

**THESIS**

**Santosh Adhikari 2014**

**MERGER AND ACQUISITION AS AN  
INDISPENSABLE TOOL FOR  
STRENGTHENING NEPALESE BANKING  
AND FINANCIAL INSTITUTIONS**



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Thesis

**MERGER AND ACQUISITION AS AN INDISPENSABLE  
TOOL FOR STRENGTHENING NEPALESE BANKING  
AND FINANCIAL INSTITUTIONS**

Santosh Adhikari

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Supervisor: Lammi Kaisa

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<b>Author</b>	Santosh Adhikari	Year	2014
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The objective of this research is to study the impact of merger and acquisition in the Nepalese banking and financial institutions when Nepal Rastra Bank introduced a forceful merger bylaws policy in the year of 2011. It assesses and evaluates the impact of M&A on the employees, customers, shareholders of the merged entity and offers recommendations for further investigations to the concern authorities.

The theoretical part of this research is focussed on brief introduction of the central bank of Nepal, financial system and classification in Nepal. It also covers the merger bylaws policy introduced by NRB. Some contemporary theories of merger and acquisition have been studied.

This research is carried out in three parts for six months. To assess the impact of M&A on the employees and customers, a web-based quantitative research is adopted by using webropol and Microsoft excel. In the Second part, this research compares and analyzes the pre-merger and post-merger performance of the merged entity by using different financial indicators. Finally, in the third stage, an in-depth interview has been conducted with the branch manager of the Machhapuchchhre Bank Limited to identify the impact of M&A on the financial market.

The result of the research provides a remarkable effect of M&A on the merged BFIs. In overall, 20 percent employees were lay-offs from different working department of the merged entity. Similarly, 80 percent of the merged entity clients and customer are not aware of recent structural changes in Nepalese financial sector. However, M&A has created a high degree of confidence and hope in doing better performance by the merged entity among employers, corporate clients and customer as well as shareholder's. A positive signal has been visible in the whole financial market injected by M&A.

The author would like to recommend some suggestions for further research as there are many areas still need to be discovered in relation to the merger transition in Nepal and its impact on employees, customer, shareholder's and financial market.

Key words: Nepal Rastra Bank, banking and financial Institutions, merger and acquisition, consolidation, takeover

# CONTENTS

<b>LIST OF TABLES AND FIGURES .....</b>	<b>1</b>
<b>ABBREVIATIONS .....</b>	<b>2</b>
<b>1 INTRODUCTION.....</b>	<b>3</b>
<b>2 FINANCIAL INSTITUTIONS OF NEPAL .....</b>	<b>6</b>
<b>2.1 NEPAL RASTRA BANK .....</b>	<b>6</b>
<b>2.2 BOARD OF DIRECTORS .....</b>	<b>6</b>
<b>2.3 DEPARTMENTS.....</b>	<b>7</b>
<b>2.4 CLASSIFICATION OF FINANCIAL SECTOR.....</b>	<b>7</b>
2.4.1 <i>Formal Sector.....</i>	<i>8</i>
2.4.2 <i>Informal Sector.....</i>	<i>9</i>
<b>3 MERGER AND ACQUISITION (M&amp;A) .....</b>	<b>10</b>
<b>3.1 INTRODUCTION TO MERGER AND ACQUISITION.....</b>	<b>10</b>
<b>3.2 DIFFERENCE BETWEEN MERGERS AND ACQUISITIONS.....</b>	<b>10</b>
<b>3.3 TYPES OF MERGER AND ACQUISITION .....</b>	<b>11</b>
<b>3.3.1 HORIZONTAL MERGERS.....</b>	<b>11</b>
3.3.2 <i>Vertical Mergers.....</i>	<i>12</i>
3.3.3 <i>Conglomerate Mergers .....</i>	<i>12</i>
<b>3.4 MOTIVES FOR MERGER AND ACQUISITION .....</b>	<b>12</b>
3.4.1 <i>Synergy.....</i>	<i>13</i>
3.4.2 <i>Revenue Enhancement .....</i>	<i>13</i>
3.4.3 <i>Cost Reductions.....</i>	<i>14</i>
3.4.4 <i>Tax Gains.....</i>	<i>15</i>
<b>4 MERGER BYLAWS 20685 BY NEPAL RASTRA BANK.....</b>	<b>16</b>
<b>4.1 INTRODUCTION .....</b>	<b>16</b>
<b>4.2 GUIDELINES AND CONDITIONS FOR OPTING MERGER BYLAWS 2011 .....</b>	<b>16</b>
<b>4.3 MAJOR PROVISIONS OF MERGER BYLAWS 2011 .....</b>	<b>17</b>
<b>4.4 EFFECT OF MERGER BYLAWS ON BFIS .....</b>	<b>18</b>
4.4.1 <i>List of Merged BFIs.....</i>	<i>18</i>
4.4.2 <i>A List of BFIs That Have Received a Letter of Intent (LOI) .....</i>	<i>19</i>
4.4.3 <i>A list of BFIs in Pipeline .....</i>	<i>20</i>
<b>5 RESEARCH GOAL AND METHODOLOGY .....</b>	<b>21</b>
<b>5.1 OBJECTIVES, PROBLEMS AND QUESTIONS .....</b>	<b>21</b>
<b>5.2 RESEARCH METHODOLOGY .....</b>	<b>22</b>
5.2.1 <i>Data Collection.....</i>	<i>22</i>
5.2.2 <i>Limitation and Challenges.....</i>	<i>22</i>
<b>6. RESULTS OF THE RESEARCH.....</b>	<b>24</b>
<b>6.1 IMPACT OF M&amp;A ON MERGED BANKS EMPLOYEES .....</b>	<b>24</b>
6.1.1 <i>Impact of M&amp;A on working department.....</i>	<i>24</i>
6.1.2 <i>Impact of M&amp;A on working place .....</i>	<i>25</i>
6.1.3 <i>Impact of M&amp;A on employees working company.....</i>	<i>27</i>
<b>6.2 IMPACT OF M&amp;A ON MERGED ENTITY CLIENTS AND CUSTOMERS.....</b>	<b>29</b>
<b>6.3 IMPACT OF M&amp;A ON SHAREHOLDERS .....</b>	<b>31</b>
<b>6.4 IMPACT OF M&amp;A ON FINANCIAL SECTOR .....</b>	<b>37</b>
<b>7. DISCUSSION AND CONCLUSION.....</b>	<b>40</b>
<b>BIBLIOGRAPHY .....</b>	<b>42</b>
<b>APPENDICES.....</b>	<b>45</b>

