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Benefits of Mergers and Acquisitions in Banking Industry of Pakistan: A Case Study of Five Latest Transactions

Muhammad Rizwan Ullah*
Department of Banking and Finance, Government College University Faisalabad, Pakistan

Ahsan Ali
Department of Banking and Finance, Government College University Faisalabad, Pakistan

Muhammad Azam
Department of Business Administration, Virtual University Islamabad, Pakistan

Sajid Mahmood
School of Management Sciences, Quaid-i-Azam University, Islamabad, Pakistan

Abstract
One of the principal objectives of merger and acquisition is to reap up the benefits of economies of scale especially in the banking sector around the globe. Over the last decade, banking sector in Pakistan has not only grown-up in term of size but also consolidated, matured and diversified to contribute towards constructing a strong financial system. The current study has analyzed five mergers cases in banking industry of Pakistan. Different variables like change in growth of capital, deposits, advances and investment pattern were taken to investigate effect of pre and post mergers. Null hypothesis was proposed as no mean difference in the values of variables of interest. On the base of empirical findings, null hypothesis was rejected and alternative hypothesis was accepted. It was concluded that latest mergers and acquisitions providing benefits to the banking sector in term of synergy. Thus, more mergers and acquisitions were recommended in future.
Keywords: Merger; Acquisition; Banks

1. Introduction

Merger refers to the prearrangement or procedure where the assets of two firms become vested under the control of one firm (whose name may or may not be exist), which has all or considerably all, the owners of the two firms (Weinberg and Blank 1979). Gaughan (2002) argued that merger is a mixture of two firms or companies in which only one firm survive and the merged firm comes to an end, whereby the acquiring firm accepts the liabilities and assets of the merged firm.

A Merger or Acquisition is the most one transformative undertaken in a firm's life. Achieving growth of corporate can occur through external or internal means. Langford and Male (2001) recognized three ways of achieving corporate development and growth. Internally (organic path); a firm achieves development and growth by expanding firm's infrastructure activities and customer base and thus profits and revenues. Externally (inorganic path); inorganic way offers immediate development and growth, so Merger and Acquisition can be considered as an external mean or inorganic strategy of development and growth. Inorganic strategy has become important in the global environment for attaining economies of scale, improving performance and efficiency, entering in the new markets and constructing new abilities (Tiwari 2014). Choi and Russel (2004) strengthened the opinion that modern businesses pursue to grow so as to persist in the competitive markets using Merger and Acquisition and it has been recognized as the most important incident in corporate finance for companies as well as the economy (Fuller, Netter and Stegemoller 2002). To a wide range companies involve in Merger and Acquisition for gains that can grow through reduction of expenses, reduced earnings volatility, increased market power and scope and scale economies. Over the last span, the banking industry in Pakistan has not only grown-up in terms of size but also consolidated, matured and diversified to contribute towards constructing a strong financial system. Banks consolidation through Merger and Acquisition is not a new phenomenon for banking system in Pakistan.

Companies choose merger and acquisition as strategy of growth for various reasons. Hopkins (2002) categorized the merger and acquisition motives proposed in the previous studies as four distinctive but interrelated motives: economic, strategic, market and personal motives. Strategic motive is linked with improving the strength of the firm's strategy, for example, utilizing a core competence of a firm, creating synergy, providing the company with complementary resources, strengths, products and increasing market power. Market motive targets at entering new markets in new countries or areas by acquiring already recognized companies as the quickest way or as a path to get access without adding more capacity. Economic motive is associated with establishing economics of scale; personal motive is concerned with the management hubris and agency problems.

Purpose of the case study is to evaluate the effectiveness of merger and acquisition of the sample merged banks on the basis of selected set of variables before and after merger and acquisition. The rest part of the study is categorized as follows: section two consists of previous literature; section three deals with the design of research and methodology; section four consists of results and discussions and; section five concludes the study.

