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Do Mergers and Acquisitions Vacillate the Banks Performance? *(Evidence from Pakistan Banking Sector)*

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Abstract
Today economy of Pakistan is facing the financial, security and political problems due to which its economic growth badly disturbed. This research has been conducted to analyse either merger and acquisition increased or decreased the performance of Pakistani banks. Secondary purpose of this research paper is to provide information to bankers, government authorities, banking employees, investors and other stake holders. It also helps to the new researchers through its literature. Financial ratios such as profitability ratios (ROA,ROE...) liquidity ratios(DTA,ATD,CTA), investment ratios (ROI, EPS) and solvency ratios (DE, IC, DR) are used to analyze the impact of Mergers and acquisitions (M&A) on banks performance in Pakistan. After analyzing the merger and acquisition literature and financial ratios results it is found that not all banks which go through deal of this process (M&A) and they have not shown significant enhancement in performance and gain on equity when compared to their performance before the deals. Additionally, it is concluded that M&A have negative relationship with banks performance in Pakistan and it is suggested to Pakistani banking corporations that they should make feasible financial analysis before going to M&A deal. This research relied much on the publically available data for a sample of Pakistani Banks listed in Karachi Stock exchange. It is difficult to collect data of mergers and acquisitions of banks before 2006 and implementation of quantitative analysis. This study results will apply in Pakistan financial sector or in those developing countries which financial environment is same as Pakistan. This study is useful for the banks, employees of banks, Proprietors, Government authorities, insurance companies and manufacturing firms. These above mentioned organizations can developed their capabilities to deal with equitably and effectively to solve the social professional problems of affecters. The value of paper easily identified through its topic, it is not only a specific study of Pakistani banking performance but it may leads toward knowledge about all developing countries banking performance. It may be the first kind of paper that offers evidences on the M&A impact on Pakistani banks profitability which uses a lot of ratios and banks have been used. This study provides useful information that keeps the great value for decision makers (management), businessmen, academics and other stakeholders.
Key words: Merger & Acquisition, financial ratios, financial institutions performance, Pakistan.

1. Introduction

The role of financial sector in any country is very important for its economic growth, GDP, DFI, import & export and mobilization of savings. Financial sector of Pakistanis divided into four categories such as commercial banks, development finance institutions (DFI) and micro finance Banks (MFB) and non-banking financial institutions (venture capital, leasing companies, mutual funds, stock exchange, insurance companies, discount houses and investment banks) etc. Commercial banks, FDI and MFB legislative structure and supervisory responsibilities of the SBP (state bank of Pakistan) and non banking financial institutions followed the rules and regulations stated by SECP (security exchange commission of Pakistan) and control of insurance(SBP,2009).
The role of financial sector is briefly described as follow:

- Financial sector of any country facilitate to the foreign investors which increased foreign direct investment.
- It helps to the domestic investors in an international trade activities which increased import and export of the country.
- Financial sector plays a role for SBP to maintain the monetary policy and achieve its objectives.

- Major role of financial sector is to mobilize the savings across the country for various purposes i.e. utilization of money for individuals and for investment etc.
- It helps by providing finance through ZTBL, NIB and IDBP for development projects.
- It provides the consultation services to the exporters through their export promotion cell.

1.1 How mergers and acquisitions are defined?

Mergers and acquisitions are worldwide business practices that are exercised by the businessmen's for accomplishing their business enlargement and endurance.

"Merger is a combination of two corporations and makes a big one corporation". There is a negotiation process begin between two companies prior to going to the merging contract. After the negotiations both parties agreed on the specific type of merger and make a contract. It is an action in which both parties are deliberate and stocks are exchanged through cash compensation to the merged company. Stock swap or cash compensation to the target or merged company means it allow the stockholder to share their risk if any involved during business (Ndayawo and shakur,2008).

"Acquisition means to buy a small corporation by a large corporation. In simple one company gest hold of or purchase to another company (the target). It is also known as takeover. Acquisition may be friendly or unfriendly (hostile). In first, friendly case the target company management want the firm to be acquired. In this case all agreements are done through negotiation process but in hostile or unfriendly case there is no negotiations occur because the target or acquired firm does not want the firm to be acquired (Ndayawo and shakur, 2008).

1.2 Why companies indulge in M&A's deals?

There are several reasons for mergers and acquisitions due to which an organization is going to merger with or acquired to another firm. Some reason of mergers and acquisitions are identified from the literature, which are following.

1.3 Strategic Level Rationales/ Reasons:

- Through mergers and acquisitions organizations are capable to take strategic rationale decisions due to management power and resources.
- They are able to more accurate speculations of stock prices because it has expertise, resources and huge amount of information's just because of Mergers and acquisitions.
- Management failure rationale is another cause of merger and acquisitions because through M&A's organizations can well-built their management power.
- For the purpose of financial necessity and business expansion organizations indulge in mergers and acquisitions deal.
- Sometimes countries political situations become the reason and bound to the firms to adopt mergers and acquisitions for their survival and growth.

1.4 Tactical Level Rationales/Drivers

- Due to required proficiency/skills and funds firms needs of M&A's and in this way they achieve their objectives.
- For the expansion of business not only national level but in the international stock markets organization conducted merger and acquisitions.
- Nationwide or worldwide consolidation is another driver for mergers and acquisitions.
- Sometimes firm's productions capacity reduced as compared to their demand of goods and services, so for the purpose of production capacity enhancement firms makes mergers and acquisitions.
- Another M &A's driver is to increased effectiveness and efficiency of management in specific grounds i.e. purchases, sale, marketing or production etc.
- New markets access is also influencing to the organizations for M & A.