## LIST OF TABLES AND FIGURES

Table 1: List of NRB members over the years (Nepal Rastra Bank 2013).....	7
Table 2: List of financial sector in Nepal (Nepal Rastra Bank 2012) .....	8
Table 3: List of Merged BFIs (Nepal Rastra Bank 2013) .....	18
Table 4: List of BFIs that received a letter of intent (Nepal Rastra Bank 2013) .....	20
Table 5: List of BFIs in Pipeline (Nepal Rastra Bank 2013) .....	20
Table 6: Sample calculation of Net profit/loss.....	31
Table 7: Financial indicators of MBL (Nepal Rastra Bank 2014; ShareSansar 2013).....	33
Table 8: Financial indicators of Global IME Bank Limited (Nepal Rastra Bank 2014; ShareSansar 2013) .....	35
Figure 1: Growth of BFIs (Nepal Rastra Bank 2013) .....	4
Figure 2: Economies of Scale (Ross et.al 2003).....	14
Figure 3: Impact of M&A on working department of merged entity .....	24
Figure 4: fear of losing a current job .....	25
Figure 5: getting a new supervisor/ management .....	25
Figure 6: enjoy working here .....	26
Figure 7: satisfy about working conditions, wages and working hours.....	26
Figure 8: Looking for work with another company .....	27
Figure 9: got a new name of a company.....	27
Figure 10: future of company seems bright .....	28
Figure 11: company rewards good work fairly .....	28
Figure 12: number of customer aware and not aware of M&A activity in Nepal .....	29
Figure 13: customer service is fast and caring .....	29
Figure 14: Low interest rate in deposit.....	30
Figure 15: Increment in service charges for loan and collateral.....	30
Figure 16: Net Profit after Tax (NPAT) of MBL Bank .....	33
Figure 17: Earnings per Share of MBL Bank .....	34
Figure 18: Return on Equity (ROE) of MBL Bank .....	34
Figure 19: Net profit after Tax (NPAT) of Global IME Bank .....	35
Figure 20: Return on Equity (ROE) of Global IME Bank .....	36
Figure 21: Earnings Per Share (EPS) of Global IME Bank .....	36

**ABBREVIATIONS**

BFI = Bank and Financial Institutions

M&A = Merger and Acquisition

NRB = Nepal Rastra Bank

MOF = Ministry of Finance

BAFIA = Bank and Financial Institutions Act

CBON = Central Bank of Nepal

SEQ = Shareholder's Equity

LOI = Letter of Intent

SED = Sustainable Economic Development

IMF = International Monetary Fund

BOD = Board of Directors

ROE = Return on Equity

EPS = Earnings per Share

CIT = Citizen Investment Trust

EPF = Employment Provident Fund

## 1 INTRODUCTION

The history of Merger and Acquisitions began long before early 1900s. This period of time covers six main waves of M&A for the past 100 years and these are those of the early 1900's, 1920's, 1960's, 1980's, 1990's, and 2000's. In the past decades, M&A activities have increased rapidly and come to a light since 2000 when Asian the market started following the trend of U.S and Europe to cope with the downturn of economic and financial markets that began in 2000. Emerging countries such as India, China, South Korea and some ASEAN nations entered into the M&A activity as new major players in global market. Besides, cross-border M&A became an instrument to pursue a business growth in global markets. (Chand 2009, 254-257.)

According to Shrestha (2012), the concept of M&A was an entirely new thing to the Banking and Financial Institutions (BFIs) of Nepal when the Nepal Rastra Bank, supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011. "It is something in which Nepal Rastra Bank has been preparing for years" (Gyanwali 2013). However, many had doubts that the BFIs would go for merger immediately as there were no separate acts and decree for a merger implementation. The objective of the merger by-laws is to strengthen the BFIs position and performance by reducing the number of institutions. The merger bylaws have a provision that can pressurize all BFIs to go for an immediate merger in the form of consolidation. (Nepal Share Bazar 2013.)

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brings several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and, at the verge of a collapse. "Merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them" (The Himalayan Times 2013). According to the monetary policy report of the Nepal Rastra Bank (2013), the total number of the BFIs stood at 207 including 31 class A commercial banks, 86 class B development banks, 59 class C finance companies, and class D microfinance

institutions. The number of such BFIs was 213 in the mid- July 2012. (Nepal Rastra Bank 2013a, 4.)

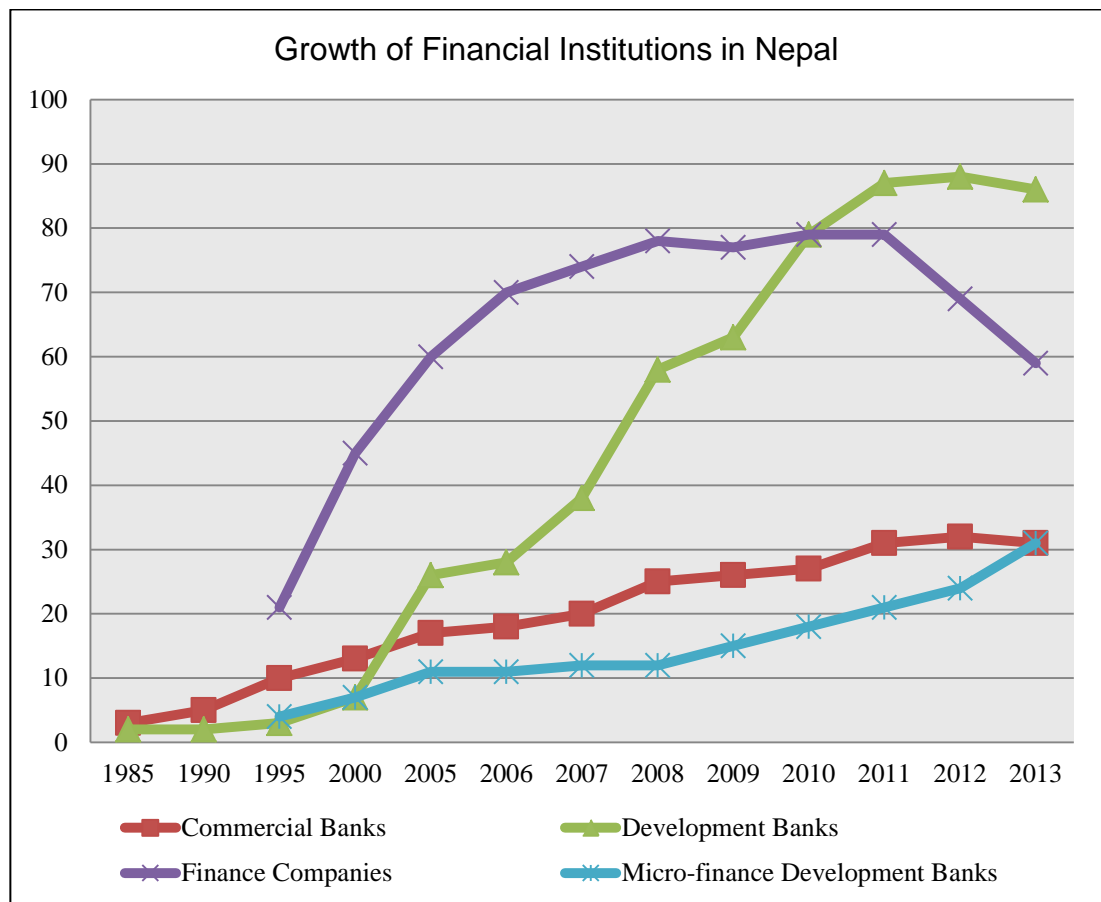


Figure 1: Growth of BFIs (Nepal Rastra Bank 2013)

