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Financial performance of banks in Pakistan after Merger and Acquisition

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Abstract

Business transactions are going to be fast day by day because of dynamic changes in the global environment. Merger and Acquisition is a strategy adopted by the organizations globally to meet the needs of recent dynamic business environment. It has achieved much attention and importance in corporate world. In Pakistan, this strategy has been used widely in banking sector. Therefore, the objective of the study is to evaluate the financial performance of banks in Pakistan after M&A. The financial and accounting data for 10 banks was taken from the Financial Statement Analysis by State Bank of Pakistan. Profitability & Efficiency, Leverage, and Liquidity ratios were used to measure the financial performance, where pre and post ratio analysis was done. Results of the study show that there is no positive improvement in the financial performance of the banks in Pakistan after Merger and Acquisition.

Keywords: Merger and Acquisition; Financial Performance; Profitability; Liquidity; Leverage; Pre & Post Analysis

Background

The Business environment has been changed rapidly because of dynamic changes in the global atmosphere. The technological advances have altered the business transactions in current corporations to world level. Every organization has its vision to become a reputable organization; along with its vision to maximize market share and future growth. Hence the organizations have to be strong in order to grow in the market. They have also needed precise and specialized information to enter in new markets. Therefore, they have to adopt a distinctive type of strategy to compete in such a dynamic environment.

The organizations use Merger and Acquisition (M&A) as an effective approach to cope with the dynamic business environment. This strategy continues to be a highly familiar form of corporate development. In the last decade, M&A has become an impressive activity. Merger occurs when two organizations agree to move forward as a single or joint entity for their mutual benefits. While acquisition occurs when an organization purchases some assets, plant, equipment, business unit or shares of other organization or it acquires entire ownership of other organizations (Sherman 2011).

M&A provides an edge to the organizations who want to keep their businesses in running condition. Organizations are now realizing that it will be beneficial for their aims to enter in to Merger and Acquisition (Zahid and Shah 2011).

There are many transactions of M&A taking place worldwide. In case of Foreign Direct Investment (FDI), International Merger and Acquisition (IM&A) has become the most preferred method in accordance with other researches over the past two decades (Majidi 2007). The expansion for banks has started through the wave of M&A in US and Europe and also has been spread worldwide (Focarelli et al. 2002).

The M&A has not fully grown-up in Pakistan as it is developed globally. The main reason is the nationalization by Government of Pakistan in 1970s. The government involvement was increased and it influenced and depressed the private and corporate sector. Based on historical information available at Karachi Stock Exchange (KSE) total 121 events of merger occurred from the period of 1995-2011. According to Competition Commission of Pakistan (CCP), the number of mergers occurred were 48 and the number of acquisitions occurred were 208 from the period 2007-2011. Financial sector of Pakistan is the main sector which is involved in M&A. As CCP stated that out of 48 deals of merger 15 deals were related to financial sector. Financial sector comprises 83 out of 121 mergers as stated by KSE. On the contrary, financial sector includes 3 acquisitions out of 14 and 72 acquisitions out 208 as pronounced by KSE and CCP respectively. Financial sector is appearing to be a strong participator in the field of M&A in Pakistan. The present study is based on banking sector of Pakistan. Therefore, it is vital to give a small historical background of Pakistani banking sector.

Government of Pakistan established the State Bank of Pakistan (SBP) on 1st July 1948. Government and some private parties were the initial owners of SBP but later it was declared as a sovereign body. The first state owned bank that was formed was the National Bank of Pakistan (NBP), which was established in 1949. A number of new financial institutions were also formed in the later period. The Pakistani banking industry has transformed in to a highly competitive and profitable industry from a government dominated sector. The flexibility in banking industry has been increased by major renovations and also the chances of economic growth have increased because of the development of efficient financial system. The entire phenomenon is steady with the results of different studies for example financial development is associated with economic growth (Abma and Fase 2003). It is reviewed from the previous studies that they have suggested for the future research in the field of M&A in Pakistan especially in banking sector. Numerous researchers have explained the current scenario of M&A in Pakistan but there were certain limitations in their studies which established the need of present study to assess the impact of M&A on the financial performance of banks in Pakistan.

Financial performance of banks under M&A can be measured through the financial ratio(s) using accounting and financial data of pre and post M&A. Rehman and Ahmed (2008) compare the financial ratios to measure the efficiency of banks in Pakistan. The research on M&A in banking sector has much importance. This study has the importance for the concerned institutions, customers, shareholders, investors, competitors and internal management. The objective of the study is to assess the changes in the financial performance of banks in Pakistan after M&A using financial ratios. The second objective is to give complete information to the organizations about the pros and cons of M&A in the recent competitive business environment.