Mergers and acquisitions were used as strategic tools from last two to three decades, various organizations used M&A's for enhancing their efficiency and effectiveness extensively. In fact developed countries are showing more cases of M&A's such as U.K and USA as compared to developing countries. It is indicated that in U.K the value of mergers transactions was 2532 million pounds in 1972 but later 1995 it increased up to 32600 million pounds that is showing tremendous increased in mergers transactions (Arnold, 1998). Now developing countries organizations are also using this strategic tool to increase their abilities.

1.5 Pakistan banking sector overview

It is observed that numerous M&A deals took place in Pakistani banking sector but in start Pakistani banking sector was incompetent sector of whole economy because at the time of independence only one bank was working in Pakistan which was not sufficient to meet the financial requirement of newly built state that bank is known as Habib Bank Limited. Indian state bank was used as central bank of Pakistan and all financial transaction and functions of Pakistan done from that bank until the state bank of Pakistan was established. SBP (state bank of Pakistan) was established in 1948. After the origin of SBP numerous banks started their business in Pakistan, within 23 years, more than five banks functioning in different areas of finance in Pakistan but major portion of credit and financial investment under concentration of government so they faced liquidity problem at that time. This situation become more alarming in 1970, when government of Pakistan announced to nationalize all private banks but this nationalization strategy failed due to personal curiosity behind the whole planning. It is wrong political action which not creates an alarming situation for existing banks but also discourages the prospective investors of this sector. It is worst situation continued up to the beginning of 1990 and more than 90% of total assets of financial institutions owned by the public sector (SBP, 2003).

Later 1990's the situation becomes constructive when government brings in reforms for financial sector. After the reform announcement banking investors motivated and persuade for investment. According to the new reforms all banks or financial institutions commence consolidation to meet the regulatory requirement forced by the SBP. Large banks were proficient to arrange these regulatory requirements of SBP at that time but the newly formed small banks were not expected to meet these requirements compulsory by SBP but for the endurance and competence purpose they employ the M&A's approach. So it is the origin of M&A's in banking sector of Pakistan. First mergers and acquisition case took place in Pakistan in 2002. After the M&A in 2002 Pakistani banking sector changed from government domain to more competitive and profitable industry. With the passage of time numerous new reforms developed which increased the efficiency of banking sector of Pakistan that brings economic growth as well as baking industry survival (Afza and Yusuf, 2012).

Another cause of Merger and acquisitions was the execution of Basel accord II by SBP. It was notice held in 2005 by SBP that consists all banks have required to preserve their capital gradually to the level of 23 billion Pakistani rupees till 31 December 2013. After some period this requirement decreased and remains only 10 billion rupees according to the market situations but banks were founded unable to use capital through injecting owner equity and reinvestment of profit, so only one way available that was Mergers and Acquisition (Rehman,et.al., n.d.).During last decades many studies have been conducted on the M&A's impact on banks profitability in Pakistan. Mehmood and Loan (2006) concluded that M&A'S provide cost efficiency, so according to this M&A shrink banks cost which becomes the rationale of increment in banks profitability.

1.6 Problem statement

It is already discussed above that how mergers and acquisitions have brought in banking sector of Pakistan. During 1970 to 1990 Pakistani banking sector faced many ups and downs but later 1990's this situation was under control due to M&A. Some other government announcements were also bound to the weak business for M&A. So last decade several mergers and acquisitions contracts have been appeared in banking sector of Pakistan. Numerous studies have been conducted on the mergers and acquisitions on various sectors of Pakistan. However, this research is going to investigate the impact of mergers and acquisitions on banks profitability and it will also explore that both mergers and acquisitions are positive tendency in banks profitability or not and which sources of M&A encourage change in performance. Generally, the handful of studies has been conducted on mergers and acquisition manners on Pakistani banking industry which are presenting a variety of outcome. These studies are discussed in succeeding literature.

Precisely, all of above literature demonstrate mixed facts and not agree on specific proof. The Previous studies have showed argue against intuitive and may also fail to identify the impact of M&A's on banks profitability in Pakistan. That's why; the focal (main) intention of this paper is to analyze directly whether M&A in Pakistani banks direct to progress in profitability by using comprehensive approach.

In the review of above literature, some following research questions have been raised.

- Can mergers and acquisitions effect on the deposits of commercial banks?
- How mergers and acquisitions have effects on commercial banks profitability?
- What effects does mergers and acquisitions on financial ratios of commercial banks?

1.7 Objectives of the research

- To identify that mergers and acquisitions of commercial banks in Pakistan provide favourable results or not.
- To assist the corporate bodies of Pakistan through information about M & A's impact on Pakistani banks after the proper analysis.
- To facilitate the succeeding reader or researcher for their research and knowledge.

1.8 Significance of study:

The primary purpose of this investigation is to facilitate the bank employers and corporate bodies of different organization in Pakistan and all over the world about M&A outcomes. It will also contribute to banking literature primarily and overall the significance of the research transcends (rise above) educational as well as in professional business education. It is also enormous in assistance to the proprietors, government authorities and general public. Manufacturing, banking, insurance and other services sectors of economy will be facilitate through this follow a line of investigation.

1.9 Scope and Limitation of research:

The area of this research is M&A in banking sector of Pakistan and also effort to address the impact of these M&A on banks profitability. Basic limitation during this investigation is collecting data especially before 2006 annual reports of banks and calculations of financial ratioson the other hand Time and resources will also be effect and become the great hurdles for research. The results of this study can be generalized only in Pakistan and in those countries which are developing and having same financial sector environment. It cannot be generalized for developed countries.