In the beginning, the merger bylaws had failed to create immediate impression in the banking fraternity and the merger bylaws in the form of consolidation have gained acceleration over the last two years in 2011 and 2013 when the Himchuli Finance and Birgunj Finance first sparked the merger trend and consolidated to become the H&B Development Bank. The merger bylaws policy introduced by the Nepal Central Bank in the year 2011 has been successful as almost one fourth of the financial institutions have opted mergers. (Singh 2013.)

A lot of speculations have been going on in the financial sector whether the merger policy will be fruitful to strengthen the Nepalese bank and financial institutions. Some positive signals have been visible in the financial institutions as 43 financial institutions including commercial banks, development banks and finance companies have merged so far and a few BFIs are in pipelines and some have got the letter of intent. This depicts that



merger and consolidation has gradually taken place in the banking industry. The goal of this research is to find out the effect and impact of the merger policy adopted by the Nepal Rastra Bank. The research is carried out by analyzing the financial statements of the BFIs involved in the merger activity. A comparison is made between pre-merger performance and post-merger performance of the BFIs. In addition to it, a survey research is conducted by using a list of questionnaires to explore the impact of the merger policy on the employees and customers. (Singh 2013.)

## **2 FINANCIAL INSTITUTIONS OF NEPAL**

### **2.1 Nepal Rastra Bank**

The Nepal Rastra Bank (NRB) is the Central Bank of Nepal established by the Nepal Rastra Bank Act in 1955. It commenced its operations officially in 1956. The head quarter of the bank is located in Kathmandu, the capital city of Nepal. Nepal Rastra Bank is the main supervisory and regulatory body of all the Banking and Financial Institutions in Nepal. The vision of the Nepal Rastra Bank is to become a modern, dynamic, credible, and effective central bank. Similarly, the vision of the Nepal Rastra Bank is to maintain macro-economic stability of the country by adopting sound and effective monetary, foreign exchange and financial sector policies. The Central Bank of Nepal is an autonomous body governed by the public law defined in the Nepalese Constitution. The core function and the objectives of the Nepal Rastra Bank had been superseded by the new NRB Act of 2002 with a new amendment. The new act provides more operational autonomy and independence. Since after 2002, the Nepal Rastra Bank has taken a proactive role in the formulation and implementation of a monetary policy to maintain the price and balance of payment stability. In more recent times, managing liquidity and financial stability, developing a sound payment, enhancing the public confidence in the banking and financial system of the entire Nepal and promoting financial services has been added to the primary functions of the bank. (Nepal Rastra Bank 2013b.)

### **2.2 Board of Directors**

The Board of Directors is the apex body of the Nepal Rastra Bank. The Board of Directors includes seven members. They are the Governor, the secretary of the Ministry of Finance, two deputy governors and three other directors, all government officials. The governor is also a chairman of the bank appointed by the government council of minister under the provisions of the Nepal Rastra Bank Act 2002 for the term of five years. Currently, Dr. Yubaraj Khatiwada is the governor of Nepal Rastra Bank. The two acting deputy governors also appointed by the government council of ministers have a term of five years. At the present, there are ten executive and five acting executive directors working at different range of departments.

Similarly, there are forty-one directors and six acting directors working at various departments of the Nepal Rastra Bank. (Nepal Rastra Bank 2013c.)

Table 1: List of NRB members over the years (Nepal Rastra Bank 2013)

S.N.	Name of Governor	Term of office
1	Mr. Himalaya Shumsher J.B. Rana	April 26, 1956 - February 7, 1961
2	Mr. Laxmi Nath Gautam	February 8, 1961 - June 17, 1965
3	Mr. Pradyuma Lal Rajbhandari	June 18, 1965 - August 13, 1966
4	Dr. Bhekh Bahadur Thapa	August 14, 1966 - July 26, 1967
5	Dr. Yadav Prasad Pant	April 24, 1968 - April 28, 1973
6	Mr. Kul Shekhar Sharma	April 29, 1973 - December 12, 1978
7	Mr. Kalyana Bikram Adhikary	June 13, 1979 - December 12, 1978
8	Mr. Ganesh Bahadur Thapa	March 25, 1985 - May 22, 1990
9	Mr. Hari Shankar Tripathi	August 10, 1990 - January 17, 1995
10	Mr. Satyendra Pyara Shrestha	January 18, 1995 - January 17, 2000
11	Dr. Tilak Bahadur Rawal	January 18, 2000 - January 17, 2005
12	Mr. Deependra Purush Dhakal	August 29, 2000 - April 27, 2001
13	Mr. Bijaya Nath Bhattarai	January 31, 2005 - January 30, 2010
14	Mr. Deependra Bahadur Kshetry	January 15, 2009 - July 26, 2009
15	Dr. Yuba Raj Khatiwada	March 22, 2010 – Present

### 2.3 Departments

To discharge the range of the Nepal Rastra Bank responsibilities, the bank has catered its activities within twenty departments. Each department is a part of the central bank organization structure to operate and carry out specific functions that assist the NRB to achieve its goal and objectives. (Nepal Rastra Bank 2013d.)

### 2.4 Classification of Financial Sector

The Bank and Financial Institutions Act (BAFIA) 2006 broadly guides the classification of the Nepalese financial system. BAFIA categories the financial sector of Nepal into a formal sector and informal sector. Currently, the overall financial system of Nepal constitutes the Central Bank, commercial banks, development banks, finance companies, microfinance development banks, co-operatives, financial intermediaries NGOs and

contractual saving FIs. The contractual saving financial institutions are of three types. They are insurance companies, Employee's Provident Fund and the Citizen Investment Trust. Among them, EPF and CIT are owned and managed by the government whereas the insurance companies are regulated and supervised by the Insurance Board. (Nepal Rastra Bank 2013e, 14.)