Literature review

The business competition is crossing now the boundaries of geographical regions. It might be the result of different policies and strategies which were adopted by the organization.

Out of those, M&A is a strategy adopted by the organizations to compete in the dynamic business world. In last many years, numerous studies discussed the purposeful practical implementation of M&A in the corporate world. For getting the success from M&A, different methods were projected and these methods were useful for both short and long term M&A (Kouser and Saba 2011).

Analysts viewed that the process of consolidation is a cause of better pricing and cheaper cost for funds etc. M&A is the process that creates the value, improve the efficiency, and increase the market power by improving resource allocation of the merged companies (Altunbas and Marques 2008). Some countries are more engaged in the deals of M&A like, China, Brazil, and India and the fact is proven that M&A has enhanced the performance of business units (Zahid and Shah 2011). The research by Ismail et al. (2011) from the Turkish organizations found that M&A affects the performance negatively and their research was based on specifically accounting data and prices of stock market.

M&A is a useful approach for organizations to enter in new markets (Kalimeris 2010). This approach offered many advantages over its competitors as a form of foreign direct investment. His study also found that the companies that engaged in M&A increased their share price by using foreign investment. (Usman and Obaidullah 2010) studied manufacturing organizations in Pakistan by analyzing pre and post M&A financial performances using accounting ratios. They found that organizations performed well in their profitability, liquidity, and efficiency ratios after merger. Technological advances and the financial deregulation have also played a vital role in the deals of M&A in banking sector especially in 1995 to 2001 (Sergio and Olalla 2008). Like other organizations, banks also require new business opportunities for changing technological environment to enhance their performance which is possible through merger and acquisition (Berger et al. 1999).

Pre and post M&A performance has been studied through operating performance approach where the financial indicators are developed e.g. efficiency can be measured as cost and profitability using accounting data (Gjirja 2001). It is found that the operating performance has increased in commercial banks after M&A (Cornett et al. 2006). They found that after merger the operating performance has been adjusted as increased appreciably of merged banks. Due to M&A phenomena, the merged and acquired companies reduced their cost of operations. Sinha and Gupta (2011) studied the M&A in the financial sector of India during the period of 1993 – 2010. Their results proved that profit before depreciation, interest, tax and amortization has been improved while the liquidity of companies have been reduced after M&A. In US banking sector the firm's performance increased after M&A regarding their productivity, profitability, and shareholder's value (Lin et al. 2006).

Viverita (2002) found that in Indonesia the consolidation of banks increased the financial capacity and gave them a competitive edge for their efficient performance. The performance of banking sector has been improved after M&A in Europe (Altunbas and Marques 2008). They used 207 domestic M&A during 1992 and 2001. Houston et al. (2001) found that the post-merger performance of banks has been improved in US. Accounting ratios are suitable measures to evaluate the performance of companies (Kemal 2011). He did research for Royal Bank of Scotland and analyzed the effects of accounting ratios on bank performance after merger. Although he used twenty financial ratios but the results were not satisfactory. Badreldin and Kalhoefer (2009) studied about M&A on banks in Egypt during 2002-2007. They found there is increase in ROE after the Merger that is significant improvement in profitability.

Findings from various studies conclude that performance of the firms is affected by M&A. It is examined from some previous researches that there is improvement in the financial performance of organizations after M&A. But some studies showed that there is no increase in the financial performance of organizations after M&A.

Methods

Different techniques and methods have been observed from the previously conducted studies regarding M&A. Some of the related techniques are discussed in this study. For the analysis of this research, method based on accounting and financial is used. Financial and accounting data of banking sector of Pakistan along with the procedure of the research is discussed in the following text.

Brigham and Ehrhardt (2005) examined that the financial statement analysis is better approach to evaluate the company's strength. They said that this information can also be used by the management to analyze the improvement in financial performance. Pre and post M&A performance has been studied through operating performance approach using accounting data (Gjirja 2001). Kouser and Saba (2011) evaluated the impact of combination of business on their financial performance in the financial sector of Pakistan through financial ratios using accounting and financial data. Ong et al. (2011) worked to analyze the financial performance of Malaysian banking sector using accounting and financial data for pre and post-merger. They employed three methods to analyze pre and post-merger performance; first they used a comparison and ratio analysis. Second, they analyzed performance using paired sample t-test for pre and post-merger and third, Data Envelopment Analysis (DEA) approach was used to measure the bank's efficiency. This research is undertaken to assess the financial performance of banks in Pakistan after M&A. Therefore approach of Ong et al. (2011) is followed in this research and ratio analysis between pre and post M&A is used to measure the financial performance of banks in Pakistan.