2. Review of Literature

Many studies have been conducted across the world to examine various aspects of mergers and acquisitions by using different models of analysis just like Wilcoxon Signed-Rank Test, Data Analysis Envelopment Stochastic Frontier Analysis and ratio analysis (Koetter, 2005; Sufian and Fadzlan, 2004; Arshad, 2012 and Sinha and Kaushik, 2010). The outcomes of these studies vary dramatically.

Earlier, research analysts focused on the market of stocks but today the trend is flowing from event study to organizational approach. Although corporate performance research was problematic as compare to event study because of data collection and construction of usable variables, until now several studies have used this approach to find out exact outcomes (Badreldin and Kalhoefer, 2009; Altunbas and Marques, 2007; Arshad, 2012 and Kemal, 2011).

Sufian and Fadzlan (2004) analyzed performance of commercial banks by using nonparametric frontier approach of data envelopment analysis for the time period of 1998-2003. Deposits, capital and labor were used as Inputs and dealing securities and total loan and investment were used as outputs. They highlighted that Malaysian banks achieved about 96% efficiency after mergers.

Abdur-Rehman and Ayorinde (2011) observed the association of merger and the performance of banks in Nigeria. They indicated mergers by strategic decisions, i.e., credit risk, liquidity risk, operating efficiency, asset profile and capital structure. Net profit margin, return on equity and return on assets were used as measures of performance. Multiple regression analysis exposed a positive association between performance and mergers and it was suggested that mergers should be applied to improve the banks performance.

Koetter (2005) has inspected the German wave of mergers by using stochastic frontier analysis. He empirically proved that performance of corporate banks is better than performance of saving banks. While Pazarskis, Vogiatzogloy, Christodoulou, and Drogalas (2006) have examined Greece wave of mergers. They have used fifty Greece firms listed on Athens Stock Exchange for the period of 1998-2002 in their sample. Three years before and after merger were incorporated and the merging year event was omitted for the results validation. Questionnaire approach and pyramid approach observed a decreased in performance after the mergers.

Ullah, et al., (2010) have studied two merging events of Atlas investment bank limited and Faysal investment bank limited by comparing four years before and after merger performance of banks. Three factors; solvency, capital adequacy and profitability were used to define banks financial performance. T-test observed an insignificant increase in profitability while solvency and capital adequacy had enhanced significantly. Both the banks were performed better after mergers because of improvement in administration, elevated capacity and technology of the banks to pay back their long-term liabilities.

Pawaskar (2001) empirically evidenced inferior post-merger profitability of firms in India. The study was carried out for the period of time of 1992 through 1995. Regression outcomes showed a better performance of firms before mergers than after mergers over the defined period of time. Furthermore, the features of all thirty six merged firms showed that leverage, liquidity, tax savings and profitability growth did not illustrate any extraordinary significant variation after mergers.

Moreover, it has been observed by many research analysts (Kemal, 2011; Altunbas & Marques, 2007; Ullah, et al., 2010 and Arshad, 2012) supported the fact that mergers have significant impact on financial performance of banks and a lot of factors such as size, liquidity, capital adequacy and leverage effect this financial performance. Additionally, most of the studies used accounting-based comparative method of research instead of event studies.

3. Design of Research and Methodology

3.1. Data, Sample and Study Period

The present research consists of the merger and acquisition of commercial banks. The merger and acquisition cases selection has been made on the basis of data uniformity and availability. These cases are shown in Table 1. The mergers of the sample banks have taken place on various dates during post reform period. In order to make performance comparison of selected merged banks, four years data before the merger and four years data after the merger have been evaluated. Thus, a nine years period data has been evaluated. The present study data consist of published annual financial statements.