2. Literature Review

There is a globalized era in which mergers and acquisitions are increasing day by day. Merger takes place when two or more companies with their joint consensus agree to do the business with same name or with another name. Acquisition is also something different from merger. In acquisition the acquiring company use his own name. A lot of organizations are trying to use these terminologies. Why organizations do mergers, acquisitions etc? A lot of reasons exist behind Merger and acquisition such as increase market share, achieving economy of scale and economy of scope, increase profits, team work (synergy) and diversify the risk actually the emergence of mergers and acquisitions will change the overall financial industry.

Resti (1998) argued the effects of acquisition and merger on performance. He concluded that after merger the company's efficiency increases because now they are going to be in extensive format of operation due to large size their effectuality also increased. Efficiency of any organization can be improved only when the partners of merger have no efficiency in cost but it also depends upon management of both the organizations (Fixler and Zieschang, 1993). It was also analyzed that small size organizations took benefit of mergers and acquisitions In comparison with large size institutions which are not performing as well after merger and acquisition (Sufian, 2004). Merger stimulates performance because new established firm will have a larger market power and other qualitative and quantitative factors (Healy Palepu and Rubak, 1992). Weingberg(2007) asserted that after merger many merged organizations product price positive fluctuates for short time period. Acquiring corporation's operations performance flourishes due to the impact of mergers. It also has been viewed that merger has a minor positive impact on the profitability of the organization (Mantravidi and Reddy, 2008). A lot of researches proved that merger and acquisitions in all over the world especially in banks enhance the cost efficiency due to which profit also fluctuates positively. It is said that these changes are viable for the society and economy of a country or the world. EcclesKersten and Wilson (2001) asserted that main goals of merger and acquisitions are to infiltrate in the market. They also consider the vertical expansion so that they can control their supply and distribution sources etc. it is also noted that many researches proved it that it is not always correct that consequences of merger and acquisition are profitability. Some studies proved that near about half of merger and acquisitions go negative to fulfil their goals (Hubbard, 2001). Some studies concluded that the failure of merger and acquisitions companies keep a lot of reasons behind them including, distinctiveness between their goal due to their size, their spread of risk into irrelevant it may have cultural obstacles in company policies, procedures and their style of operation. Hubbar (2001) asserted that foreign investors have an opportunity to see themselves in world new market by mergers and acquisitions.

Amedu (2004), Bello (2004), Akhtar (2005) asserted that mergers and acquisitions are immense terminologies which are helpful to achieve business progress, growth and survival. They also define mergers and acquisitions in this way, A mergers is an activity in which two or more than two firms combine and become a one big firm, while the acquisitions entails one firm acquire the other firm with the aim to enjoy profitability and survival. According to these researchers, merger and acquisition occur with the aim of combining their resources and operations for maximizing the shareholder wealth. It is argued that mergers and acquisitions are emerged to seek the cost reduction by economies of scale, expansion of market through economies of scope and also increased business activities by improving the performance (Soludo, 2004).It is proved by various studies that mergers and acquisitions have favorable touch on the banks profitability. Mergers and acquisitions have clear positive relationship between banks and efficiency in the financial system i.e. increased profitability and reduced cost but there is an ambiguous relationship between M&As and performance of banks(De-Nicolo,2003: Caprion,1999). Kawan and Elsenbeis (1999) examined that there is a positive connection among M&A and cost saving. Additionally, Banks also have considerable expansion in their turnover at post-mergers and acquisitions. Mergers and acquisitions have impact positively on banks profitability because post-mergers and acquisitions firms' capacity of production and resources increased which increased its ability to attract loans, management power and skills, and business progress through skilled employees and total assets (Okpanachi, 2006).

It is analyzed that mergers and acquisitions take place with the aim of business expansion and optimizing the stockholder wealth (Pasiouras et al, 2006).Akhter (2002), Mejiaard et al, (2005), Pasiouras et al, (2006) emphasized that Mergers and acquisitions deals happen for enjoying competitive edge, management authority, resource supremacy, market control, and economics of scale and scope. However, it is also noted that it minimizes the risk by diversification and increased productivity through improved performance. It is investigated that Mergers and acquisitions are ongoing debate that related to banks performance and efficiency and it gains that economies of scales and scope also the key variable of merger and acquisition (Gattoufi et al, 2008). Bwala (2003) explained that efficiency is an activity in which minimal input (less cost/ resources) provide optimal output (profitability, productivity). Four types of efficiencies are discussed here such as Productive Efficiency, Transitional Efficiency, Allocative Efficiency and Dynamic Efficiency. Productive efficiency means firms ability to produce maximum output with minimum input. It is said that productive efficiency effected through economies of scale and economies of scope (Meijaard et al, 2005). Transactional efficiency identifies the firm's resources and market opportunities to keep it returns and possessions. Allocative efficiency deals with customized production to increased consumer satisfaction and safe own benefit. Dynamic efficiency entails when an improvements in existing product and development of new product with the market changes.

It is proved by the study which has been conducted on eight Indian banks through 1999 to 2006 by using the empirical methods of t-test and EVA(economic value added) evaluate the results of pre and post mergers and acquisitions on banks so it is analyzed that there is positive relationship between merger and acquisitions and banks profitability(Khil and Bhan,n.d). Another investigation showed the result of M&A on performance and efficiency, in this investigation researchers analyzed five year before and five year after data of M&As of banks and conclude that there was a positive relationship among these but private banks profitability and liquidity were greater as compared to the public banks, moreover it was also observed that private sector performance is better than public sector (Jagdish and Raiyani, 2010).