The statistics regarding M&A in banking sector of Pakistan were available on the site of CCP and KSE from 2002 to 2011 (Appendix Table 13). According to this information, there were total 57 deals of M&A in banking sector, out of which 38 were Merger deals and 19 were Acquisition deals. To measure the financial performance of bidder banks both M&A deals are selected which were occurred during the period of 2008-2009. There were only 16 deals of M&A in the selected period but the required financial and accounting data were not available for all the banks. The data were available from the period of 2006-2011 of 10 banks. As shown in Table 1 out of ten M&A deals, 5 were Merger deals and 5 were Acquisition deals. The sources of data collected are financial statements of the concerned banks and the Financial Statement Analysis which is published by SBP. All sampled transactions occurred on domestic level in the banking sector of Pakistan. Therefore, the center of the study is to analyze the financial performance of banks on domestic level under M&A; not on cross border M&A. The based criteria selected for this research was latest years from 2008 to 2009 as discussed before. Year 2008 is assumed as zero periods for the analysis of those M&A deals which occurred during this year. Similarly, 2009 is assumed as zero periods for the analysis of those M&A deals which occurred during this year.

Table 1 These banks are taken as a sample of study those which were involved in M&A deals

S.No	Type of Deal	Date of Deal	Acquirer/Bidder Banks	Acquired/Merged/Target Organizations
1	**Merger**	1/1/2008	NIB Bank Limited	PICIC Commercial Bank Limited
2	**Acquisition**	25/06/2008	Standard Chartered Bank Limited.	American Express Bank Limited in Pakistan
3	**Acquisition**	15/09/2008	Habib Bank Limited.	Saif Power Limited
4	**Acquisition**	28/10/2008	Dubai Banking Group LLC.	Bank Islami Pakistan Limited
5	**Merger**	7/11/2008	Atlas Bank Limited	KASB Bank Limited and KASB Capital
6	**Merger**	5/12/2008	KASB Bank Limited.	Network Leasing Corporation Limited
7	**Merger**	30/01/2009	HSBC Bank Middle East Limited.	Amalgamation of the Hong Kong and Shanghai Banking Corporation (all branches in Pakistan)
8	**Acquisition**	27/03/2009	Bank Al Haibib Limited.	Habib Sugar Mills Limited by M/s.
9	**Acquisition**	31/08/2009	MCB Bank Limited	Royal Bank of Scotland
10	**Merger**	22/12/2009	Askari Bank Limited	Askari Leasing Limited

Accounting methodology is the base for this study where financial indicators were used to measure the performance. Using a sample of 10 banks, the financial performance can be measured for Bidders/Acquirer banks via financial ratios Table 2. To measure the financial performance the accounting and financial data of selected banks is used from the period of 2006-2011. All the ratios are calculated for two years before M&A and two years after the M&A of bidder banks. For the pre and post analysis two years before and two years after the M&A are sufficient; "there will be no more inaccuracy and variation in the results" (Yener & David 2004). They suggested that there may be negative effect of longer time period because there are many other external economic factors. So, two years are enough to materialize the benefits of M&A (Achtmeyer 1994). To analyze the financial performance, the comparison of financial ratios between Pre and post M&A is conducted for different financial ratios.

Results and Discussion

Results: Comparison of Pre and Post M&A Performance

Analysis is done for all the ratio(s) which are shown in Table 2, to assess the changes in the financial performance of banks among pre and post-M&A. The changes in the ratio(s)

Table 2 Following are the indicators to measure the financial performance of banks

Variables	Ratio(s)/Indicators
Profitability & Efficiency	Return on Equity (ROE) = Net profit after tax / Total equity
	Return on Assets (ROA) = Net profit after tax / Total Assets
	Net Interest Margin = Interest earned- interest expense / Total Assets
	Earnings Per Share (EPS) = Net profit after tax / No. of ordinary shares
	Spread Ratio = Net interest income /Total interest earned
	Interest expense to Interest Income = Interest expense / Interest Income
Liquidity	Cash & Cash equivalent to total assets = Cash & Cash equivalent / Total assets
	Total Liabilities to total assets = Total Liabilities / Total assets
Leverage	Debt to Equity Ratio = Total Debt / Total Equity
	Capital Ratio = Total Equity / Total Assets

Table 3 Pre and Post analysis of ROE

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	0.50	-62.50	-63.00	↓
Standard Chartered Bank Limited.	10.00	-68.50	-78.50	↓
Habib Bank Limited.	22.00	18.00	-4.00	↓
Dubai Banking Group LLC.	-10.00	2.00	12.00	↑
Atlas Bank Limited	-3.00	870.00	873.00	↑
KASB Bank Limited.	6.00	-122.00	-128.00	↓
HSBC Bank Middle East Limited.	4.10	10.43	6.33	↑
Bank Al Haibib Limited.	25.50	24.50	-1.00	↓
MCB Bank Limited	31.50	24.00	-7.50	↓
Askari Bank Limited	12.50	8.00	-4.50	↓

are calculated from the difference between the mean/average of pre and post M&A performance for each bank.

