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Long Run Financial Performance Analysis of Pakistani Banks After Merger and Acquisition in comparison with whole Banking Industry

Muhammad Raghib Zafar
PhD. Scholar IBA, University of Sindh

Dr. Abdul Sattar Shah
Professor (PhD Supervisor)
Director IBA, University of Sindh

Abstract

This research is to test the impact of mergers and acquisitions (M&A) on the financial performance of banks in the long run period on the acquiring firm in comparison to the Industry. The research uses the long-term post-merger published data by state bank of Pakistan (SBP) of the selected banks and the industry to investigate the long-term performance. It compares performance of the acquiring firms and the industry. The present work conducts a comprehensive ratio analysis of 25 major ratios related to Capital Adequacy, Asset Quality, Management Soundness, Efficiency and Liquidity. Three banks are selected for this study and analyzed for the post-merger profitability the banks are Bank Islami, Bank Albarakah and the Faysal bank limited. Twenty-five ratios for each bank individually and the average of these three banks were compared to the industry averages. For the purpose of the ratio analysis paired sample T tests were applied with the help of SPSS. At the end the researcher found that the merged bank has ratios significantly different from the industry averages. It is concluded that in long run the performance of the merged banks in Pakistan is significantly different from the industry averages. As we look at the ratios of Faysal Banks twenty-one out of twenty-five, Bank Islami fourteen out of twenty-five, Bank Albarakah sixteen out of twenty-five and if we look at the banks average Nineteen out of twenty-five are significantly different from the post-merger industry ratios.

Key words: *Merger and Acquisition, Banking, CAMEL Ratios, Profitability, Efficiency*

Introduction:

Historically, In Pakistan especially the banking sector is an evidence of credit ceilings, means of controlled interest rates which leads to the less competition and also focused on the subsidized credit till before the 1990s. This sector change drastically after 1990s and showed a note able growth in the industry. This leads to the significant growth to the banking industry of the economy.

Banking is one of the major industry for every developing or developed economy in resent era. Mahmood ul Hasan Khan & Muhammad Nadim Hanif (2018).

In the recent times mergers and acquisitions (M&A) is the part of business strategy used all over the world for increasing the market share, market competitiveness, increasing the business portfolio which will leads to minimize business risk and entering in to the new geographical locations and also achieving the economies of scale

Amalgamation of two or more Business units is called merger and if a firm purchases another firm it is said to be acquisition although it is different from the consolidation because no new business firms are created during the merger and acquisition. The goal of merger and acquisition may involve achieving higher profits and economies of scale, scope, increase market share, synergies, geographical reach and to somehow diversification is one of the goals of merger and acquisition. Banks merger and acquisition are also in order to achieve one of these objectives. Recently the Pakistani financial sector facing exceptional challenges at both micro and macro level. In order to cope with these tough conditions many merger and acquisitions took lace and it gives an increase in this business strategy. The increase in merger and acquisition bring revolution in the financial sector and change over all financial structure of the economy. This structural change in the financial sector bring strength and reduced the financial risk. (Muhammad Usman Kemal *2011)*

Background of Merger and Acquisition.

The ultimate objective of any business is to maximize profit or shareholder's wealth by paying then higher dividends. It is the right of every organization to adopt different techniques and strategies to maximize its profits and able to survive in the fast growing markets. Organizations has to respond rapidly to the fast and changing business environment for like entering in to the new markets, introducing new product or service, adopting new methods of manufacturing, enhancing portfolios etc. It need new financial resources in order to get the desired firm objectives as quickly as possible and if unable to arrange timely finance this creates huge problem for those organizations. So the firms that are operating on a small level with no or less profit has no option other than to windup their business or to merged with or acquired by a stable organization. Mergers and acquisitions is the only and very easy option for these organizations to survive in the emerging market. Hence the Mergers and acquisitions become a global business approach that allows companies to go in to the different possible markets or to enter in to a new business area. (Muhammad Faizan Malik and Melati Ahmad Anuar 2014).

As discussed earlier Merger and acquisition are not the identical terminologies but mostly it is used interchangeably. If a firm purchases a part or entire firm the event is said to be acquisition while in merger there are two or more firms combine to0gether to form a new entity (Alao 2010). Durga, Rao, Kumar (2013) said mergers and acquisitions are the actions include corporate reforms and take over, that change the ownership and the control of the organizations. The key objective is to work in a combination that will be beneficial for them in future as compared to work alone in the competitive market environment.

Merger and Acquisition increases shareholder's equity by enhancing the return on equity and decreases many expenses and other operating costs (Georgios and Georgios 2011).

Merger and acquisition is a very significant business expansion strategy for different business in every economy and the scholars from the different regions among all over the globe are taking attention to work in this type of business strategy (Goyal and Joshi 2011). If we look at the past of Merger and Acquisition, it is evolving from the United States of America USA during the eighteen century or before the eighteenth century. In the nineteenth century M & A started evolving in Europe (Focarelli, Panetta and Salleo 2002). A lot of research has already conducted in USA and Europe and it is now recommended to be done in the Asian countries like Bangladesh, Malaysia, India and Pakistan.

From the past literature Merger and acquisition divided in five waves.

First Wave: Started 1897 and lasts until1904 motivating forces are achieving efficiency, and the enhancement and the new technology, the type of these mergers are horizontal type. Most of these deals are fail to achieved their desires objectives during this era. (Fatima and Shehzad,2014)

Second Wave: started from 1916 and lasted until1929 motivating forces are the entry into world war first by united states and after world war economic boom in the united states, the type of these mergers are also horizontal type. The results of this wave is uneven in a sense that a few times the M & A has achieved and afew times the M & A fails to achieved the desired objective. (Golubov & Petmezas,2013)

Third Wave: Started in 1965 and ended in 1969 motivating forces are Stock exchange intensified, affirmed economic boom most types of mergers are the conglomerate types of merger and acquisition. The results show only the consolidation among the firms with unaccomplished goals and objectives. (Fatima and Shehzad,2014)

Fourth Wave: starts 1981 and ended during 1989 motivating forces are the growing stock exchange, boom in economy, conglomerates mergers during the last wave did not performing well to achieved the objectives. Most of the mergers are the hostile mergers and these hostile mergers are acceptable type of business extension. The business inclusion is highly beneficial speculative action. According to Golubov & Petmezas(2013), themerger that was initiated between the oil and gas, pharmaceutical, banking and airlines are basically recorded in the fourth wave.

started from 1992 and lasted until 2000 motivating forces are the economic revival, flourishing stock exchange, info media, less barriers for trade, internationalization and leads to deregulation.

