&A Activity
Royal Bank of Scotland and Faysal Bank Limited	2011
Atlas Bank Limited and Summit Bank	2011
Askari Leasing Limited and Askari Bank Limited	2010
KASB Bank Limited and Bankislami Limited	2015
First Allied Bank Modaraba and Allied Bank Limited	2006