The results shown in a way that the performance of pre M&A is subtracted from the performance of post M&A of banks. If the post M&A ratios are increased from pre M&A or the difference is showing positive sign it means the post M&A performance is increased. If the ratios are decreased than pre M&A performance or the difference is showing negative sign it means the post M&A performance is decreased.

There is decrease in Return on Equity (ROE), in most of the banks after M&A Table 3. Only three banks show that ROE has increased after M&A. HSBC Bank, Dubai Banking Group and Atlas Banks showed that ROE has been improved after M&A. Atlas Bank improved its ROE with 873% after M&A, which is highest percentage. It means these three banks did utilize the portion of shareholder equity efficiently to earn profit and other reason is that they did control on their operational and other costs which have enhanced profit after M&A. But the majority of the banks ROE results are against the findings of Knapp et al. (2005) and Ong et al. (2011). They found that there is increase in this ratio after the merger. But the results are associated with the findings of Usman and Obaidullah (2010). They found a decrease in ROE after merger.

As for the ROA is concerned, there is decrease in this ratio in selected banks, which is not a positive sign for the banks after M&A, else Dubai Banking group and HSBC Bank has increased this ratio after M&A Table 4. The banks of which the ROA is increased,

Table 4 Pre and Post analysis of ROA

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	0.03	-2.91	-2.94	↓
Standard Chartered Bank Limited.	1.70	-2.97	-4.67	↓
Habib Bank Limited.	1.55	1.17	-0.39	↓
Dubai Banking Group LLC.	-3.31	0.33	3.64	↑
Atlas Bank Limited	-0.65	-7.98	-7.33	↓
KASB Bank Limited.	0.50	-5.97	-6.47	↓
HSBC Bank Middle East Limited.	0.36	1.25	0.89	↑
Bank Al Haibib Limited.	1.47	1.18	-0.29	↓
MCB Bank Limited	3.60	2.95	-0.65	↓
Askari Bank Limited	0.83	0.40	-0.44	↓

Table 5 Pre and Post analysis of EPS

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	9.50	-116.50	-126.00	↓
Standard Chartered Bank Limited.	108.50	-116.50	-225.00	↓
Habib Bank Limited.	1455.50	1454.00	-1.50	↓
Dubai Banking Group LLC.	-101.00	17.00	118.00	↑
Atlas Bank Limited	-29.50	-440.00	-410.50	↓
KASB Bank Limited.	62.00	-365.00	-427.00	↓
Bank Al Haibib Limited.	554.00	504.00	-50.00	↓
MCB Bank Limited	2438.50	2264.00	-174.50	↓
Askari Bank Limited	493.50	194.00	-299.50	↓

they used their more assets to earn profit. But the banks of which ROA ratio is decreased, they are needed to acquired more assets from other organizations. They did not utilize their assets more efficiently to earn more profit. Results are not similar with the findings of (Ong et al. 2011).

In Table 5 it is shown that there is decrease in EPS after M&A which is not as sign of positive improvement about the profitability of banks after M&A. Only Dubai Islamic bank of Pakistan has increased its EPS. Amel et al (2004) and Kemal (2011) found that there is decrease in EPS after M&A, so the results are similar with their findings. But these results are not associated with the findings of Lin et al. (2006). They found that there is an increase in EPS after M&A.

The net interest margin has not increased in most of the banks after M&A, it increased in 6 banks and decreased in other 4 banks after M&A Table 6. It is slightly better than other three profitability ratios but is not showing a sign of much improvement in the profitability of banks after M&A. It means banks did not utilize their assets effectively. The results are associated with the findings of Allah-Yar (2012). Overall, most of the banks could not increase their profitability by managing and utilizing their equity and assets to generate more income after M&A. Results are matched with the findings of Kemal (2011) and Sufian (2004), they did find decrease in profitability of banks after M&A. But these results are against the research of Knapp et al (2005), Houston et al. (2001) and Rhoades (1998) who found that the profitability of banks improved after M&A.