Table 2: List of financial sector in Nepal (Nepal Rastra Bank 2012)

Type of BFIs	Class	Mid-July				
		2008	2009	2010	2011	2012
Commercial Banks	A	25	26	27	31	32
Development Banks	B	58	63	79	87	88
Financial Companies	Class	78	77	79	79	69
Micro-finance Development Banks	D	12	15	18	21	24
Saving & Credit Co-operatives	Non-classified	16	16	15	16	16
NGOs(Financial Intermediaries)	Non-classified	46	45	45	38	36
<b>Total</b>		<b>235</b>	<b>242</b>	<b>263</b>	<b>272</b>	<b>265</b>

#### 2.4.1 Formal Sector

The formal sector constitutes all the financial institutions licensed by the Nepal Rastra Bank. The NRB has divided the formal financial sectors into A, B, C, and D class institutions based on the capital requirement, area and scope of banking operations and the lending criterion. Moreover, the formal sector in Nepal has been categorized into private and public banks on the basis of their ownership. Currently, there are three public banks and 204 privately owned banking and financial institutions. As of mid-July 2013, there are 31 A class commercial, 86 B class development, 59 C class finance companies and 31 D class microfinance development banks licensed by the Nepal Rastra Bank in Nepal. The branch network of commercial banks reached 1486, development banks 764, finance companies 242 and microfinance institutions 634. As per the current licensing policy of the Nepal Rastra Bank, commercial banks should have a paid-up capital of Rs 2 billion,

development banks should have Rs 100-640 million and finance companies should have Rs 100-300 million to get the operating license. The Central Bank is preparing to increase the minimum paid-up capital for the BFIs in their monetary policy of 2013/2014 which oblige the BFIs to inflow extra capital from stakeholders or through merger. (Nepal Rastra Bank 2013f, 4-5.)

#### **2.4.2 Informal Sector**

The informal sector comprises of co-operatives, financial intermediaries, and contractual savings FIs. The Informal sector has a limited banking scope which is licensed by the NRB but monitored and regulated by the government of Nepal. The informal sector contains 10.5 percent of the market share. As of mid-January, the number of co-operatives remained 16; the number of financial NGOs stood 33 with 385 branches throughout the country. Contractual savings financial institutions constitute of insurance companies, the Employee's Provident Fund and the Citizen Investment Trust. Currently, there are 25 insurance companies operating throughout the country. (Nepal Rastra Bank 2013g, 72-80.)

The impact of the informal sector on the macroeconomic policies has not been clearly quantifiable to the policy makers due to the unavailability of information, so that the informal sector is considered as a 'black box' in the Nepali economy (Nepal Rastra Bank 2013). The informal unorganized financial sector accounts a significant importance in the Nepalese economy. However, the activities of the informal sector have been problematic due to the lack of clarity of aim, and nature, and the operating principles together with the lack of government supervision. (Nepal Rastra Bank 2013g, 72-80.)

### **3 MERGER AND ACQUISITION (M&A)**

#### **3.1 Introduction to Merger and Acquisition**

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors (Sherman–Hart 2006, 1). According to Ross–Westerfield–Jordan (2003), “A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity”. A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross et.al 2003a, 843). In practice, a merger between company A + company B = company A, where company B merged with company A. In a consolidation, company A + company B = company C, where company C is an entirely new company (Gaughan 2011, 7).

“An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares” (Firer-Ross-Westerfield-Jordan 2004, 759). Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another. (Ross et.al 2003b, 843-845; Firer-Ross-Westerfield-Jordan 2004, 759,768-769.)

#### **3.2 Difference Between Mergers and Acquisitions**

There is some confusion about the terminology of merger, consolidation, acquisition, and takeover. This is why the term used tends to be similar and

can be used interchangeably (Sherman-Hart 2006, 11). As cited in the definition of merger, the underlying principle of merger and acquisition is to maximize the shareholders profit by maximizing the profit of business corporations. However, each term carries a slightly different meaning under business situations. A merger is a combination of relatively same size companies forming a new company. Usually, a merger takes place on friendly terms and the newly created company shares equal profit among the stakeholders. The primary purpose of a merger is to expand their business operations. However, when one company takes over another company in the form of equity or/and assets, it is known as acquisitions. An acquisition is mainly taken during the economic recession and constant decline of company profits. (Ross et.al 2003, 843; Firer et.al 2004, 759.)

Another significant difference between a merger and an acquisition lies in dealing of acquiring between firms. In an acquisition, a deal can be done without the mutual consent of the target company. Usually, the bigger, stronger and larger companies shallow the operation of a weak company. In case of a merger, the deal between merging companies is friendly where both the parties share the same percentage of ownership and profit. (Ross et.al 2003, 843; Firer et.al 2004, 759.)

### **3.3 Types of Merger and Acquisition**

There are three major types of merger and acquisition which are driven by different corporate strategies. They are categorized into horizontal, vertical and conglomerate. Each of the types possesses characteristics at the outset. (Ross et.al 2003, 842.)

#### **3.3.1 Horizontal Mergers**

Horizontal Mergers takes place when two or more competitors operating in the same line of business combine together. Gaughan (2002, 8) argues that, “if a horizontal merger causes the combined firm to experience an increase in the market power that will have an anticompetitive effect, the merger may be opposed on antitrust ground”. In addition to market power, the horizontal merger produces ripple effects when two small scale companies joint togther to gain competitive advantage over the competitor (Ross et.al 2003, 844-

845). Horizontal mergers have been the most important and prevalent form of mergers in Nepal. The Nepalese financial sector has witnessed twenty sets of horizontal mergers among the Banking and Financial Institutions. The merger among banks would be a horizontal merger. (Annual Bank Supervision Report 2012, 1-3.)

### **3.3.2 Vertical Mergers**

A vertical merger refers to the expansion of firms caused either by mergers between two firms involved at successive stages of the production process or by firms developing their own vertical operations (Lipczynski–Wilson 2004, 229). Firms choose a vertical merger to gain efficiency in the business supply chain and to improve profitability position by the effect of economies of scale. For example, the merger between hotelier and tour operator come under vertical merger. An example is America Online's (AOL's) purchase of Netscape for \$4.21 billion in 1998 .This was a vertical merger. AOL is an on-line service provider, while Netscape engages in an Internet and electronic commerce software (Ross et.al 2003, 844).

### **3.3.3 Conglomerate Mergers**

“A conglomerate merger occurs when the companies are not competitors and do not have buyer-seller relations. One example would be a Philip Morris, a tobacco company, which acquired General Foods in 1985 for \$5.6 billion” (Gaughan 2002, 8.)