To analyze the impact of merger and Acquisitions on profitability of Pakistani banks, a study has been started in 2011. In this analysis researcher took the sample of ten commercial banks listed in KSE and evaluated its results through various ratios test analysis of pre and post M&A data and they concluded that all the ratios confirm a negative correlation between Mergers and acquisitions and profitability (Kouser and Saba, 2011). It is statistically proved that pre-merger there is no profit efficiency but post-merger banks understand because there is considerable progress in profit efficiency and cost efficiency and this improvement show positive and greater performance than other non-merged banks (Akhavein et al.,1997). It is argued that there is a cultural effect on the mergers and acquisitions results, in different cultures mergers and acquisitions impact differently. In some culture mergers effect positively as to cost efficiency and profitability but at mean while in some culture there is no flexible frame for exploring new opportunities for business so cost efficiency cannot achieve through mergers (Wen,2005). Gary A. Dymski (2002) asserted that mergers are helpful for efficiency determined but its efficiency driven feature is unique and not equally valid in all countries (cultures) banking industry, it means its results vary in different countries, cultures and industries. It is also concluded that in developing countries mergers are not profit efficiency driven. It is scrutinize that mergers and Acquisitions in banking sectors provide superior results in cost cutting but in case of performance efficiency it specify ordinary outcome. Additionally, there is no effect of banks size and banks pre-efficiency on the profitability of banks after merger (Rehman et al, n.d).

After studying the pre and post merger and acquisition literature, it is concluded that there is a positive impact of M&A on profitability. However, it is also identified that M&A positively influence various financial parameters such as EBIT, Retune on investment, Profit ratios, interest ratios and economies of scales (Pankaj and Sushant, 2011). Goyal and Vijay (2011) explained that what changes occurs in banking sector after the M&A such as financial, human resource, workforce, infrastructural, environmental, firm's size and some legal aspect. It is also explicate that what benefits could achieve through mergers and acquisitions, it is a strategic tools to vast their market scope such as ICICI Bank use Mergers for expanding their market to remote areas. Chesange (2002) found that mergers and acquisitions improved performance and profitability but its contribution is up to some extent not extensive. A research has been conducted on M&A in Europe in 1990, it use different ratios analysis on their sample and proved that there is little enhancement in banks profitability and performance not only domestic as well as cross border (khan, 2011). Another study conducted on NSE (New York stock exchange) listed companies and results showed that merger and Acquisition has significant impact on profitability (Korir, 2006). Ochieng (2006) presented an alarming outcome of merger and acquisitions of CBA merged FABK, it demonstrates there was a pessimistic relationship with return and cost efficiency. A research on impact of mergers and acquisitions was conducted on non-listed banks in Kenya for analyzing the performance different ratios analysis proved that mergers and acquisitions have positive impact on performance and profitability in non-listed banks ofkeneya (Joseph et al.,2012).

Why companies merge? Companies merges so that the value if the companies can be increased and more resources could be generated by establishing synergies between that target and acquirer, a lot of theories emerged in this regard which became the part of literature. The following theories explain the merger and acquisition in generally.

2.1 Value Increasing Theories

The value increasing theories suggest that mergers and acquisitions occur so that synergies can be created which would result increment in the firm value.

a) Efficiency theory
b) Market power theory
c) Corporate control theory

a) Efficiency Theory

Mergers and acquisitions occur in this sense that after these M&A the operations of both organizations would be efficient by expectation of gains by creating synergy. Operative synergies and Allocative synergies took place due to these mergers and acquisitions. Operative synergies are used to achieve economies of scale and scope. On the other hand Allocative synergies are used to enhance market power and to improve the extraction of consumers' surplus. It is found by previous researches that operating synergies has significant positive impact on gain (Banerjee and Eckard1998).

b) Market Power Theory

Market power theory is authentic for M&A's occurrence. When companies have high market power they charge high prices and obtains high gains. Some researchers are of the view point that sometimes M&A's have negative impact of sales and profits of the organizations. Sometimes researchers found that market power of the organization deteriorate the expected competitions in future (Feinberg, 1985).

c) Theory Of Corporate Control

There is a problem when management of an organization fails to avail the opportunities of the market by creating the synergies and to make the performance if its resources efficient. Another firm who will to purchased that organization acquirer the firm and removes the old management. Efficiency theory runs the corporate control theory. Owner of the organization always select those managers who increased the value of the firm (Weston et al., 2004).

2.2 Value destroying theories

No doubt M&A's results best in gains but it cannot be denied from the facts that sometimes these mergers and Acquisitions become worst. The following theories link with the value destroying theories.

a)Managerial hubris theory
b) Managerial discretion theory
c) Managerial entrenchment theory
d) Empire building theory

a) Theory of Managerial Hubris

This theory suggest that sometime managers tried to increased the value of their firm and become confident and they over evaluate themselves, over valuation creates the chance of more paying when acquiring a company which resulted failure. Many cases related to above occur in USA. No doubt here managers have positive intention while acquiring a company (Roll, 1986).

b) Managerial Discretion Theory

When a firm liquidity increases the management of the organization demonstrate efficient and involve themselves in large scales strategic decisions. High liquidity of the firm stimulates the managerial decisions and they chose poor acquisitions. It is found by the researchers that when acquiring firm management has large share in the acquisition their returns go high and vice versa. It means managers give much attention to those acquisitions which they have personal economic concerns and this will result increment in agency cost(Jensen, 1986).

c) Managerial Entrenchment Theory

Managers always try to pursue those projects which maximize individual value instead of maximization of enterprise value. Managers always try to entrench themselves in mergers and acquisitions so that they could stimulate corporate survival and make their positions secure due to which they decide to diversify by merger and acquisition (Shleifer and Vishny, 1989).

d) Empire Building Theory

It is described in this theory that managers are motivated to diversify in mergers and acquisitions so that the firm size can be increased and minimum profit requirement could be met (Marris, 1963; 1964; Ravenscraft and Scherer, 1987; Rhoades, 1983; Black, 1989).