Table 6 Pre and Post analysis of NIM

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	1.67	2.19	0.53	↑
Standard Chartered Bank Limited.	5.27	3.50	-1.78	↓
Habib Bank Limited.	4.95	5.13	0.18	↑
Dubai Banking Group LLC.	2.28	5.04	2.77	↑
Atlas Bank Limited	0.48	0.46	-0.02	↓
KASB Bank Limited.	1.46	-0.40	-1.86	↓
HSBC Bank Middle East Limited.	2.97	4.91	1.95	↑
Bank Al Haibib Limited.	3.34	3.63	0.29	↑
MCB Bank Limited	6.13	6.64	0.52	↑
Askari Bank Limited	3.65	3.06	-0.60	↓

Table 7 Pre and Post analysis of Spread Ratio

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	29.02	23.72	-5.30	↓
Standard Chartered Bank Limited.	71.42	39.50	-31.93	↓
Habib Bank Limited.	66.55	56.57	-9.99	↓
Dubai Banking Group LLC.	69.38	49.09	-20.29	↓
Atlas Bank Limited	8.90	4.33	-4.58	↓
KASB Bank Limited.	20.92	-4.71	-25.63	↓
HSBC Bank Middle East Limited.	39.55	47.82	8.27	↑
Bank Al Haibib Limited.	43.59	39.03	-4.56	↓
MCB Bank Limited	73.20	66.28	-6.92	↓
Askari Bank Limited	42.37	33.28	-9.09	↓

In Table 7 spread ratio represents the profit efficiency after the M&A. Spread ratio is decreased after M&A for all the banks except HSBC Bank Middle East Limited. It means banks did not perform well to enhance their profits after M&A by reducing their expenses. These results are similar with the findings of Kemal (2011) he also finds the decline in this ratio after M&A. Allah-Yar (2012) also found a negative significant improvement in this ratio between pre and post M&A. Interest expense to interest income represents the cost efficiency of banks after M&A. In Table 8 results have shown increase in this ratio after M&A. It means that banks could not minimize their interest and non-interest expense after M&A. It is not a good sign to improve cost efficiency of banks after M&A. This ratio is slightly improved for HSBC Bank after M&A only. In Table 9 results have shown that there is decrease in cash and cash equivalent ratio of all banks after M&A except the Habib Bank Limited. It is not a sign of improvement in the liquidity performance of banks after M&A. These results are similar with the findings of Allah-Yar (2012), but Kemal (2011) did find that there is an improvement in the liquidity performance after M&A.

The second liquidity ratio shows that what portion of total assets is financed through the debt of companies. In Table 10 results showed that the total liabilities to total asset ratio has been increased in most of the banks after M&A, which means that this ratio has not been improved after M&A for most of the banks except HSBC Bank Ltd, Habib Bank Ltd, and MCB Bank Ltd. Here increase in this ratio means that there is no improvement in liquidity of banks. Banks are depending more on debts to generate assets of banks. Overall the

Table 8 Pre and Post analysis of Interest expense to Interest income

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	70.99	76.28	5.30	↑
Standard Chartered Bank Limited.	28.58	60.51	31.93	↑
Habib Bank Limited.	33.45	43.44	9.99	↑
Dubai Banking Group LLC.	30.62	50.91	20.29	↑
Atlas Bank Limited	91.10	95.68	4.58	↑
KASB Bank Limited.	79.08	104.71	25.63	↑
HSBC Bank Middle East Limited.	60.45	52.18	-8.27	↓
Bank Al Haibib Limited.	56.42	60.98	4.56	↑
MCB Bank Limited	26.81	33.73	6.92	↑
Askari Bank Limited	1.59	35.74	34.16	↑

Table 9 Pre and Post analysis of Cash & cash equivalent to Total Assets

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	7.94	6.59	-1.35	↓
Standard Chartered Bank Limited.	10.81	7.38	-3.43	↓
Habib Bank Limited.	11.90	13.27	1.38	↑
Dubai Banking Group LLC.	22.34	15.92	-6.42	↓
Atlas Bank Limited	6.07	5.61	-0.46	↓
KASB Bank Limited.	10.51	5.64	-4.87	↓
HSBC Bank Middle East Limited.	19.91	18.50	-1.41	↓
Bank Al Haibib Limited.	9.48	7.37	-2.11	↓
MCB Bank Limited	10.23	8.36	-1.87	↓
Askari Bank Limited	9.47	8.90	-0.58	↓

liquidity of banks has not been increased after M&A. These results are similar with the findings of Braggion et al (2010), they found decrease in liquidity ratios of banks after the M&A. In Table 11 the results for debt to equity ratio showed that 6 banks could not improve this ratio after M&A. This ratio was decreased only for 4 banks after M&A. Decrease in debt to equity ratio means that there is improvement in the financial leverage of banks. It means 6 banks are fulfilling their needs of assets generating through debt financing. Capital ratio measures the financial stability of banks or capital adequacy of banks. Higher the ratio showed a good sound position of banks to protect the operational losses. In Table 12 results showed that this ratio has been decreased in most of the banks after M&A, only NIB Bank Ltd, HSBC, and MCB Bank Ltd have increased this ratio. The interpretation of the results is that banks are not protected from the losses occurred during operation. Results of this ratio showed that the maximum portion of assets is not generated from the equity portion. Generally the results for all leverage ratios are different but most of the banks are relying more on debt financing after M&A. The results are against the findings of Ong et al. (2011). Ghosh and Prem (2000) also found that the financial leverage has significantly increased after the M&A.