## **3.4 Motives for Merger and Acquisition**

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies. The factors affecting mergers change with their changing legal, political, economical and social environments. Firms engage in a merger and acquisitions activity for different economic reasons. The most common motives of firms for mergers and acquisitions are discussed below:



### 3.4.1 Synergy

Synergy is commonly used in a merger and acquisitions activity. Synergy has been described as the combined firms have a value that is greater than the sum of the values of the separate firms (DePamphilips 2011, 4). Hypothetically the underlying principle of synergy is  $2+2=5$ , or  $5+5=11$  which is technically incorrect. However, it is believed that the net positive gain will be achieved resulting from the merger of two separate entities. Synergy can be produced as operational, managerial and financial synergies (Ross et.al 2003a, 775.)

“Operational synergy can be explained as the combination of economies of scale, which would reduce average costs as a result of more efficient use of resources, and economies of scope, which would help companies deliver more from the same amount of inputs” (DePamphilips 2011, 4). Financial synergy refers to the impacts of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from a merger or acquisition (DePamphilips 2011, 5). The merged entity will be able to reduce the cost of capital and increase its buying power. A conglomerate merger enables an individual unit under the umbrella of one centralized parent company beyond what would have been achieved by each unit competing individually. (DePamphilips 2011, 4-5; Frankie TAN 2009.)

### 3.4.2 Revenue Enhancement

According to Ross et.al (2003b, 776), “One important reason for a merger or acquisition is that the combined firm may generate greater revenues than two separate firms”. The increase in revenue may come from marketing gains, strategic benefits, and increase in the market power. Enhancing the revenue of companies can be done by market gains, strategic benefits, and market power.

It is perfectly obvious that mergers and acquisitions can produce greater operating revenues from improved marketing. For example, “when Microsoft purchased Tiny Vermeer in 1996, Vermeer’s front-page software used to create webpage was selling at a snail’s pace. But, when the software was superimposed on the Microsoft front page, the sales took off reflecting

Microsoft marketing muscle” (Ross et.al 2003c, 850). Some merger and acquisition produces strategic benefits when companies enter into another line of business to enhance management flexibility with regard to the future operations. For example, suppose a motor company from the original business can provide opportunities to begin manufacturing electric motors and generators. (Ross et.al 2003c, 850.)

### 3.4.3 Cost Reductions

Many merger and acquisition are undertaken with the belief that a merged firm may operate more efficiently than two separate firms. A firm can obtain cost reductions in several ways through a merger or an acquisition (Ross et.al 2003, 851). According to Motis (2007), a firm can obtain cost advantage when its average cost per unit decreases as the total level of output increases.

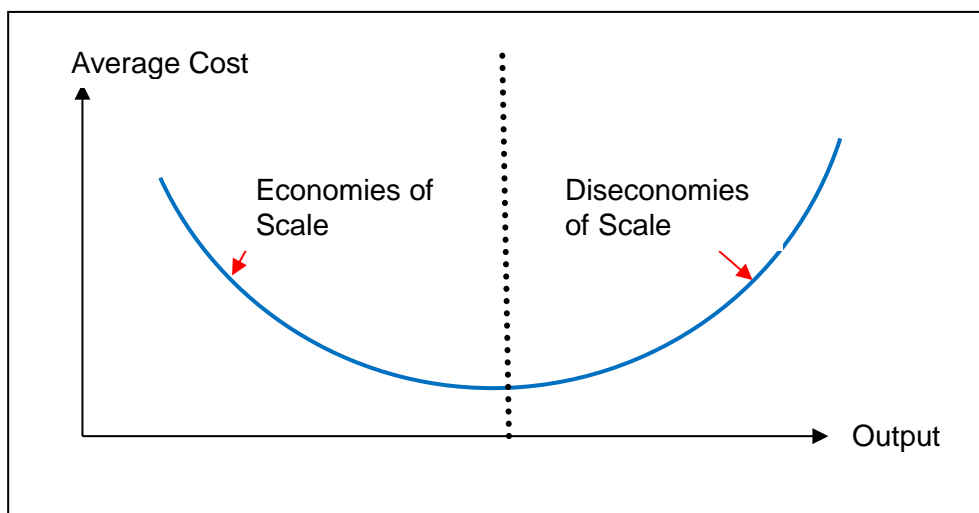


Figure 2: Economies of Scale (Ross et.al 2003)

Economies of vertical integration can be gained by combining the companies operating in same industry. For example, airline companies have purchased hotels and car rental companies. Vertical integration of companies may have a significant impact on companies to reduce cost, to improve supply chain operation, and in increasing the profit margin. Some companies acquire another company for the sake of complementary resources which makes the products commercially viable. For example, a winter clothing store equipment

store could merge with a summer clothing store to produce more even sales over both the winter and summer seasons. (Motis 2007.)

#### **3.4.4 Tax Gains**

There are various ways that companies may lower their taxes through merger and acquisition activity. In many cases, a state government and its corporate bodies encourage companies opting for merger by imposing a flexible tax rate system. Some firms choose to merge with another company that has net operating losses. The combined firm will have lower tax liabilities than the two firms operating separately. In another case, whenever there is an acquisition of assets rather than shares, the assets of the acquired company firm will be revalued. If the value of the assets is increased, the tax deductions for depreciation will be a benefit. (Ross et.al 2003d, 852; Motis 2007.)

## **4 MERGER BYLAWS 20685 BY NEPAL RASTRA BANK**

### **4.1 Introduction**

By 2010, the Nepalese banking and financial sectors have been passing a through a very crucial period. The International Monetary Fund (2008, 1-6), in its research paper has clearly mentioned that,- almost one third of the Nepalese BFIs are marked by excessive liquidity, excessive operating expenses, inadequate working capital, unhealthy competition, and miss management. The balance sheet of the BFIs on the third quarter shows that with the exception of few banks, the profits of all the banks have declined and the percentage level of bad loans was growing. The ongoing political instability and uncertainty over the future has not only decreased the income of banks, but also discourages the investor's confidence to invest in any projects. It has caused a low demand of loans for big projects. Therefore, banks are facing increasing pressure of either investing in volatile housing and real estate business where there is maximum risk, or by failing to utilize the capital to generate more cash by not managing the capital. (New Spotlight News Magazine 2011.)

The Nepal Rastra Bank, as the main principle body of all the BFIs was becoming concerned with the unfortunate state of the BFIs. The Central Bank planned to improve the health of the financial sector by introducing the Merger Bylaw 2011 grounded on the Company Act 2063 article 177, BAFIA 2063 article 68 and 69 that pressurize all the BFIs for immediate merger as a consolidation. A merger was not a choice of the Nepal Rastra bank but it was a compulsion strategy to increase the capital and strengthen their capacity to face the competitive market. Otherwise, many BFIs may have to die. (Gautam 2012.)