3. Methodology

The objective of this investigation is to explore the answer *"Does profitability take the influence of merger and acquisitions in Pakistan?"* Different financial ratios are being used to explore this objective. Sample of seven commercial banks have been selected to analyze the effect of M&A on profitability. It includes Allied banks limited (ABL), Faysal bank limited (FBL), Kasb bank limited (KBL), Standard chartered bank limited (SCBL), summit bank limited(SBL) national investment bank limited(NIB) and Askari bank limited(AsBL). These banks have chosen on the basis of required data availability for rational analysis and decision making. Different financial ratios such as profitability ratios, solvency ratios, liquidity ratios have been chosen to make analysis of these banks profitability. Financial ratios play an important role in any business performance by measuring their improvement in the direction of their goals. These financial ratios are also used to evaluate the performance of different organizations.

3.1 Data Collection

To evaluate the effect of M&A on the profitability of banking sector of Pakistan data is collected from the KSE (Karachi stock exchange). Published annual report of all bank collected for their official websites. Financial data also collected form Lahore stock exchange (LSE) and SECP (security exchange commission of Pakistan) and other relevant sites.

3.2 Population and Sample

Population consists of all merger and acquisitions have been made during the period of 2002 to 2011 in the banking sector of Pakistan. Mergers and acquisitions data will be collected from competition commission of Pakistan. During 2002 to 2011 M&A list is following.

Table 1: *M&A in Pakistani banking sector*

List of Banks' mergers and acquisitions in Pakistan 2002 - 2011		
Before M&A	**After M&A**	**Years**
Al-Faysal Investment Bank	Faysal Bank Limited	10/1/2002
Crescent Investment Bank Limited Limited	Mashreq Bank Pakistan	9/7/2003
Trust Commercial Bank Limited Limited	Crescent Commercial Bank	18/10/2004
Trust Investment Bank Limited Limited	Trust Commercial Bank	30/04/2004
Fidelity Investment Bank Limited Limited	Trust Commercial Bank	30/04/2004
Union Bank Limited	Standard Chartered Bank Ltd.	29/12/2006
First Allied Bank Mudaraba	Allied Bank Limited	25/08/2006
Atlas Investment Bank Limited	Atlas Bank Limited	26/07/2006
Crescent Standard Investment Bank Ltd.	Innovative Housing Finance ltd	20/07/2007
Pakistan Industrial Credit & Investment Corp.Ltd	NIB Bank Limited	1/1/2008
PICIC Commercial Bank Limited	NIB Bank Limited	1/1/2008
Network Leasing	KASB Bank Limited	17/02/2009
Askari Leasing Limited	Askari Bank Limited	10/3/2010
Al-Zamin Leasing Mudaraba Limited	Invest Capital Investment Bank Limited	11/1/2010
MyBank Limited	Summit Bank Limited	6/7/2011
Atlas Bank Limited	Summit Bank Limited	11/1/2011
Royal Bank of Scotland Ltd.	Fayal Bank Ltd	3/1/2011
Al-Zamin Leasing Corporation Limited	Invest Capital Investment Bank Limited	11/1/2010

Source: competition commission of Pakistan

3.3 Description for the above table

Sample of seven banks has taken from the above population to analyze the effect of M&A on performance. This short sample is selected due to cost, time and convenient constraints. While in this study sample size is minute as compared to others investigations which were conducted on this topic in different European and other countries such as USA, UK and Nigeria etc. But this sample size is not too small for Pakistani banking sector because total M&A cases in Pakistani banking sector is also not large as other countries. According to Competition commission of Pakistan (CCP) M&A cases has been occur in banking sector of Pakistan during last decade.

3.4 Research Frame work

This model is developed to explain the impact of M&A on banks profitability in Pakistan banking sector. Four independent variables with their measures have been shown to check the impact of M&A on banks profitability.