Table 1: Merged Banks

Sr. No.	Name of Merged Bank	Merged With	Merger Date
1	My Bank Ltd.	Summit Bank Ltd	06.07.2011
2	Askari Leasing Ltd.	Askari Bank Ltd.	10.03.2010
3	PICIC Commercial Bank Ltd	National Investment Bank Ltd.	01.01.2008
4	Union Bank Ltd.	Standard Chartered Bank Ltd.	29.12.2006
5	JS Investment Bank Ltd.	JS Bank Ltd.	30.12.2006

Note: PICIC is Pakistan Industrial Credit and Investment Corporation; JS is Jahangir Siddiqui. NIB (National Investment Bank) and SCB (Standard Chartered Bank)

3.2. Variables Description

To analyze the effectiveness of Merger and Acquisition (M&A) of sample banks following eleven variables have been recognized, discussed below:

3.2.1 Capital: Capital indicates the resources of a firm contributed by the shareholders (owners). The capital comprises of share capital, reserves and unappropriated profits. Capital growth indicates the banks capacity to attract deposits, to borrow from the general public and lend to the business units. One of the objectives of the merger is to raise the bank's capital base. After banks merger the sufficient capital base is expected.

3.2.2 Deposits: To accept the deposits from the customers is an important function of conventional banking business. Deposits are the one of the major source of lending money. Banks cannot offer loans in various sectors without deposits. For the study purpose, deposits indicate the bank balances in various bank accounts.

3.2.3 Advances: Advances are the other key element of the conventional banking system. In this research advances include short term advances, term advances, advances to priority sectors, advances in public sectors and advances to sponsored firms etc.

3.2.4 Investments: Investment refer to the investing money or funds in the various areas like mutual funds, government securities, subsidiary companies and others which are presented on the assets side of the statement of financial position of banks. The main aim of this investment is either to control another firm and/or to earn profit. The investment helps to raise the profit and revenue of the banking sector.

3.2.5 Total Assets: Assets are the economic resources which generate earnings and are valuable ownership held by a company. Total assets indicate current assets and net fixed assets. One purpose of the merger and acquisition strategy is to maximize the total assets of bank merged, *i.e.,* ability of a firm to generate a greater volume of sales revenue. The expectation is that after merger the merged bank would function expeditiously.

3.2.6 Fixed Assets: Fixed assets refer to the economic resources that are utilized to produce future earnings and represent the net fixed assets. It is not possible to run the banking business without fixed assets. It is supposed that the effect of fixed assets after the merger would be positive.

3.2.7 Interest Earned: Amount earned by banks on loans and advances to the customers and financial institutions, on investments (available for sale securities and held to maturity securities), on deposits with financial institutions and on securities purchased under resale agreements. The amount is reported as mark-up, return or interest earned in the period of accounting in which the mark-up is earned. Interest income is one of the important sources of banking sector.

3.2.8 Interest Expenditure: Interest or markup offered to the customers in various fixed deposit and saving accounts and debt capital interest is known as interest expenditure. In order to minimize the interest expenditure the operating efficiency must be increased and the operating performance can be improved by merger and acquisition.

3.2.9 Total Income: Total income is the amount of revenue earned from various sources. In case of banking business the main income is the interest income. However, for the study purpose, total income indicates the dividend received, exchange transactions, interest received, commission and brokerage and security transactions etc. The expectation is that the total income will be maximized after the merger and acquisition.

3.2.10 Total Expenditure: Total Expenditure refers to the expense beard to operate the banking business. In order to increase the bank profitability the total expenditure must be controlled. Total expenditure can be controlled by increasing the operating efficiency and the operating efficiency of banks can be improved by merger and acquisition.

3.2.11 Net Profit: The profit is an efficiency indicator with which the operations of business are carried out by corporate sector. The poor performance of operations may leads to poor sales which results in poor profits. The merger and acquisition intends to increase profits through elimination of overlapping activities and to ensure savings through economic of scale. The profit amount may be enhanced through business expansion, optimal facilities utilization, reduction in overhead and increasing funds at low cost.

3.3. Data Analysis

The analysis of data has been made on the basis of Simple Percentages, Mean, Growth Rate and Multiple Line Graphs of selected set of variables after and before the merger.

3.4. Hypothesis Development

The present research is on the basis of secondary data, so hypothesis are being tested by using published materials. For the study purpose, following hypothesis is developed:

H_0: There is no difference in the mean value of selected variables before and after the merger.

H_1: There is a difference in the mean value of selected variables before and after the merger.