Include deals among telecom and banking sector and also backed by equity as before by debts. (Kouser & Saba, 2011).

Sixth Wave: started 2003 and lasts during 2007motivating forces are decreasing rate of interest, rise in stock exchange, Globalization, inequality in price and value. International horizontal mergers were conducted during this wave and it includes most of the giant business sectors like oil and gas telecom utilities health metal and banking industries. The wave is somehow successful in achieving the higher profitability but not as it is planned and Cash financed deals were significantly more persistent over this period (Alexandridis, 2012)

Banking Sector overview in Pakistan

The banking sector in any economy is regarded as the most vital section of a financial institution, and considered as a key pillar in a country. It is necessary to have a strong healthy and sound banking system as well as stock market liquidity to strengthen the growth of the economy and have a significant impact on the capital accumulation. Levine and Zervos (1998). The study conducted by Rashid and Jabeen (2016), found a that a sound banking structure is crucial to protect the financial system from shocks and crisis and accelerate recovery thereafter.

The Pakistani Banking Industry broadly divided in to two segments Islamic and conventional that contains commercial banks, specialized banks, investment banks and microfinance banks. There are thirty-four specialized and commercial banks operating in Pakistan, twenty-one local private, four foreign and nine public sector commercial banks. At the time of independence there were only five banks with ninety-seven branches in 1951. Most of the banks were foreign so gradually the local banks increases there shares. During 1974 nationalization took place and there and national banks held around 90% of the market share. During 1980 li licenses were issued to private banks to operate side by side. Patti and Hardy (2005) claimed that this reforms were required to overwhelmed the operational inefficiencies. However, the banking sector performance keep on under criticism even after the transformations because of non-performing loans, risk exposure, expensive service and financial cost, credit controlling and margins (Akhtar, 2006).

Several studies were conducted and reports that overall performance of the banking sector is still uncertain but progress has been noted, due to a lesser amount of government involvement, in the performance of foreign and private banks, but national banks persist incompetent and susceptible due to weak government policies and political agenda (Abbas and Malik, 2008). Omran, in 2007 after studying several literatures concluded that political interference as the most critical determinant of their poor performance (Omran 2007). government-owned banks showed significantly lower performance as compared to private bank (Jiang et al 2013). Berger et al. (2005) also previously stated the same trend. Ben-Nasr and Cosset (2014) determine that Government banks has low stock rice and transparency that discourages foreign and local investment after analyzing 41 countries study.

Literature review

The banking is one of the most important and structured industry in any economy that moves private and public funds within and outside the economy. (Usama et. Al., 2017) Financial performance analysis of selected banks conducted by Susmitha, M., Mouneswari, V., (2017) using CAMEL approach and found the ratios were acceptable and indicate a better performance of the selected banks after merger. Whereas Dr.Tanwar, Nidhi, (2017), Compare pre and post-merger acquisition analysis using the CAMEL analysis of Indian banking industry the paper based on the post liberalization period and recommend that the government should not promote the merger between high performing and the low performing banks due to which mergers are not providing the desired results.

According to Botis (2013) merger is the combination of two or more entities as one or all will remain legally if there is one entity the name remains of the existing entity otherwise new entity with a new name will be formed. Gitman et al (2012) describe a merger as the amalgamation of 2 or more companies a single company with a name of the larger company. According to Botis (2013) acquisition as an arrangement in which one entity gains ownership and control over the target entity whereas Gitman et al (2012) define the acquisition as one firm tries to obtain another firm. Gitman et al (2012), also mention the four kinds of merger vertical, horizontal, and conglomerate concentric.

Usman Kemal in 2011 uses accounting ratios to examine four years financials (2006-2009) by using 20 vital ratios of Royal Bank of Scotland (RBS) in Pakistan after merger. There are certain limitations but still the ratio analysis is considered as the reliable analytical tool. For the analysis of Merger and Acquisition ratio analysis is a time tested technique and frequently used decision making process and he found that there is no impact of this business strategy on the RBS financial performance he tested the profitability, asset management, liquidity, leverage and cash flow of the banks. The conclusion of the study shows that this merger deals fails to improve the after merger financial performance of this bank.

According to Lee Marks, M. (1997) This M & A strategy adopted frequently but it is seemed that it rarely achieved its ultimate objectives. He gone through fifty corporate merger and acquisitions and conclude that due to many factor M & A strategies shows miserable results. Lee further finds that there are many issues which an organization is facing right after merger and due to underestimating the seriousness of such issues and the magnitude of the issues these may not get the best out of the deals. Firms merged with one another are different in several aspects like the human capital nature their culture although the organizational culture are different among the organizations. This leads to employee stress and the crisis of management, cultural and religious clashes which make an organization to be less profitable and less effective.

Haris et at 2019 Analyze the sector wise financial performance of public banks operating in Pakistan using the balanced panel data. Researcher uses Log of loan to deposit ratio, total Assets, investment to assets ratio, on performing loan ratio, equity to assets ratio, government change as dummy variable and applied OLS-robust regression and graphical method to examine the impact of these ratios on the banking profitability. The study discloses indifferent consequences in terms of management change but reports undesirable impact of management change on performance. It also finds NPLR as the greatest significant issue for the success of public banks of economy.