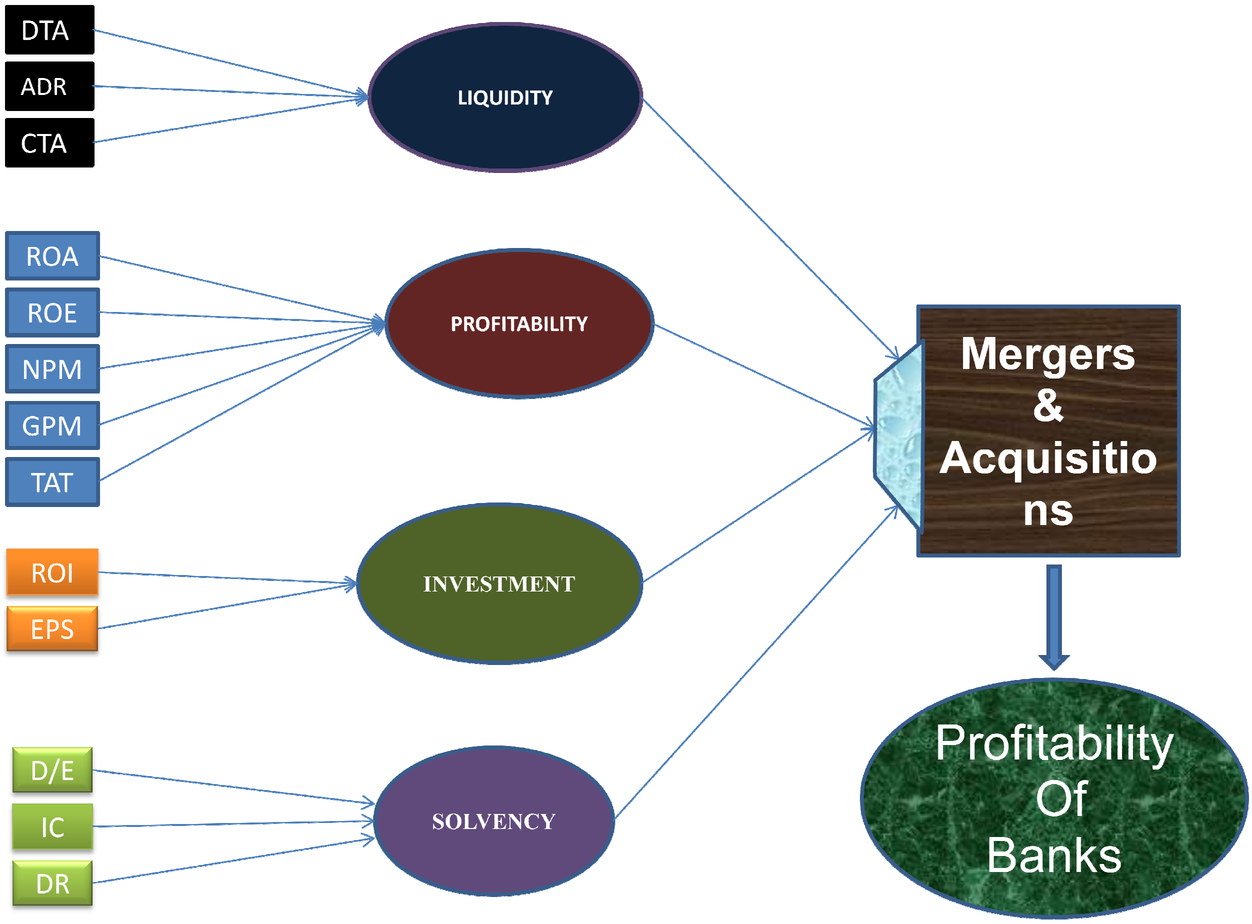

Table 2: Ratios and abbreviations used in this research analysis

Ratios	Abbreviations	Ratios	Abbreviations
Deposit to total assets	DTA	Total assets turnover ratio	TAT
Advances to deposits ratio	ADR	Return on investment	ROI
Cash to assets ratio	CTA	Earnings per share ratio	EPS
Return on assets ratio	ROA	Debt to equity ratio	D/E
Return to equity ratio	ROE	Interest coverage ratio	IC
Net profit margin ratio	NPM	Debt ratio	DR
Gross profit margin	GPM		

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4. Findings and Discussions:

Table 3: liquidity ratios analysis

	Banks Name	Liquidity Ratios %		
	Allied Bank	**DTA**	**ADR**	**CTA**
Pre	2004	76.26	55.34	7.43
	2005	80.07	74.26	8.95
Post	2007	82.46	67.63	9.50
	2008	81.12	75.18	7.02
	Faysal Bank			
Pre	2009	68.29	79.68	4.94
	2010	73.06	77.42	8.66
Post	2011	73.36	77.11	7.91
	2012	76.89	79.29	8.21
	Kasb Bank			
Pre	2007	81.03	75.88	7.34
	2008	67.74	100.22	3.02
Post	2009	71.82	77.74	5.06
	2010	79.36	76.07	6.17
	Standard Chartered Bank			
Pre	2004	80.85	67.31	7.83
	2005	74.91	60.03	8.11
Post	2007	69.33	73.99	10.93
	2008	65.96	78.90	9.07
	Summit Bank			
Pre	2009	82.01	67.31	6.94
	2010	85.28	72.28	6.13
Post	2011	75.18	76.26	6.33
	2012	72.09	67.08	8.72
	NIB Bank			
Pre	2006	65.84	104.32	9.24
	2007	66.05	79.36	6.63
Post	2008	58.46	93.05	5.67
	2009	45.13	106.47	6.01
	Askari Bank Limited			
Pre	2008	81.32	83.39	9.69
	2009	80.96	71.70	10.91
Post	2011	84.77	57.42	9.42
	2012	86.90	53.06	9.43

4.1 Description of the table

It is resulted by the researcher on the basis of "Debt to Equity Ratio" that M&A has a positive impact on the performance of the banks. The banks such as ABL, FBL, KBL and ABL debts increased more in the post M&A periods as compared to pre M&A periods in the ratio of assets while the banks such as SCBL, SBL and NIB took negative impact in the post M&A periods as compared to pre M&A periods means debts of these banks decreased in the post M&A periods. It is also found by the researchers on the basis of "Advances to Deposits Ratios" that M&A has also positive impact on the performance of the banks. According to this ratio five banks named as ABL, FBL, SCBL, SBL and NIB advances in the ratio of deposits increased in the post M&A periods as against pre M&A periods while the banks such as KBL, ABL advances to customers decreased in the post M&A periods as opponent of pre M&A periods. It is concluded in this study after the calculations on the basis of "Cash to Total Assets Ratios" that banks performance positively influenced by the M&A activities. As for as this ratio is concerned six banks named as ABL, FBL, KBL, SCBL, SBL and AsBL cash and cash equivalents increased in the post M&A periods as compared to pre M&A periods. In the end it is concluded that liquidity ratios of banks improved due to M&A activities in the financial sector of Pakistan.