4. Empirical Results and Discussions

Table 2 (Figure 1) represents the mean value of capital before and after merger and its variation. The results showed in the Table exhibits that all the banks have upward growth of capital after mergers; however, the capital growth rate of JS Bank is higher than all other banks. The growth rate of mean clearly exhibits that the JS Bank achieved greatest growth (330%) followed by National Investment Bank (183%), Standard Chartered Bank (56%), Askari Bank (51%) and Summit Bank (23%).

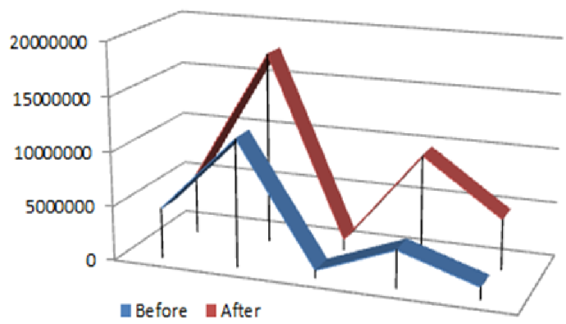

Figure 2: Change in Capital of Merged Banks

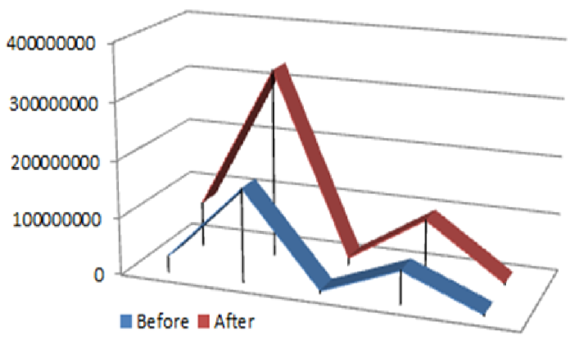

Figure 1: Change in Deposits of Merged Banks

Table 3 (Figure 2) shows the changes in average deposits growth and its variability of selected banks before and after mergers. The growth rate of average deposits clearly displays that Standard Chartered Bank attained highest growth (253%) followed by Summit Bank (177%), Askari Bank (104%), National Investment Bank (69%) and JS Bank (35%).

Table 2: Growth in Mean Value of Capital

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	4591186	5634122	23%
Askari Bank	11742290	17698516	51%
Standard Chartered Bank	624355	972186	56%
National Investment Bank	3413525	9659265	183%
JS Bank	1067891	4592510	330%

Table 3: Growth in Mean Value of Deposits

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	28628462	79314921	177%
Askari Bank	162073551	330284344	104%
Standard Chartered Bank	3095901	10937242	253%
National Investment Bank	56391719	95305240	69%
JS Bank	1413989	1914103	35%

Table 4 (Figure 3) shows the changes in average advances growth and its variability of selected merged banks before and after mergers. It is cleared that all the sample banks have shown up growth in the value of advances after mergers. The growth rate analysis clearly presented that Summit Bank attained higher growth rate (282%) after merger followed by Standard Chartered Bank (276%), JS Bank (151%), National Investment Bank (122%) and Askari Bank (36%).

Table 5 (Figure 4) displays changes in the mean value of investment and its variability of selected merged banks. It is very important to note that all the bank merged have displayed a positive growth in investment during the period of post-merger compared to the investment made during the period of pre-merger. It is very cleared from the growth rate of mean that the JS Bank achieved a higher growth rate (385%) compared to all other sample merged banks. The National Investment Bank got a lowest growth rate (246%) among the selected banks.

Table 6 (Figure 5) illustrates changes in the average value of total assets and its variability of selected banks. It is understood clearly that all the sample banks displayed a positive and upward growth in average total assets after mergers. The growth rate analysis of merged banks visibly showed that JS Bank got a highest growth rate (324%) followed by Summit Bank (240%), National Investment Bank (158%), Askari Bank (90%) and Standard Chartered Bank (29%).