Indian banking industry also tried to take the advantage of the merger and acquisition strategy Jayeeta Paul during 2017 try to find out the outcomes by using ten banks with twelve years' sample from 2000 till 2012. From the study researcher found that banks after merger showed better asset quality and capital adequacy where as a decline in the earning quality and management efficiency further he found no change in the liquidity position after merger. Another study conducted by Deepak Sahni and Soniya Gambhir 2018 on the Indian banking industry during 2018 using CAMEL ratios as Jayeeta Paul used during 2017 uses T Test on five years pre and post-merger period of selected cases. The study revealed that in most of the cases capital adequacy, asset quality, and earning quality is improved after the merger whereas the management quality did not improve.

Banks refer Liquidity as the ability to meet is regular financial payments without having a loss. Usually the liquidity risk arises when bank transform the long term assets from the short term assets. In this regards banks hold sufficient level of cash to meet their needs without compromising the banks' profits. (Rafique et. Al., 2020)

Hypothesis of Research

Several researches available on the M & A topic over banking industry and both impacts were found positive and negative so the hypothesis are developed for the long run analysis as:

H1: There is a significant difference in the Capital Adequacy ratios between post-Merger and Acquisition selected banks and industry ratio.

H2: There is a significant difference in the Asset Quality ratios between post-Merger and Acquisition selected banks and industry ratio.

H3: There is a significant difference in the Management Soundness ratios between post-Merger and Acquisition selected banks and industry ratio.

H4: There is a significant difference in the Earning/Profitability ratios between post-Merger and Acquisition selected banks and industry ratio.

H5: There is a significant difference in the liquidity ratios between post-Merger and Acquisition selected banks and industry ratio.

Methodology

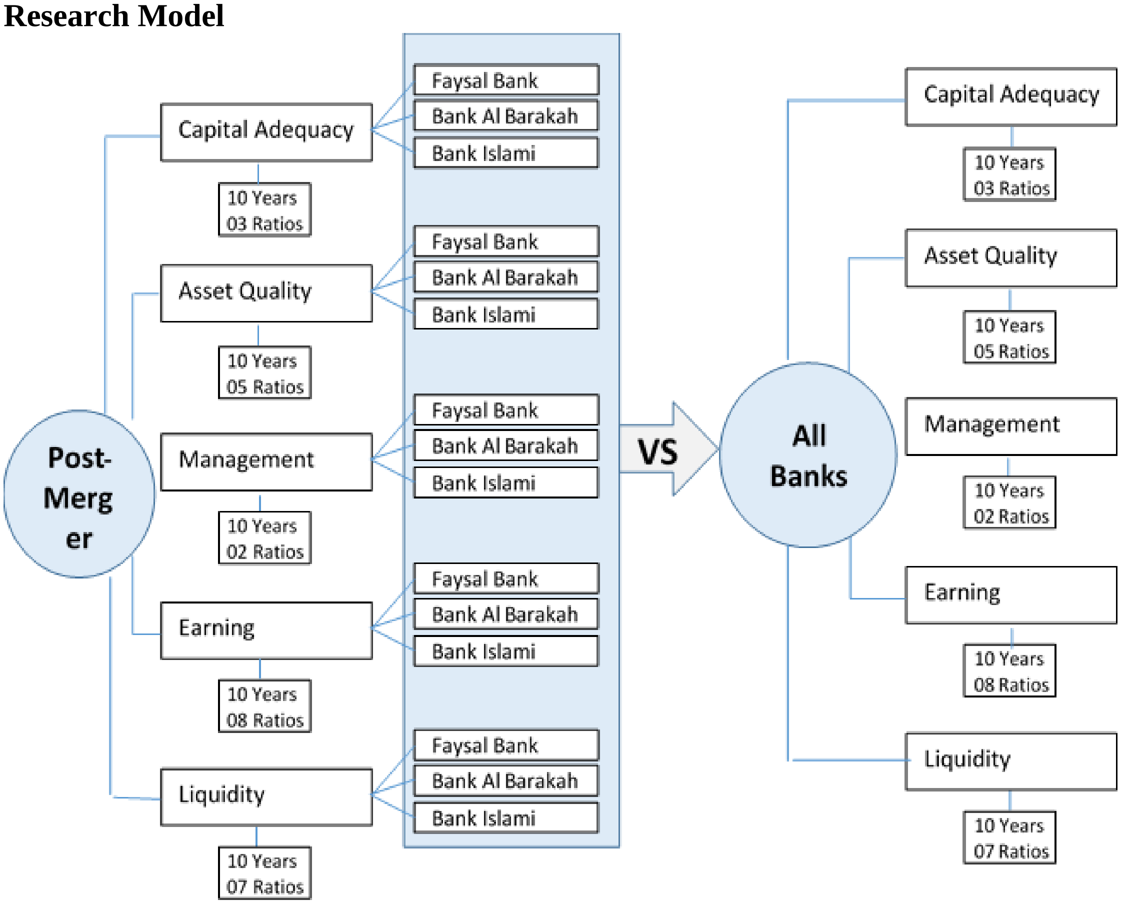
This research post-merger and acquisition comparison analysis is a quantitative research based on the Secondary data analysis. The data for this research is collected from the website of the state bank of Pakistan and the banks independent web sites. The population includes all the Merger and Acquisition in the Banking Sector of Pakistan. Further the sample is based on the three banks merged during the period of 2010 and still survived. Including Bank Al Baraka Ltd merged with Emirates Global Islamic Bank, Bank Islami Pakistan Ltd with CITI Bank operations in Pakistan and Faysal Bank Ltd merged with the Royal Bank of Scotland. Financial ratios were calculated and Paired Sample T test were applied for the statistical data analysis. The collected data was processed into SPSS for the t tests. The time frame of this study is consists of 10 years started from the year 2010 till 2019 is considered as the time frame of this study. CAMEL analyses is adopted for this study and it is one of the most used international measure. It was adopted by SBP during 1997 which involves different group of analysis including Capital Adequacy, Asset Quality, Management Soundness, Efficiency profitability and liquidity. List of these with their ratio measures are as follows:

S.No	Code	Ratio Name	Ratio Calculation
Capital /leverage ratios (CA): Capital Base of any financial institution facilitate their depositors about the risk also certain level is advised to be maintained by the financial institutions.			
01	CA1	Capital ratio	$= \frac{Total\ Equities}{Total\ Assets} * 100$
02	CA2	Commitments & contingencies to total equity	$= \frac{Commitments\ \&\ contingencies}{total\ equity}$
03	CA3	Breakup value per share	$= \frac{Total\ Equities}{Total\ No.\ of\ Shares\ Outstanding}$
Assets quality ratios(AQ): Determines the strength of organizations against the loss of worth in the assets.			
04	AQ1	Non-performing loan to gross advances	$= \frac{Non-performing\ loan}{gross\ advances} * 100$
05	AQ2	Provisions against NPLs to gross advances	$= \frac{Provisions\ against\ NPLs}{gross\ advances} * 100$
06	AQ3	NPLs to shareholders equity	$= \frac{Non\ Performing\ Loans}{shareholders\ equity} * 100$
07	AQ4	NPLs write off to NPLs provisions	$= \frac{Non\ Performing\ Loans\ \ write\ off}{Non\ Performing\ Loans\ provisions} * 100$
08	AQ5	Provision against NPL to NPLs	$= \frac{Provision\ against\ NPL}{Non\ Performing\ Loans} * 100$
Management Soundness (MQ): Includes set of norms, abilities and skills to plan and respond to varying conditions, practical capability, leadership and managerial ability.			
09	MQ1	Administrative Expenses to Profit before Tax	$= \frac{Administrative\ Exences}{Profit\ Before\ Tax} * 100$

10	MQ2	Admin. expense to non-markup/interest income	$= \frac{Admin.\ expense}{non - markup\ or\ interest\ income}$
Efficiency/ Profitability Ratio(E): It includes ROA and Other earnings efficiency and profitability ratios.			
11	E1	Spread Ratio	$= \frac{Net\ Markup\ or\ Interest\ Income}{Markup\ or\ Interest\ Earned} * 100$
12	E2	Net Interest Margin Ratio	$= \frac{Total\ Interest\ Income - Total\ Interest\ Expance}{Total\ Assets} * 100$
13	E3	Return on Assets (ROA)	$= \frac{Net\ Profit\ After\ Tax}{Total\ Assets} * 100$
14	E4	Return on Equity (ROE)	$= \frac{Net\ Profit\ After\ Tax}{Shareholders\ equity} * 100$
15	E5	Non-Interest Income to Total Assets Ratio	$= \frac{Total\ Non\ Markup\ Interest}{Total\ Assets} * 100$
16	E6	Net Interest Income after Provision to Total Assets	$= \frac{\text{Net Interest Income after Provision}}{\text{Total Assets}} * 100$
17	E7	Markup/interest expense to markup/interest income	$= \frac{\text{Markup or interest expense}}{\text{markup or interest income}} * 100$
18	E8	Non-markup/interest expense to total income	$= \frac{Non - markup\ orinterest\ \ expense}{total\ income} * 100$
Liquidity ratios(L): An acceptable liquidity point refers to a state where organization can get adequate funds, either by cumulative liabilities or by changing its assets rapidly at a sensible cost.			
19	L1	Cash & cash equivalent to total assets	$= \frac{Cash\ \&\ cash\ equivalent}{total\ assets} * 100$

20	L2	Investment to total assets	$\frac{Investment}{total\ assets} * 100$
21	L3	Advances net of provisions to total assets	$= \frac{Advances\ net\ of\ provisions}{total\ assets} * 100$
22	L4	Deposits to total assets	$= \frac{Deposits}{total\ assets} * 100$
23	L5	Total liabilities to total assets	$= \frac{Total\ liabilities}{total\ assets} * 100$
24	L6	Gross advances to deposits	$= \frac{Gross\ advances}{deposits}$
25	L7	Gross advances to borrowing & deposit	$= \frac{Gross\ advances}{borrowing\ \&\ deposit} * 100$

Research Model



Statistical Testing

Faysal Bank with Industry Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Dev	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
01	FCA1 - ICA1	-1.73%	1.25%	0.39%	-2.62%	-0.83%	-4.374	9	.002
02	FCA2 - ICA2	1.0130	2.9096	.9201	-1.0684	3.0944	1.101	9	.299
03	FCA3 - ICA3	2.2580	1.6287	.5150	1.0928	3.4231	4.384	9	.002
04	FAQ1 - IAQ1	1.53%	1.52%	0.48%	0.44%	2.63%	3.185	9	.011
05	FAQ2 - IAQ2	0.95%	1.26%	0.40%	0.04%	1.86%	2.387	9	.041
06	FAQ3 - IAQ3	52.91%	21.44%	6.78%	37.57%	68.25%	7.803	9	.000
07	FAQ4 - IAQ4	-4.21%	5.23%	1.65%	-7.96%	-0.47%	-2.547	9	.031
08	FAQ5 - IAQ5	-2.76%	4.04%	1.27%	-5.66%	0.12%	-2.164	9	.049
09	FMQ1 - IMQ1	2.4460	2.4311	.7688	.7068	4.1851	3.182	9	.011
10	FMQ2 - IMQ2	.2560	.3862	.1221	-.0202	.5322	2.096	9	.066
11	FE1 - IE1	-8.05%	6.23%	1.97%	-12.51%	-3.60%	-4.089	9	.003
12	FE2 - IE2	-0.54%	0.67%	0.21%	-1.02%	-0.06%	-2.553	9	.031
13	FE3 - IE3	-2.89%	3.34%	1.05%	-5.29%	-0.50%	-2.738	9	.023