Discussion

The results are shown above in different tables after the pre and post M&A analysis. If the post M&A ratios are increased than pre M&A or the difference is in positive sign it means

Table 10 Pre and Post analysis of Total Liabilities to Total Assets

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	84.99	85.87	0.89	↑
Standard Chartered Bank Limited.	83.41	88.22	4.80	↑
Habib Bank Limited.	91.12	90.14	-0.97	↓
Dubai Banking Group LLC.	68.85	83.88	15.03	↑
Atlas Bank Limited	79.91	96.40	16.49	↑
KASB Bank Limited.	90.75	93.88	3.13	↑
HSBC Bank Middle East Limited.	91.00	88.23	-2.77	↓
Bank Al Haibib Limited.	93.78	94.74	0.96	↑
MCB Bank Limited	86.70	86.04	-0.66	↓
Askari Bank Limited	93.49	94.86	1.37	↑

Table 11 Pre and Post analysis of Debt to Equity

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	791.12	1230.76	439.64	↑
Standard Chartered Bank Limited.	499.19	1327.53	828.34	↑
Habib Bank Limited.	1186.34	1008.15	-178.20	↓
Dubai Banking Group LLC.	265.00	522.53	257.53	↑
Atlas Bank Limited	394.20	-8176.49	-8570.69	↓
KASB Bank Limited.	1107.59	2106.85	999.25	↑
HSBC Bank Middle East Limited.	1027.67	754.35	-273.32	↓
Bank Al Haibib Limited.	1660.43	1990.03	329.60	↑
MCB Bank Limited	759.88	701.37	-58.51	↓
Askari Bank Limited	1504.86	1990.56	485.71	↑

the post M&A performance is increased. If the ratios are decreased than pre M&A performance or the difference is showing negative sign it means the post M&A performance is decreased.

Overall there is no positive improvement in the financial performance of banks after M&A. Most of the ratios were declined in maximum banks after M&A. State Bank of Pakistan indicated that during 2008-2010 the profitability of banks were improved overall as the liquidity was enhanced during 2003-2005. But as per the results of this research the profitability of banks is decreased after M&A during 2009-2011. It is the clear sign to the banks who want to go for M&A transactions that under M&A banks do not performed well. The liquidity of banks was not improved after M&A and the liquidity of banks was declined by the overall scenario of banking industry (SBP 2011). According to the SBP's Financial Statement Analysis 2006-2011, leverage ratios are examined as mixed trend but the results of the study showed negative improvement in the period of post M&A.

The principal rationale of M&A is the combined organization's value is more than the independent one (Chawla 2008). Many reasons like managerial effectiveness, growth, economies of scale, diversification, and so on were quoted in the support of M&A proposals. Some of them showed to be reasonable in the favor of creating value; but some others looked to be uncertain because they did not create value. The most favorable reasons of M&A are economies of scale, strategic benefits, and economies of scope, integration, tax shields, complementary resources, managerial effectiveness, and utilization of surplus funds.

Table 12 Pre and Post analysis of Capital Ratio

Banks	Pre (%)	Post (%)	Change (X'Post-X'Pre) %	
NIB Bank Limited	11.11	12.41	1.30	↑
Standard Chartered Bank Limited.	16.72	9.37	-7.35	↓
Habib Bank Limited.	12.19	8.95	-3.24	↓
Dubai Banking Group LLC.	30.98	16.12	-14.86	↓
Atlas Bank Limited	20.60	3.85	-16.76	↓
KASB Bank Limited.	8.20	5.38	-2.82	↓
HSBC Bank Middle East Limited.	9.01	11.77	2.76	↑
Bank Al Habib Limited.	5.65	4.77	-0.88	↓
MCB Bank Limited	11.42	12.42	1.00	↑
Askari Bank Limited	6.24	4.77	-1.48	↓