### **4.2 Guidelines and Conditions for Opting Merger Bylaws 2011**

The Nepal Rastra Bank had identified three conditions based on which it can force the BFIs to for immediate merger. As per the first condition, the BFIs operated and owned by the same business family, relatives, and groups will be considered to amalgamate. The central bank will order to those BFIs to merge if they are owned by the same family, relatives and groups. The

Merger Bylaws policy by the central bank also states that it can persuade the BFIs to merge if they are operated by a single family group. Similarly, as per the second condition, the central bank will force such BFIs to go for a merger if there is a shortfall of capital. As per NRB banking and financial institution regulations,- commercial banks are required to maintain a minimum capital adequacy ratio (CAR) of 10 percent and development banks a CAR of 11 percent. A CAR is required to determine the capacity of the bank in meeting time liabilities and other risks such as the credit risk and the operational risk. If the BFIs fail to maintain a CAR imposed by the NRB, it will force them to merge which will help to strengthen their capital and increase competitive performance. (Subedi 2012.)

#### **4.3 Major Provisions of Merger Bylaws 2011**

According to the New Business Age (2013), the major provisions of Merger-Bylaws laid by the NRB are:-

1. A, B, C, class financial institutions can merge with each other but the D class financial institutions can merge only with another same class financial institution.
2. BFIs that want to merge should delegate separate merger committees from their annual general meetings and sign a memorandum of understanding (MoU).
3. The due process including a MoU should be endorsed with an action plan before applying to the Nepal Rastra Bank for a Letter of Intent (LOI). The NRB should hold a meeting within 15 days of receiving the LOI application.
4. The NRB has a right to grant whether to approve the LOI or not after meeting discussion and detailed study of the concerned financial institution.
5. After receiving a LOI from the central bank a due diligence audit should be completed within six months.
6. The detailed evaluation comprising assets, liabilities and transactions of the concerned institutions should be submitted to the NRB
7. An agreement copy of the final decision regarding name, address and share ratio of concerned the BFIs should be submitted to the NRB.

8. An action plan of the concerned financial institution including date of operation after merger is completed should be submitted to the NRB.

#### 4.4 Effect of Merger Bylaws on BFIs

##### 4.4.1 List of Merged BFIs

When the Nepal Rastra Bank first introduced the Merger Bylaw 2011, the law had failed to create immediate effects on the BFIs (Singh 2013). However, over the past two years the merger activity had gained acceleration in the Nepali financial sector. According to the Bank Supervision Report of Nepal Rastra Bank (2012, 1-3), the Nepalese financial sector has witnessed 43 different sets of consolidations among the BFIs which are shown in the table below:

Table 3: List of Merged BFIs (Nepal Rastra Bank 2013)

S.No	Merged BFIs		Institutions name and class after merger	Date of operation after merger
1	Himchuli Bikash Bank (class "B")	Birgunj Finance Limited ("C")	H & B Development Bank Limited (National Level class "B")	6/15/2011
2	Business Development Bank (class "B")	Universal Finance Limited (Class "C")	Business Universal Development Bank Limited (Class "B")	4/3/2012
3	Kasthamandap Development Bank (class "B")	Shikhar Finance Limited (Class "C")	Kasthamandap Development Bank Limited (National Level Class "B")	4/13/2012
4	Machhapuchhre Bank Limited (Class "A")	Standard Finance Limited (Class "c")	Machhapuchhre Bank Limited (National Level Class "A")	7/9/2012
5	Global Bank Limited (Class "A")	Lord Buddha Finance Limited (Class "C") IME Finance Limited (Class "C")	Global IME Bank Limited (National Level Class "A")	7/10/2012
6	Infrastructure Development Bank (Class "B")	Swastik Merchant Finance Limited (Class "C")	Infrastructure Development Bank Limited (National Level class "B")	7/10/2012
7	Annapurna Bikash Bank (Class "B")	Suryadarshan Finance Limited (Class "C")	Supreme Development Bank Limited (National Level Class "B")	7/13/2012
8	Pasupati Development Bank (Class "B")	Uddham Bikash Bank (Class "B")	Axis Development Bank (National Level Class "B")	7/13/2012

9	Alpic Everst Finance Limited( Class "C")	CMB Finance Limited (Class "C")	Synergy Finance Limited( National Level Class "C")	
	Butwal Finance Limited(Class "C")			12/6/2012
10	Shine Development Bank (Class "B")	Resunga Development Bank (Class "B")	Shine Resunga Development Bank (National Level Class "B")	3/17/2013
11	NIC Bank Limited (Class "A")	Bank of Asia Limited (Class "A")	NIC Asia Bank Limited (National Level Class "A")	6/30/2013
12	Predential Finace Limited( Class "C")	Gorkha Finance Limited (Class "C")	Prudential Finance Company Limited (National Level "C")	1/15/2012
13	Vibor Bikas Bank Limited (Class "B")	Bhajuranta Finance Limited (Class "C")	Vibor Bikas Bank Limited (National Level Class "B")	9/2/2012
14	Nepal Bangladesh Bank (Class "A")	Nepal Sri-Lanka Merchant Bank (Class "A")	Nepal Bangladesh Bank Limited (National Level Class "A")	1/26/2011
15	Professional Bikas Bank Limited (Class "B")	Diyalo Bikas Bank Limited(Class "B")	Professional Diyalo Bikas Bank (National Level Class "B")	7/9/2013
16	Araniko Development Bank (Class "B")	Surya Development Bank (Class "C")	Araniko Development Bank Limited( National Level Class "B")	7/14/2013
17	Samridhdhi Bikas Bank ( Class "B")	Prabhu Finance Limited (Class "C")	Prabhu Bikas Bank Limited( National Level Class "B")	7/14/2013
	Baibhav Bikas Bank Limited( Class "B")			
18	Yeti Finance Limited (Class "C")	Manakamana Development Bank( Class "B")	Yeti Development Bank Limited(National Level "B" Class)	9/17/2013
	Valley Finance(Class "C")			
19	Royal Merchant Banking and Finance (Class "C")	Rara Bikas Bank Limited (Class "C")	Apex Development Bank (National Level Class "B")	7/15/2013
	Api Finance Limited (Class "C")			

#### 4.4.2 A List of BFIs That Have Received a Letter of Intent (LOI)

According to the Bank and Financial Institutions department of NRB (2013), there are 12 BFIs that have received the Letter of Intent to consolidate one to the other. The names are given below:-

Table 4: List of BFIs that received a letter of intent (Nepal Rastra Bank 2013)

S.No	Banking and Financial Institutions	
1	Premier Finance (Class "C")	Imperial Finance(Class "C")
2	Araniko Development Bank Ltd(Class "B")	Surya Development Bank(Class "B")
3	Central Finance Limited(Class "C")	Patan Finance Limited(Class "C")
4	Diyalo Bikash Bank Ltd(Class "B")	Hama Finance Limited(Class "C")
5	Siddhartha Development Bank Ltd(Class "B")	Public Development Bank Limited(Class "B")
6	Shangrila Development Bank Ltd(Class "B")	Bagheshwor Development bank Ltd(Class "B")

#### 4.4.3 A list of BFIs in Pipeline

The Nepal Rastra Bank is still pushing BFIs who are in pipeline for a merger. Currently, there are 12 BFIs that are in pipeline. This implies that the merger policy adopted by the NRB by far successful to strengthen the financial sector by bringing down its numbers.