14 FE4 - IE4	-0.41%	0.35%	0.11%	-0.66%	-0.15%	-3.660	9	.005
15 FE5 - IE5	0.01%	0.17%	0.05%	-0.11%	0.13%	.236	9	.819
16 FE6 - IE6	-0.43%	0.59%	0.18%	-0.86%	-0.01%	-2.345	9	.044
17 FE7 - IE7	8.01%	6.12%	1.93%	3.63%	12.39%	4.136	9	.003
18 FE8 - IE8	2.88%	3.50%	1.10%	0.38%	5.39%	2.609	9	.028
19 FL1 - IL1	-2.81%	2.90%	0.91%	-4.89%	-0.73%	-3.059	9	.014
20 FL2 - IL2	-5.26%	5.62%	1.77%	-9.28%	-1.24%	-2.962	9	.016
21 FL3 - IL3	8.95%	4.53%	1.43%	5.70%	12.20%	6.241	9	.000
22 FL4 - IL4	-1.90%	3.56%	1.12%	-4.45%	0.64%	-1.691	9	.125
23 FL5 - IL5	2.06%	1.45%	0.45%	1.02%	3.10%	4.498	9	.001
24 FL6 - IL6	15.86%	5.11%	1.61%	12.20%	19.52%	9.812	9	.000
25 FL7 - IL7	10.74%	6.41%	2.02%	6.15%	15.33%	5.293	9	.000

Bank Islami with Industry Paired Samples Test

01 BCA1 - ICA1	-0.28%	2.13%	0.67%	-1.80%	1.24%	-.414	9	.689
02 BCA2 - ICA2	-4.4420	1.4929	.4721	-5.5099	-3.3740	-9.409	9	.000
03 BCA3 - ICA3	2.6000	2.4968	.7895	.8138	4.3861	3.293	9	.009
04 BAQ1 - IAQ1	-3.38%	8.08%	2.55%	-9.16%	2.39%	-1.324	9	.218
05 BAQ2 - IAQ2	-3.24%	6.30%	1.99%	-7.75%	1.26%	-1.629	9	.138
06 BAQ3 - IAQ3	-0.62%	72.00%	22.77%	-52.13%	50.88%	-.027	9	.979

07	BAQ4 - IAQ4	-4.32%	11.05%	3.49%	-12.23%	3.58%	-1.237	9	.248
08	BAQ5 - IAQ5	-19.74%	11.21%	3.54%	-27.76%	-11.72%	-5.570	9	.000
09	BMQ1 - IMQ1	9.8960	18.706	5.9154	-3.4856	23.2776	1.673	9	.129
10	BMQ2 - IMQ2	4.8500	2.7883	.8817	2.8553	6.8446	5.500	9	.000
11	BE1 - IE1	-2.21%	3.81%	1.20%	-4.94%	0.51%	-1.833	9	.100
12	BE2 - IE2	-0.40%	0.54%	0.17%	-0.79%	-0.01%	-2.362	9	.042
13	BE3 - IE3	-10.96%	5.37%	1.69%	-14.81%	-7.12%	-6.457	9	.000
14	BE4 - IE4	-0.96%	0.53%	0.17%	-1.34%	-0.57%	-5.659	9	.000
15	BE5 - IE5	-0.82%	0.23%	0.07%	-0.99%	-0.65%	-11.113	9	.000
16	BE6 - IE6	0.21%	0.45%	0.14%	-0.11%	0.53%	1.483	9	.072
17	BE7 - IE7	2.16%	3.81%	1.20%	-0.56%	4.89%	1.794	9	.006
18	BE8 - IE8	19.65%	10.60%	3.35%	12.06%	27.23%	5.861	9	.000
19	BL1 - IL1	-2.07%	4.11%	1.29%	-5.01%	0.86%	-1.597	9	.045
20	BL2 - IL2	-12.93%	11.29%	3.57%	-21.01%	-4.84%	-3.619	9	.006
21	BL3 - IL3	3.04%	10.75%	3.40%	-4.65%	10.73%	.894	9	.394
22	BL4 - IL4	10.72%	2.41%	0.76%	9.00%	12.45%	14.067	9	.000
23	BL5 - IL5	0.90%	1.97%	0.62%	-0.50%	2.31%	1.454	9	.180

24	BL6 - IL6	-5.00%	15.83%	5.00%	-16.33%	6.32%	-1.000	9	.344
25	BL7 - IL7	0.70%	15.22%	4.81%	-10.18%	11.59%	.146	9	.887

Albarakah Bank with Industry Paired Samples Test

01	ACA1 - ICA1	1.62%	2.72%	0.86%	-0.33%	3.57%	1.879	9	.093
02	ACA2 - ICA2	-2.8550	.5745	.1816	-3.2659	-2.4440	-15.715	9	.000
03	ACA3 - ICA3	-.3740	1.9266	.6092	-1.7522	1.0042	-.614	9	.554
04	AAQ1 - IAQ1	0.17%	2.60%	0.82%	-1.68%	2.03%	.211	9	.837
05	AAQ2 - IAQ2	-2.89%	1.39%	0.44%	-3.89%	-1.89%	-6.563	9	.000
06	AAQ3 - IAQ3	0.51%	21.31%	6.74%	-14.73%	15.76%	.076	9	.941
07	AAQ4 - IAQ4	9.56%	23.30%	7.36%	-7.10%	26.23%	1.298	9	.227
08	AAQ5 - IAQ5	-24.98%	9.95%	3.14%	-32.10%	-17.86%	-7.937	9	.000
09	AMQ1 - IMQ1	-12.3190	22.7395	7.1908	-28.5858	3.9478	-1.713	9	.121
10	AMQ2 - IMQ2	2.5710	.8090	.2558	1.9922	3.1497	10.049	9	.000
11	AE1 - IE1	-10.45%	9.51%	3.00%	-17.26%	-3.64%	-3.475	9	.007
12	AE2 - IE2	-1.04%	1.06%	0.33%	-1.80%	-0.27%	-3.088	9	.013
13	AE3 - IE3	-17.86%	5.99%	1.89%	-22.15%	-13.57%	-9.418	9	.000