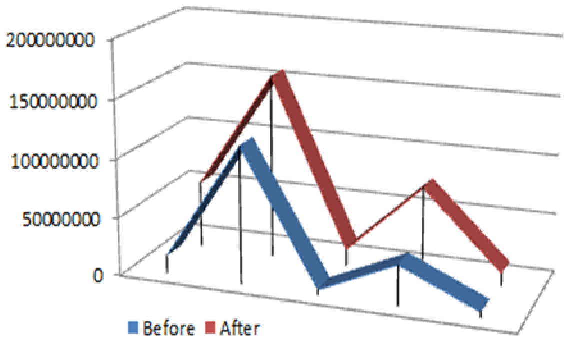

Figure 3: Change in Advances of Merged Banks

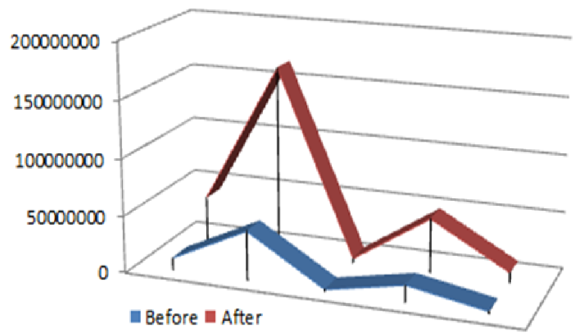

Figure 4: Change in Investments of Merged Banks

Table 7 (Figure 6) explains the changes in the average value of fixed assets and its variability of selected merged banks. It is disclosed in the Table that all the sample banks have shown positive and upward growth in the average value of fixed assets after merger. The Standard Chartered Bank attained a highest growth (282%) followed by National Investment Bank (227%), Summit Bank (183%), JS Bank (106%) and Askari Bank (30%).

Table 4: Growth in Mean Value of Advances

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	14989950	57302972	282%
Askari Bank	115954419	157125586	36%
Standard Chartered Bank	3596229	13512067	276%
National Investment Bank	33725738	74952674	122%
JS Bank	4171159	10460732	151%

Table 5: Growth in Mean Value of Investments

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	10336236	42683091	313%
Askari Bank	42601877	165530258	289%
Standard Chartered Bank	929867	3213396	246%
National Investment Bank	14235159	47156933	231%
JS Bank	1787108	8666687	385%

Table 8 (Figure 7) reports the changes in average interest earned and its variability of merged sample banks. It can be seen from the Table that all the sample banks have exhibited positive growth after merger. The mean growth rate analysis of interest income clearly disclosed that the National Investment Bank have shown higher growth (218%) of interest income followed by Summit Bank (203%), Standard Chartered Bank (108%), Askari Bank (86%) and JS Bank (71%).

Table 6: Growth in Mean Value of Total Assets

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	38843674	131875164	240%
Askari Bank	202171575	384946364	90%
Standard Chartered Bank	30966566	39916694	29%
National Investment Bank	68031220	175740993	158%
JS Bank	4142443	17558530	324%

Table 7: Growth in Mean Value of Fixed Assets

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	2249169	6372647	183%
Askari Bank	6800251	8831703	30%
Standard Chartered Bank	1043271	3986960	282%
National Investment Bank	941150	3079509	227%
JS Bank	1258588	2593628	106%