There are some reasons which are noted as a cause behind less improvement in the profitability of banks in Pakistan after M&A. 1) In M&A an extra attention was required for revenues; in fact, a significant reason behind why the banks failed and not earned more. Most of the banks dropped their profitability momentum because they did not concentrated more on cost synergies and also less attention was given to the post M&A performance. 2) The operational cost was increased after M&A, so the banks could not increase their profitability. 3) Due to lack of technological advancement. During this period the banking sector in Pakistan is not using some of advance technologies to make the system very fast, to cover the extensive cost of transactions, to save amounts against the salaries of employees. Having less technology and all these factors were not in the favor to improve profitability after M&A. 4) Financial crises 2008 affected their performance. It was the mega event which negatively affected the economy throughout the world. The economy and financial situation of Pakistan was also affected during this event. The sample of the study also includes this period, where banks could not earn more profits during the event and the banks did not use their assets to earn more due to the risk in market. 5) Investors and other customers were unaware about the strategy of M&A. The strategy of M&A was not widely used in Pakistan before. Therefore, the customers and the investors were not much aware from this type of strategy. When banks got involved in M&A they transferred their accounts in other banks due to the lack of information. They were confused that's why banks involved in this type of strategy. After facing such situation, banks could not increase their sources of funds and could not issue common shares to enhance the capital. To generate further profitable investment the capital was not enough and there were no additional funds to increase the income of banks. So, there was no extensive growth in ROA, ROE, and EPS and they could not obtain the confidence from shareholders toward banks. In the efficiency ratios banks could not improve their cost and profit efficiency after M&A. Because having no proper cost control, no economies of scale, lack of government policies and less technological improvements facing the business competition under the strategy of M&A. The leverage ratios also indicated poor results after M&A.

Conclusion

It is needed to adopt the strategy of M&A to compete in a dynamical business environment. Therefore, M&A is rapidly used worldwide. Many researchers worked on the studies to determine the impacts of this strategy (M&A) on corporate sector. In Pakistan, the research in the area of M&A was not conducted at a large scale. Hence, this study accomplished the declared gap in that area of M&A. The purpose of this study is to assess the impact of M&A on the performance of banking sector of Pakistan. For the analysis of financial performance of banks, ratio analysis has been used between pre and post M&A.

The results of the study show that there is no improvement in the financial performance of banks after M&A. There is decrease in profitability, efficiency, liquidity, and leverage ratio(s) in most of the banks. Additionally HSBC Bank Middle East Limited and Dubai Banking Group LLC show increase in their financial performance after M&A in most of the ratio(s). In the dimension of liquidity and leverage, there is no much improvement in the ratio(s) of these banks. Finally it is concluded that overall there is negative improvement in the financial performance of banks in Pakistan after M&A. The statement indicates that

M&A did not perform well in Pakistan. This study is only limited to the banking sector of Pakistan while there are so many sectors available to research in related area. Only ratio analysis is developed for the analysis of the study while future research can be conducted through alternative methods to assess the M&A. The DEA, Event window and OLS methods can also be used.

Appendix

The information regarding M&A in banking sector of Pakistan were available on the site of CCP and KSE from 2002 to 2011. According to this information, there were total 57 deals of M&A in banking sector, out of which 38 were Merger deals and 19 were Acquisition deals. So the related information about the M&A is given below (Table 13).

Table 13 M&A Deals in banking sector of Pakistan from the year 2002-2011

S.N	Type of Deal	Date of Deal	Acquirer/Bidder Banks	Acquired/Merged/Target Banks
1	Merger	10/1/2002	Faysal Bank Limited	Al-Faysal Investment Bank
2	Merger	15/03/2002	Atlas Investment Bank Limited	Atlas Lease
3	Merger	22/07/2002	Trust Investment Bank Ltd.	Pakistan Industrial Leasing Corp. Ltd.
4	Merger	4/6/2003	KASB Bank Limited	KASB & Company Limited
5	Merger	9/7/2003	Mashreq Bank Pakistan Limited	Crescent Investment Bank Limited
6	Merger	31/07/2003	First Standard Investment Bank Ltd.	First CresecentModaraba
7	Merger	17/10/2003	IFIC Bank Limited (Rs. 10 per share)	NDLC (Rs. 5 per share)
8	Merger	30/04/2004	Trust Commercial Bank Limited	Fidelity Investment Bank Limited
9	Merger	30/04/2004	Trust Commercial Bank Limited	Trust Investment Bank Limited
10	Merger	12/5/2004	First Dawood Investment Bank Limited	First General Leasing Modaraba
11	Merger	12/5/2004	First Dawood Investment Bank Limited	Industrial Capital Modaraba
12	Merger	18/06/2004	First Standard Investment Bank Limited	First Leasing Corporation Limited
13	Merger	18/06/2004	First Standard Investment Bank Limited	Paramount Leasing Limited
14	Merger	18/06/2004	First Standard Investment Bank Limited	Pacific Leasing Company Limited
15	Merger	18/10/2004	Crescent Commercial Bank Limited	Trust Commercial Bank Limited
16	Merger	31/05/2005	Allied Bank Limited	Ibrahim Leasing Limited
17	Merger	26/07/2006	Atlas Bank Limited	Atlas Investment Bank Limited
18	Merger	25/08/2006	Allied Bank Limited	First Allied Bank Modaraba
19	Merger	29/12/2006	Standard Chartered Bank Ltd.	Union Bank Limited
20	Merger	30/12/2006	JS Bank Limited	Jahangir Siddiqui Inv. Bank Ltd.
21	Merger	20/07/2007	Innovative Housing Finance Limited	Crescent Standard Investment Bank Ltd.
22	Merger	22/11/2007	KASB Bank Limited	International Housing Finance Ltd.
23	Merger	31/12/2007	NIB Bank Limited..	Pakistan Credit and Investment Corporation
24	Merger	31/12/2007	NIB Bank Limited..	PICIC Commercial Bank Limited
25	Acquisition	31/12/2007	NIB Bank Limited	Global Securities Pakistan Limited
26	Merger	1/1/2008	NIB Bank Limited	Pakistan Industrial Credit & Investment Corp.Ltd