14	AE4 - IE4	-1.60%	0.90%	0.28%	-2.25%	-0.95%	-5.624	9	.000
15	AE5 - IE5	-0.57%	0.32%	0.10%	-0.80%	-0.34%	-5.635	9	.000
16	AE6 - IE6	-0.99%	1.06%	0.33%	-1.75%	-0.23%	-2.958	9	.016
17	AE7 - IE7	10.41%	9.62%	3.04%	3.52%	17.29%	3.421	9	.008
18	AE8 - IE8	17.98%	14.43%	4.56%	7.66%	28.31%	3.942	9	.003
19	AL1 - IL1	4.77%	5.27%	1.66%	1.00%	8.54%	2.862	9	.019
20	AL2 - IL2	-16.96%	11.52%	3.64%	-25.20%	-8.72%	-4.657	9	.001
21	AL3 - IL3	8.60%	10.83%	3.42%	0.85%	16.35%	2.512	9	.033
22	AL4 - IL4	7.51%	2.41%	0.76%	5.78%	9.23%	9.850	9	.000
23	AL5 - IL5	-0.08%	3.06%	0.96%	-2.27%	2.11%	-.086	9	.934
24	AL6 - IL6	4.38%	14.49%	4.58%	-5.98%	14.75%	.957	9	.363
25	AL7 - IL7	9.88%	15.30%	4.84%	-1.06%	20.84%	2.043	9	.071

Combined Albarakah, Bank Islami and Faisal Bank Paired Samples Test

0 MCA1 - 1 ICA1	-0.13%	1.61%	0.50%	-1.28%	1.02%	-.257	9	.803
0 MCA2 - 2 ICA2	-2.2810	1.3136	.4154	-3.2207	-1.3412	-5.491	9	.000
0 MCA3 - 3 ICA3	1.5350	1.5019	.4749	.4605	2.6094	3.232	9	.010
0 MAQ1 - 4 IAQ1	-0.55%	3.09%	0.97%	-2.77%	1.65%	-.569	9	.583
0 MAQ2 - 5 IAQ2	-1.73%	2.53%	0.80%	-3.54%	0.08%	-2.157	9	.039

0 MAQ3 - 6 IAQ3	17.60%	27.76%	8.78%	-2.26%	37.46%	2.005	9	.046
0 MAQ4 - 7 IAQ4	0.34%	9.67%	3.05%	-6.57%	7.26%	.112	9	.914
0 MAQ5 - 8 IAQ5	-15.83%	6.29%	1.98%	-20.33%	-11.33%	-7.959	9	.000
0 MMQ1 - 9 IMQ1	.0640	9.6686	3.057	-6.8525	6.9805	.021	9	.984
1 MMQ2 - 0 IMQ2	2.6290	1.0813	.3419	1.8554	3.4025	7.688	9	.000
1 ME1 - 1 IE1	-6.90%	5.03%	1.59%	-10.50%	-3.30%	-4.341	9	.002
1 ME2 - 2 IE2	-0.66%	0.55%	0.17%	-1.06%	-0.26%	-3.766	9	.004
1 ME3 - 3 IE3	-10.57%	2.76%	0.87%	-12.55%	-8.59%	-12.092	9	.000
1 ME4 - 4 IE4	-0.99%	0.43%	0.13%	-1.30%	-0.67%	-7.156	9	.000
1 ME5 - 5 IE5	-0.46%	0.18%	0.05%	-0.59%	-0.32%	-7.772	9	.000
1 ME6 - 6 IE6	-0.40%	0.47%	0.14%	-0.74%	-0.06%	-2.710	9	.024
1 ME7 - 7 IE7	6.86%	5.05%	1.59%	3.24%	10.48%	4.291	9	.002
1 ME8 - 8 IE8	13.50%	6.90%	2.18%	8.56%	18.44%	6.187	9	.000
1 ML1 - 9 IL1	-0.03%	2.96%	0.93%	-2.15%	2.08%	-.041	9	.968
2 ML2 - 0 IL2	-11.72%	8.18%	2.58%	-17.57%	-5.86%	-4.529	9	.001
2 ML3 - 1 IL3	6.86%	7.62%	2.41%	1.41%	12.31%	2.849	9	.019
2 ML4 - 2 IL4	5.44%	2.16%	0.68%	3.89%	6.98%	7.970	9	.000
2 ML5 - 3 IL5	0.96%	1.72%	0.54%	-0.27%	2.19%	1.765	9	.111
2 ML6 - 4 IL6	5.08%	10.62%	3.35%	-2.51%	12.6%	1.513	9	.165

2 ML7 - 5 IL7	7.11%	11.18%	3.53 %	-0.88%	15.11%	2.012	9	.0 75

F = Faysal Bank

A = Albarakah Bank

B = Bank Islami

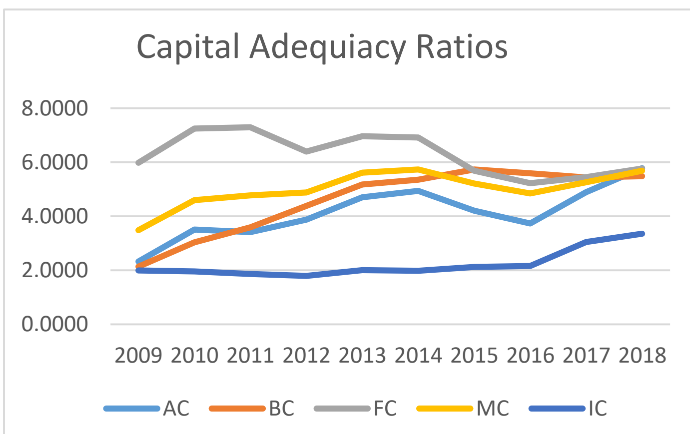
M = combined mean of all three banks

Results and discussion:

The above table shows that there are statistically significant as well as statistically insignificant ratios the significant ratios are mentioned and highlighted in the table in gray color. If we look at the part one of the table consist of the Faysal banks ratios, almost twenty-one ratios are statistically different and we can conclude that these twenty-one ratios highlighted in gray color are significantly different in long run from the industry average. If we look at the second part of the table consist of the bank Islamic ratios, almost fourteen ratios are statistically different and we can conclude that these fourteen ratios highlighted in gray color are significantly different in long run from the industry average. If we look at the third part of the table consist of the Albarakah banks ratios, almost sixteen are statistically different and we can conclude that these sixteen ratios highlighted in gray color are significantly different in long run from the industry average. At the end If we look at the fourth part of the table consist of the All banks combined ratios, almost Twenty-one ratios are statistically different and we can conclude that these twenty-one ratios highlighted in gray color are significantly different in long run from the industry average.

Capital Adequacy Ratios (CA)

From the above table if we look at the *CA1 *CA2 *CA3 one by one for each bank and combined we can see that for Faysal bank FCA1 and FCA3 are statistically significant and we can conclude that these two ratios highlighted in gray color are significantly different in long run from the industry average. For bank Islami BCA2 and BCA3 are statistically significant and we can conclude that these two ratios highlighted in gray color are significantly different in long run from the industry average. For bank Albarakah only ACA1 is statistically significant and we can conclude that this ratio highlighted in gray color are significantly different in long run from the

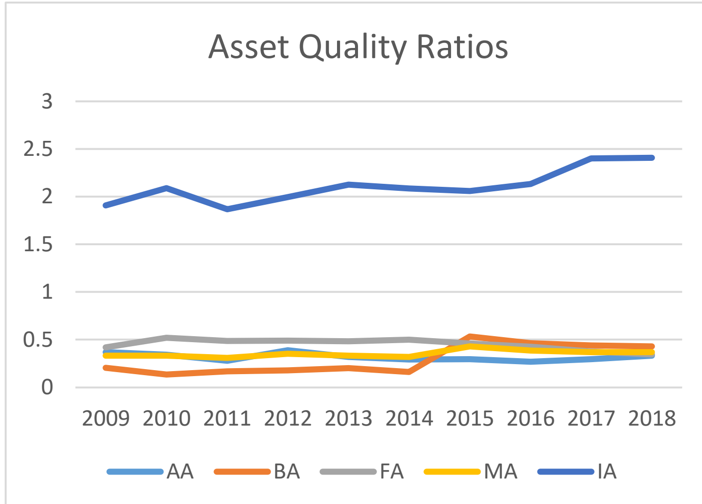


AC = Albarakah Capital adequacy, BC = Bank Islami Capital adequacy, FC = Faysal Bank Capital adequacy, MC = Mean Capital adequacy and Industry.

industry average. For combined bank mean MCA2 and MCA3 are statistically significant and we can conclude that these two ratios highlighted in gray color are significantly different in long run from the industry average. From the graph we can clearly see that IC is far below than the banks.

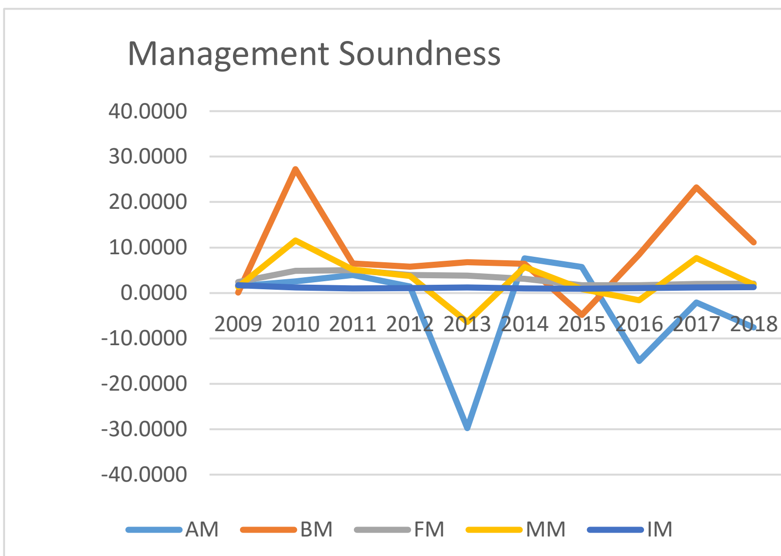
Asset Quality Ratios (AQ)

From the above table if we look at the *AQ1 *AQ2 *AQ3 *AQ4 *AQ5 one by one for each bank and combined we can see that for Faysal bank all the asset quality test ratios including BAQ1, BAQ2, BAQ3, BAQ4 and BAQ5 are statistically significant and we can conclude that these two ratios highlighted in gray color are significantly different in long run from the industry average. For bank Islami only one of the asset quality ratio BAQ5 is statistically significant and we can conclude that this ratio highlighted in gray color are significantly different in long run from the industry average. For bank Albarakah only two ratios AAQ2 and AAQ5 are found statistically significant and we can conclude that these two ratio highlighted in gray color are significantly different in long run from the industry average. only two ratios AAQ2 and AAQ5 are found statistically significant and we can conclude that these two ratio highlighted in gray color are significantly different in long run from the industry average. From the graph we can clearly see that IC is far above than the banks.