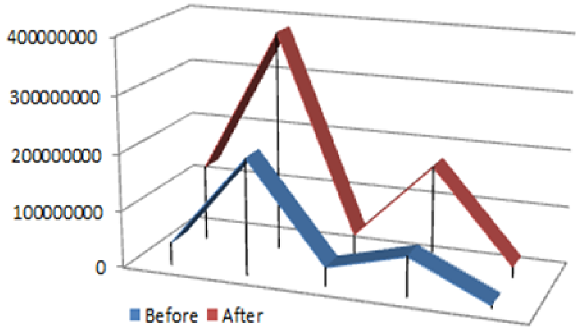

Figure 5: Change in Total Assets of Merged Banks

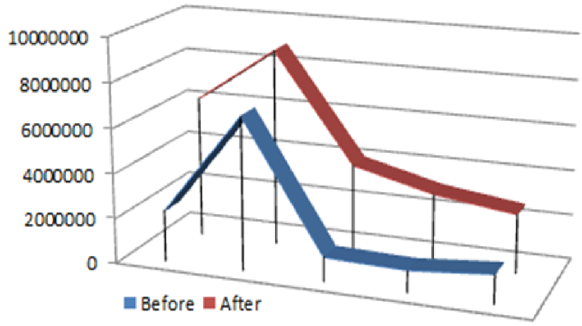

Figure 6: Change in Fixed Assets of Merged Banks

Table 9 (Figure 8) discloses the changes in average interest expenditure and its variability of merged sample banks. It is clear from the Table that all the sample merged banks have shown an increasing growth in the mean value of interest expenditure after merger. The growth rate analysis of interest expenditure said that National Investment Bank achieved a higher growth rate (336%) while JS Bank got a lowest rate of growth (72%) during the period of post-merger.

Table 8: Growth in Mean Value of Interest Earned

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	3200804	9703864	203%
Askari Bank	17200288	31939049	86%
Standard Chartered Bank	1346911	2807614	108%
National Investment Bank	5052781	16064540	218%
JS Bank	1717810	2933162	71%

Table 9: Growth in Interest Expenditures

Bank Name	Mean		Growth Rate
	Before	After	
Summit Bank	2562978	8716454	240%
Askari Bank	9981861	21936963	120%
Standard Chartered Bank	1291031	2917897	126%
National Investment Bank	2818568	12288252	336%
JS Bank	913997	1571940	72%

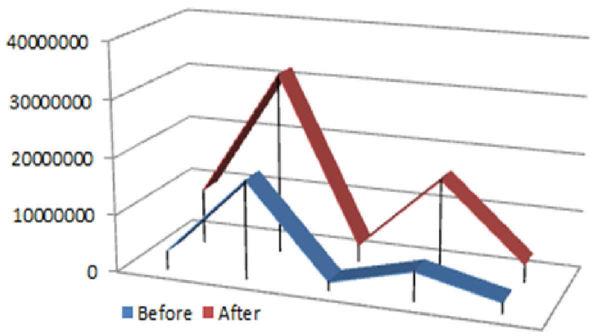

Figure 7: Change in Interest Earned of Merged Banks

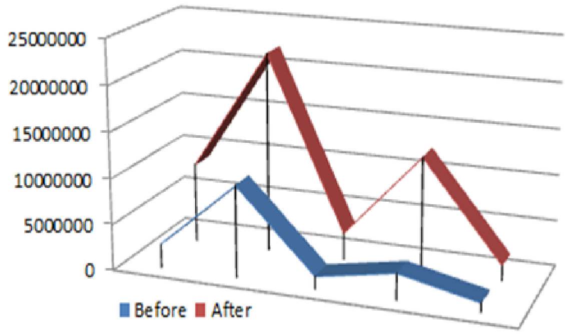

Figure 8: Change in Interest Expenditure of Merged Banks

Table 10 (Figure 9) represents the changes in the mean value of total income and its variability of selected merged banks. It is very clear that all the sample banks have shown positive growth in average total income except JS Bank (-41%). The Summit Bank achieved highest rate of growth (170%) after merger.

Table 10: Growth in Mean Value of Total Income

Bank Name	Mean Before	Mean After	Growth Rate
Summit Bank	661585	1787742	170%
Askari Bank	3053765	4158632	36%
Standard Chartered Bank	4466121	7485980	68%
National Investment Bank	904191	1863432	106%
JS Bank	670647	395782	-41%

Table 11: Growth in Total Expenditures

Bank Name	Mean Before	Mean After	Growth Rate
Summit Bank	965516	4460058	362%
Askari Bank	5322917	9797075	84%
Standard Chartered Bank	158852	704257	343%
National Investment Bank	1282993	5552704	333%
JS Bank	263376	1030060	291%

Table 12: Growth in Mean Value of Net Profit

Bank Name	Mean Before	Mean After	Growth Rate
Summit Bank	-673304	-1367976	103%
Askari Bank	1606298	427709	-73%
Standard Chartered Bank	131488	270333	106%
National Investment Bank	1775336	-4864963	-374%
JS Bank	397015	-228054	-157%