Table 13 M&A Deals in banking sector of Pakistan from the year 2002-2011 *(Continued)*

27	Merger	1/1/2008	NIB Bank Limited	PICIC Commercial Bank Limited
28	Acquisition	20/05/2008	Malayan Banking Berhad	MCB Bank Limited by M/s
29	Acquisition	22/05/2008	The Royal Bank of Scotland Group PLC.	ABN Amro Bank (Pakistan) Limited
30	Acquisition	25/06/2008	Standard Chartered Bank Limited.	American Express Bank Limited in Pakistan
31	Acquisition	15/09/2008	Habib Bank Limited.	Saif Power Limited
32	Acquisition	28/10/2008	Dubai Banking Group LLC.	Bank Islami Pakistan Limited
33	Acquisition	31/10/2008	Unicornn Investment Bank.	Sweetwater Dairies Pakistan (Pvt) Limited
34	Merger	7/11/2008	Atlas Bank Limited	Merger of KASB Bank Limited, KASB Capital and
35	Merger	5/12/2008	KASB Bank Limited .	Network Leasing Corporation Limited
36	Acquisition	29/01/2009	Unicorn Investment Bank, B.S.C, Bahrain.	Dawood Islamic Bank Limited
37	Merger	30/01/2009	HSBC Bank Middle East Limited.	Amalgamation of the Hong Kong and Shanghai Banking Corporation (all branches in Pakistan)
38	Acquisition	27/03/2009	Bank Al Haibib Limited.	Habib Sugar Mills Limited
39	Merger	9/7/2009	Invest Capital Investment Bank Limited.	Al-Zamin Leasing Modaraba and Al-Zamin Leasing Corporation Limited
40	Acquisition	31/08/2009	MCB Bank Limited	Royal Bank of Scotland
41	Merger	22/12/2009	Askari Bank Limited	Askari Leasing Limited
42	Merger	11/1/2010	Invest Capital Investment Bank Limited	Al-Zamin Leasing Corporation Limited
43	Merger	11/1/2010	Invest Capital Investment Bank Limited	Al-Zamin Leasing Modaraba
44	Acquisition	9/2/2010	National Bank of Pakistan.	National Fullerton Asset Management Limited
45	Merger	10/3/2010	Askari Bank Limited	Askari Leasing Limited
46	Acquisition	10/8/2010	Faysal Bank Limited.	The Royal Bank of Scotland Limited
47	Acquisition	19/10/2010	. Bank Al Falah Limited.	National Bank of Pakistan
48	Acquisition	19/10/2010	Meezan Bank Limited.	Haleeb Foods Limited
49	Acquisition	20/10/2010	Bank Al Falah Limited.	KASB Securities Limited
50	Merger	28/10/2010	Emirates global Islamic Bank Limited	Merger of Al Baraka Islamic Bank
51	Acquisition	24/12/2010	Bank Islami Pakistan Limited.	Citibank Housing Finance Business portfolio
52	Merger	3/1/2011	Faysal Bank Limited	The Royal Bank of Scotland Limited
53	Merger	11/1/2011	Summit Bank Limited	Atlas Bank Limited
54	Acquisition	2/6/2011	Habib Bank Limited.	New Jubilee Life Insurance Company Limited
55	Acquisition	2/6/2011	Habib Bank Limited.	New Jubilee Insurance Company
56	Merger	6/7/2011	Summit Bank Limited	My Bank Limited
57	Acquisition	3/11/2011	JS BanLimited.	JS Global Capital Limited.

Competing interests
The authors declare that they have no competing interests.

Authors' contributions
All authors read and approved the final manuscript.

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