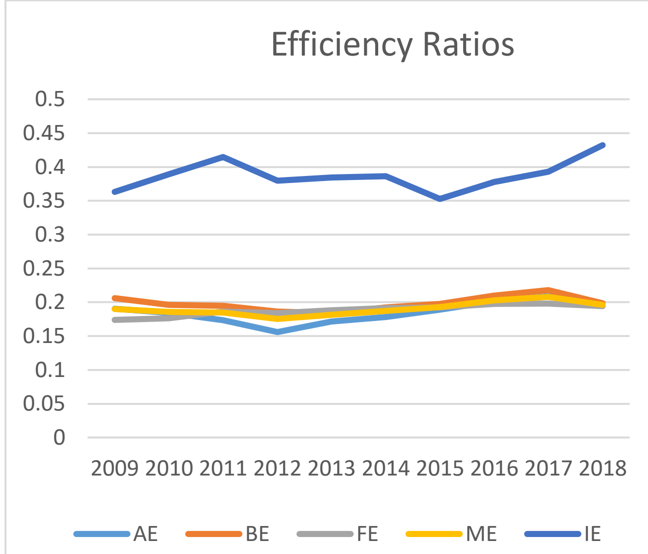
Management Quality (MQ)

From the above table if we look at the *MQ1 and *MQ2 one by one for each bank and combined we can see that for Faysal bank FMQ1 for Bank Islami FMQ2 for Bank FMQ2 for combine bank mean analysis MMQ2 are found statistically significant and we can conclude that these two ratio highlighted in gray color are significantly different in long run from the industry average. . From the graph we can clearly see that other bans variation and IC variation.



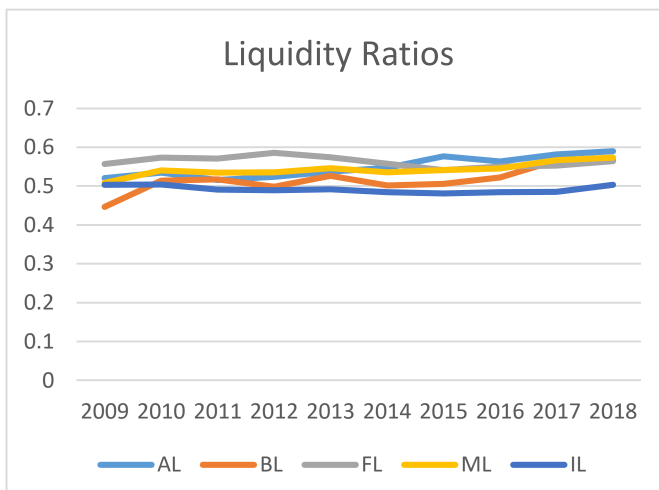
Efficiency or profitability Ratio (E)

From the above table if we look at the *E1 *E2 *E3 *E4 *E5 *E6 *E7 * E8 one by one for each bank and combined we can see that for Faysal bank seven out of eight efficiency or profitability ratios tested are significant other than FE5 and we can conclude that these seven ratios FE1, FE2, FE3, FE4, FE6, FE7 and FE8 highlighted in gray color are significantly different in long run from the industry average. For Bank Islami seven out of eight efficiency or profitability ratios tested are significant other than BE1 and we can conclude that these seven ratios BE2, BE3, BE4, BE5, BE6, BE7 and BE8 highlighted in gray color are significantly different in long run from the industry average. For Bank Albarakah all the eight efficiency or profitability ratios tested are significant and we can conclude that these all the efficiency or profitability ratios highlighted in gray color are significantly different in long run from the industry average. For combined bank analysis all the eight efficiency or profitability ratios tested are significant and we can conclude that these all the efficiency or profitability ratios highlighted in gray color are significantly different in long run from the industry average. From the graph we can clearly see that IC is far above than the banks.



Liquidity Ratio (L)

From the above table if we look at the *L1 *L2 *L3 *L4 *L5 *L6* L7 one by one for each bank and combined we can see that for Faysal bank six out of seven liquidity ratios tested including FL1, FL2, FL3, FL5, FL6 and FL7 are statistically significant and we can conclude that these two ratios highlighted in gray color are significantly different in long run from the industry average. For bank Islami only three of the liquidity ratios BL1, BL2 and BL4 are statistically significant and we can conclude that these three ratios highlighted in gray color are significantly different in long run from the industry average. For bank Albarakah AL1, AL2, AL3 and AL4 are found statistically significant and we can conclude that these four ratio highlighted in gray color are significantly different in long run from the industry average. For bank combined bank mean analysis ML2, ML3, ML4, ML5 and ML7 are found statistically significant and we can conclude that these five ratio highlighted in gray color are



significantly different in long run from the industry average. From the graph we can clearly see that IC is below than the banks.

Conclusion

The purpose of this article is to access the long-run financial performance of Banks involved in Merger and Acquisition in Pakistan. The major hypothesis is that acquiring firms have improved post- Merger and Acquisition performance. The study validates the hypothesis that Pakistani acquirer banks have performed significantly different after Merger and Acquisition, compared to their performance with the banking industry. The study finds that in log run the acquirer bank have performed significantly different. M&A increases the market power Rani *et al.* (2010) Further, the indication of significant increase in the several financial ratios also supports these results. These findings are also the findings of Switzer (1996) Healy (1992), Ghosh (2001), Ramakrishnan (2008) Selvam (2009), Pawaskar (2001), Kumar Bansal (2008), Sinha (2010), Leepsa Mishra (2012). Whereas findings of these researches are dissimilar to the results of Kumar (2009).

As the researcher have tested twenty-five ratios of post Merged and Acquired banks individually and on average basis several three selected banks. On the basis of empirical results derived from this study on M&A reveled that all the ratios tested in the study have showed improvement as the ratios that have highlighted are showed the significant difference. As we look at the ratios of Faysal Banks twenty-one out of twenty-five are significantly different from the post-merger industry ratios. As we look at the ratios of Bank Islami fourteen out of twenty-five are significantly different from the post-merger industry ratios. As we look at the ratios of Bank Albarakah sixteen out of twenty-five are significantly different from the post-merger industry ratios. As we look at the ratios of three banks average Nineteen out of twenty-five are significantly different from the post-merger industry ratios.

Many implications can be drawn out from this study that it is also support the previous literature that the post-merger performance in the long run is significantly different from the industry averages. The policy of corporate restructuring is necessary to promote M&A.

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