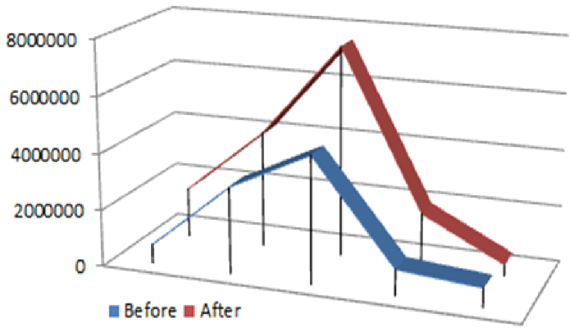

Figure 9: Change in Total Income of Merged Banks

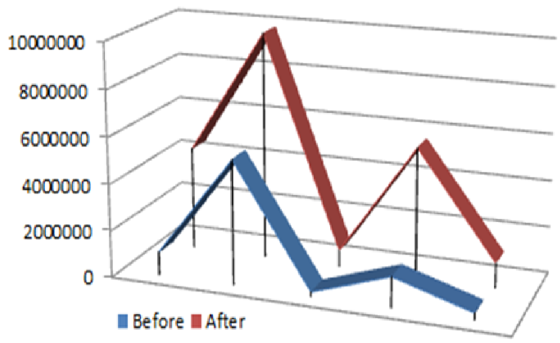

Figure 10: Change in Total Expenditures of Merged Banks

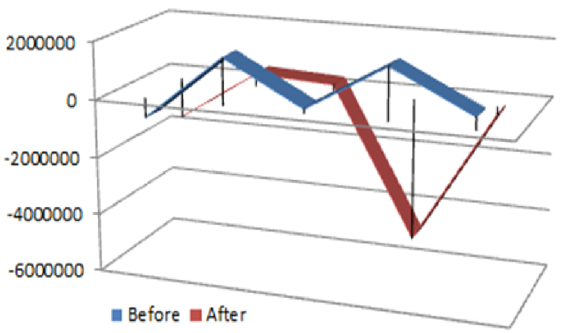

Figure 11: Change in Net Profit of Merged Banks

Table 11 (Figure 10) represents changes in average value of total expenditure and its variability of selected merged banks. It is very clear from the Table that all the merged sample banks have shown increasing growth in total expenditure during the period of post-mergers. The growth rate (mean value) analysis of total expenditure displayed that Summit Bank attained higher growth rate (362%) followed by Standard Chartered Bank (343%), National Investment Bank (333%), JS Bank (291%) and Askari Bank (84%).

Table 12 (Figure 11) shows changes in average value of net profit and its variability of sample merged banks. The Standard Chartered Bank earned a higher net profit (106%) than all other merged banks while the

National Investment Bank earned lowest net profit (-374%) during the period of post-merger.

5. Conclusion

A merger of banks is just like as the merger of two firms except it involves only banks. The important fact in the merger of banks is that banking activities of the members will always be regulated. Consolidation is one of the ways adopted by commercial banks. Merger and acquisition has been used to increase the revenues and to minimize the costs. *Null Hypothesis* (there is no difference in the mean value of selected variables before and after the merger) is *rejected* in all the cases and in all the variables except net profit and *Alternate Hypothesis* (there is a difference in the mean value of selected variables before and after the merger) is *accepted* in all the cases and in all the variables except net profit.

Based on overall analysis, merger of My Bank Limited with Summit Bank Limited was more effective in most of the variables as compared to the merger of PICIC Commercial Bank Limited with National Investment Bank Limited, Union Bank Limited with Standard Chartered Bank Limited, JS investment Bank Limited with JS Bank Limited and Askari Leasing Limited with Askari Bank Limited.

Moreover, it has been observed by many research analysts (Kemal, 2011; Altunbas & Marques, 2007; Ullah, et al., 2010 and Arshad, 2012) supported the fact that mergers have significant impact on financial performance of banks and a lot of factors such as size, liquidity, capital adequacy and leverage effect this financial performance.

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