Table 4: Profitability Ratios Analysis

	Banks Name	Profitability Ratios				
	Allied Bank	**ROA%**	**ROE%**	**GP**	**TAT**	**NPM%**
Pre	2004	0.14	8.00	84.86	0.034	4.31
	2005	1.78	28.00	79.53	0.051	39.27
Post	2007	1.42	24.00	52.74	0.066	36.71
	2008	1.21	21.00	43.50	0.083	31.26
	Faysal Bank					
Pre	2009	0.75	11.18	29.55	0.094	7.08
	2010	0.53	8.51	29.38	0.074	6.04
Post	2011	0.46	7.43	31.94	0.099	4.44
	2012	0.47	7.79	31.12	0.092	4.94
	Kasb Bank					
Pre	2007	0.01	6.20	21.66	0.071	6.77
	2008	-2.10	-14.98	8.49	0.094	-20.00
Post	2009	-7.61	-63.49	-8.47	0.084	-83.52
	2010	-4.69	-85.00	-0.21	0.088	-54.02
	Standard Chartered Bank					
Pre	2004	2.80	37.00	59.92	0.053	48.00
	2005	3.90	53.00	68.29	0.069	52.00
Post	2007	1.10	6.64	71.87	0.088	12.39
	2008	0.23	1.42	70.44	0.088	2.64
	Summit Bank					
Pre	2009	-5.41	-50.84	18.11	0.092	-58.82
	2010	-5.41	-83.98	13.70	0.098	-42.68
Post	2011	-1.01	-21.69	5.58	0.080	-12.66
	2012	-2.03	-94.38	1.26	0.076	-26.63
	NIB Bank					
Pre	2006	0.25	3.00	29.40	0.075	11.56
	2007	-0.20	-2.00	28.62	0.040	-24.45
Post	2008	-4.18	-26.00	28.95	0.085	-169.81
	2009	0.33	2.00	29.55	0.088	12.80
	Askari Bank Limited					
Pre	2008	0.20	3.06	42.09	0.089	2.10
	2009	0.48	7.85	40.05	0.089	4.91
Post	2011	0.49	9.64	30.72	0.095	4.97
	2012	0.36	6.70	29.10	0.092	3.87

4.2 Description of the table

After the calculation of different profitability ratios of banks in the pre M&A era and post M&A periods the researchers found on the basis of “Return on Assets(ROA) Ratio” that there is negative impact of M&A has on the banks performance. On the basis ROA four banks named as ABL, FBL, KBL and SCBL return on equity decreased in the post M&A periods as compared to pre M&A periods while the banks such as SBL, NIB and AsBL ROA increased in the post M&A periods. On the calculation of second ratio named as “Return on Equity (ROE) Ratio” the researcher concluded that there is high negative relationship between M&A and banks performance. ROE of five banks named as ABL, FBL, KBL, SCBL and SBL decreased in the post M&A periods as compared to pre M&A periods while ROE of two banks named as NIB and AsBL increased in the post M&A periods. On the basis of third profitability ratio named as “GPM (Gross Profit Margin) Ratio” the study found that there is negative relationship between banks performance and M&A activities. GPM of four banks named as ABL, KBL, SBL and AsBLdecreased the post M&A periods while the other banks such as FBL, SCBL and NIB gross profit margin increased in the post M&A era. The researcher on the basis of one of the profitability ratios named as” TAT(Total Asset Turnover)” found that there is positive relationship between banks performance and M&A activities. It is also found that TAT of six banks named as ABL, FBL, KBL, SCBL, NIB and AsBL increased in the post M&A periods in comparison with pre M&A periods while the TAT of SBL decreased in the post M&A periods. After the calculation of final ratio of profitability such as “Net Profit Margin(NPM) Ratio” the study found that there is negative relationship between M&A activities and Bank performance. It is also found that NPM of just two banks named as SBL and NIB increased in the post M&A periods in comparison of pre M&A periods. In the final it is said by the researcher that out of five profitability ratios just one ratio named as TAT has positive impact of M&A on the bank performance while other four ratios such as ROA, ROE, GPM and NPM have negative impact on the performance of the banks.

Table 5: Investment Ratios Analysis

Banks Name		Investment Ratios	
Allied Bank		**ROI%**	**EPS**
Pre	2004	0.33	0.43
	2005	6.83	4.78
Post	2007	4.84	6.31
	2008	4.91	6.43
Faysal Bank			
Pre	2009	2.30	1.46
	2010	0.96	1.45
Post	2011	1.58	1.55
	2012	2.09	1.53
Kasb bank			
Pre	2007	0.00	0.79
	2008	-10.29	-2.43
Post	2009	-27.94	-4.45
	2010	-20.76	-2.85
Standard Chartered Bank			
Pre	2004	18.85	0.62
	2005	16.00	1.01
Post	2007	6.80	0.71
	2008	2.05	0.16
Summit Bank			
Pre	2009	-16.90	-4.13
	2010	-14.14	-5.58
Post	2011	-3.21	-1.17
	2012	-5.35	-2.54
NIB Bank			
Pre	2006	1.91	0.21
	2007	-0.86	-0.44
Post	2008	-21.24	-2.63
	2009	1.15	0.17
Askari Bank Limited			
Pre	2008	1.08	0.95
	2009	1.65	2.18
Post	2011	1.22	2.30
	2012	0.86	1.54

4.3 Description of the table

Here researcher tried to investigate the impact of M&A on the performance of the organization on the basis of investment ratios. Two investment ratios have been used by the researcher to find the results of M&A. First ratio named as "Return on Investment (ROI) Ratio" is used by the researcher to find the impact of M&A activities and concluded that there is negative relationship between M&A activities and banks performance. It is found that ROI in five banks named as ABL, KBL, SCBL, NIB and ABL decreased in the post M&A periods while the ROI of the banks such as FBL and SBL increased in the post M&A periods as compared to pre M&A periods. Second investment ratio named as EPS has been calculated by the researcher to find the impact of M&A activities and inferred that there is positive impact of M&A on the banks performance. It is also found that EPS of four banks such as ABL, FBL, SBL and ABL increased in the post M&A periods while EPS of three Banks named as SCBL, KBL and NIB decreased in the post M&A periods as compared to pre M&A periods. In end of this table it is found that investment ratios impact remained neutral.