Table 5: List of BFIs in Pipeline (Nepal Rastra Bank 2013)

S.No	Banking and Financial Institutions	
1	Lalitpur Finance Ltd (Class "C")	Progressive Finance Ltd(Class "C")
2	Sagarmatha Merchant and Finance Ltd(Class "B")	Reliance Finance Ltd(Class "B")
3	Social Development Bank(Class "B")	Corporate Development Bank(Class "B")
4	Diyalo Bikash Bank Ltd(Class "B")	Hama Finance Limited(Class "C")
5	Khadbari Bikas Bank(Class "B")	Birat Laxmi Finance(Class "C")
6	Global IME Bank(Class "A")	Social Development Bank Ltd.(Class "B")



## **5 RESEARCH GOAL AND METHODOLOGY**

### **5.1 Objectives, Problems and Questions**

This research work provides a comprehensive insight to the ongoing merger and acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs) since 2011 when the Nepal Rastra Bank, as a supervisory and regulatory body of all the BFIs, introduced a forceful merger by-law in May 2011. The main objective of this research work is to explore the possible effects and impacts on the BFIs caused by M&A since 2011 in the Nepalese financial sector. The possible outcome of these research findings will be transmitted to the Nepal Rastra Bank for further investigation concerning the merger bylaws provisions and its impact on employees, stakeholders, clients and customers, and the financial market.

Since the economic liberalization of the financial sector in Nepal, there has been an unnatural growth of banks and financial institutions which led to an intense cutthroat competition amongst them in enticing institution, borrowers and individuals. Before the merger bylaws was introduced, the BFIs endorsed easy loans to real estate, land and housing sector borrowers without assessing their financial capacity for repayment of interest and principle amounts. This led to rapid rises in the value of land and building. When the price started to fall, the borrowers were unable to pay back resulting to a shortfall of liquidity.

Recently, the financial institutions of Nepal have been characterized by a low volume of turnover, high interest rate in lending, high interest rate spread, inefficient management, lack of project financing practice, inadequate working fund and unhealthy competition. Some financial institutions such as the Gorkha Development Bank, Nepal Share Market, Capital Merchant and Finance were caught with a weak supervision and miss corporate governance. Moreover, the state-owned financial institutions such as the Rastriya Banijya Bank and the Agriculture Development Bank are marked with excessive operating expenses and low operating profits.

Therefore, this study is trying to answer the following research questions:

What is the impact of M&A on employees, stakeholders, consumers, top management and overall financial markets?

What lesson could countries like Nepal learn from the ongoing M&A among BFIs to strengthen their financial sector and to maintain sustainable economic growth?

## **5.2 Research Methodology**

To meet the objectives, this research is performed in three parts. In first part, the research work focuses on identifying the impact of M&As on employees and customers. In the second part, the research work studies the pre-merger and post-merger financial performance of the merged entity by using different financial indicators. Finally, in the third stage, the author took an in-depth interview with the branch manager of Machhapuchhre Bank Limited to investigate the impact of M&A in the financial sector.

### **5.2.1 Data Collection**

To identify the impact of M&A on employees of the merged entity, an online survey questions was designed using Webropol which contains a rating options, multiple choice questions as well as open ended questions. The questionnaire was distributed through the HRM department of the merged entity. By doing so, the employees can freely express their ideas and opinions.

Similarly, another online survey questions was prepared using the Webropol tools to identify the impact of M&A on merged entity clients and customers. To avoid the language barrier, the survey questionnaire was printed and translated by the author. The survey started collecting the information from the month of December 2013 to the end of April 2014.

### **5.2.2 Limitation and Challenges**

The survey was conducted among four merged banks namely Machhapuchchhre Bank Limited, Apex Development Bank, Yeti Development Bank and NICASIA Bank Limited. The opinions express by the employees of above mention banks does not necessarily carries the

sentiments of entire financial institutions. Since, the survey was designed in English language; most of the questionnaires were unfilled due to the language barrier.

## 6. RESULTS OF THE RESEARCH

### 6.1 Impact of M&A on Merged Banks Employees

A total of 94 employees among the Machhapuchhre Bank, Apex Development Bank, Yeti Development Bank and NICASIA Bank took part in the survey.

#### 6.1.1 Impact of M&A on working department

Since the survey has been conducted, there was a remarkable effect of M&As on HRM, IT, Loan, Finance, and Treasury departments. The Human Resource Department (HRM) among merged banks has been highly affected with 31 percent due to layoffs of employees and position restructuring arising from merged entity. Likewise, IT department pick up modestly to about 18 percent, closely followed by loan department and finance department by 17 and 16 percent respectively. The reason for such increase was that the practice of minimizing the operational cost by downsizing the employees. Treasury and Investment department has remained low due to the expansion of sub branches. At present, there has been visible of duplication of branches and working department in the major cities of Nepal. However, there is no significant impact of M&A on the working department outside the Kathmandu valley.