Table 6: Solvency Ratios Analysis

	Banks Name	Solvency Ratios		
	Allied Bank	**D/E**	**IC**	**DR**
Pre	2004	15.31	0.34	0.93
	2005	13.79	1.09	0.92
Post	2007	16.31	0.88	0.94
	2008	16.55	2.92	0.93
	Faysal Bank			
Pre	2009	14.76	1.97	0.93
	2010	15.10	1.35	0.94
Post	2011	15.36	1.39	0.93
	2012	15.60	1.48	0.93
	Kasb bank			
Pre	2007	11.26	1.50	0.90
	2008	13.35	-9.14	0.82
Post	2009	12.74	-9.20	0.91
	2010	28.79	-4.79	0.96
	Standard Chartered Bank			
Pre	2004	6.10	8.43	0.92
	2005	5.08	9.69	0.92
Post	2007	4.90	3.40	0.83
	2008	5.04	1.96	0.84
	Summit Bank			
Pre	2009	6.82	-2.38	0.89
	2010	9.50	-8.80	0.95
Post	2011	10.54	-1.18	0.95
	2012	12.18	0.09	0.98
	NIB Bank			
Pre	2006	9.61	1.05	0.91
	2007	6.20	0.64	0.79
Post	2008	4.80	0.46	0.78
	2009	4.00	1.16	0.80
	Askari Bank Limited			
Pre	2008	47.60	1.22	0.94
	2009	47.19	1.78	0.94
Post	2011	46.11	1.63	0.95
	2012	41.00	1.46	0.94

4.4 Description of the table

Solvency ratios also have been used by the researchers to assess the impact of M&A on the performance of the banks. Three ratios named as Debt to Equity ratio, Interest Coverage ratio and Debt ratios. On the basis of "D/E (Debt to Equity) Ratio" the researcher inferred that there is negative impact of M&A on the performance of the bank. It means due to M&A activities the debts of the banks increased. Therefore researcher found that D/E ratio increased in the period of post M&A while it has decreased in the period of pre M&A. Second ratio named as Interest coverage ratio has been used to investigate the impact. Interest coverage means at how much level your business earnings meet the interest expense of the business. It is concluded by the researcher that there is positive relationship between M&A activities and banks performance on the basis of interest coverage ratio. IC of five Banks named as ABL, FBL, KBL, SBL and NIB increased in the post war period and vice versa in two other banks named as SCBL and AsBL in the post M&A periods as compared to Pre M&A periods. The third ratio which is calculated by the researcher is "DR (Debt Ratio)" and found that there is negative relationship between M&A and banks performance. It is also found that DR in six banks increased in the post merger period while DR decreased in one bank named as SCBL. At the end it is concluded comprehensively that there is negative relationship between M&A and bank performance on the basis of solvency ratios.

Table 7: Comprehensive Ratios Analysis

Group of ratios	**Total No. Of ratios observations**	**Favourable ratios after M&A**	**Unfavourable ratios after M&A**	**Overall status**
Liquidity ratios	21	15	6	Positive
Profitability ratios	35	15	20	Negative
Investment ratios	14	6	8	Negative
Solvency ratios	21	8	13	Negative
Total	**91**	**44**	**47**	**Negative**

4.5 Description of the table

In the above conversation you analyze the influence of mergers and acquisitions on banks performance by evaluating the financial ratios. These ratios such as Profitability ratios, liquidity ratios, investment and solvency ratios have been described separately but for time saving and easy understanding, asummarized analysis is given in the above table. In this table all financial ratios, which have been used in this study and their total observations are given with their positive or negative effects. In this study total liquidity ratios observation was twenty one (seven banks and three ratios make twenty one observations of liquidity ratios) from which fifteen in favour of M&A and six was not favour so overall status of liquidity remain positive for M&A. Profitability ratios, investment ratios and solvency ratios give unfavourable results of M&A, So as a whole it was displaying a negative/ hostile results of post mergers and acquisitions.

5. Conclusion

Actually mergers and acquisitions deals occur so that synergy can be created. Synergy/Team work brings efficiency and effectiveness in the operations of the firm. As mergers and acquisitions deals took place the business moves toward expansion and its resources also increase. Due to mergers and acquisitions new management try to work confidently so that they can prove that mergers and acquisitions deals influenced the firm performance positively. Sometimes the management of the acquiring firms becomes overconfident on the mergers and acquisitions deals due to which they cannot compete the market as well. This study concluded that the firm performance cannot take the influence of mergers and acquisitions deals as well. As for as this study analysis is concerned out of four measurement ratios just one ratio remained positive named as liquidity while other three ratios such as profitability, solvency and investment showed negative impact of mergers and acquisitions on firm performance. This study used ratios of two years earlier and two years after mergers and acquisitions deals and found overall negative impact but these results are of short time period. It is analyzed that mergers and acquisitions don't have impact on firm performance in the short time period but it might be possible this deal has impact on the firm performance in the long run. Sometimes organizations indulge in the mergers and acquisitions activities get competitive edge which proves benefitted for the organizations. It is also concluded that due to expansion in the business activities the organizations per unit cost go to decline.

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