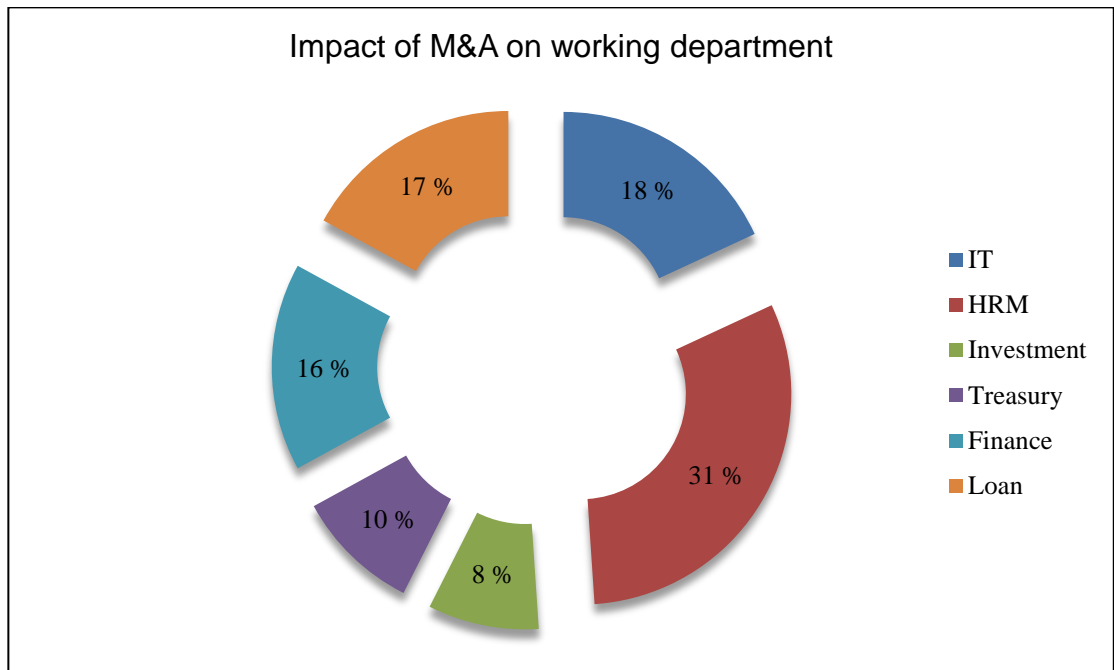


Figure 3: Impact of M&A on working department of merged entity

### 6.1.2 Impact of M&A on working place

M&As are meant to minimize the operational cost by downsizing the employees, however, on average, 10 employees disagree fully that they were not fear of losing the current job due to M&As.

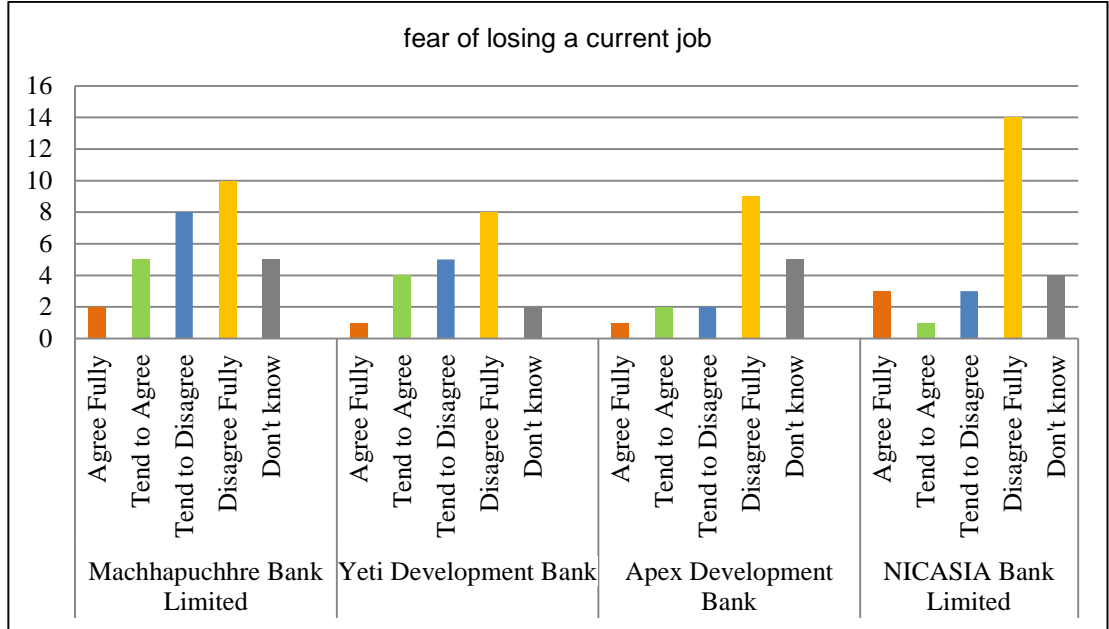


Figure 4: fear of losing a current job

Though the M&As brings structural changes in the financial sector, employees expresses mixed opinions of getting a new supervisor/ management which is on average of 5 employees among four merged banks.

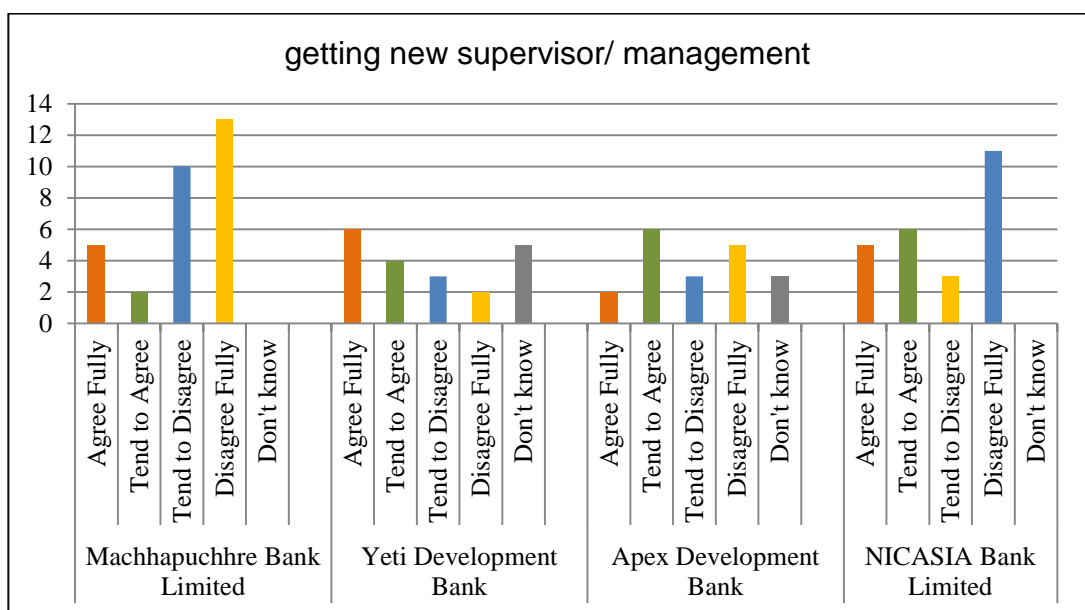


Figure 5: getting a new supervisor/ management

Similarly, a large portion of employees agree fully that they enjoyed working even after merger activity while on the same volume employees disagree fully that they didn't enjoy working in the new company.

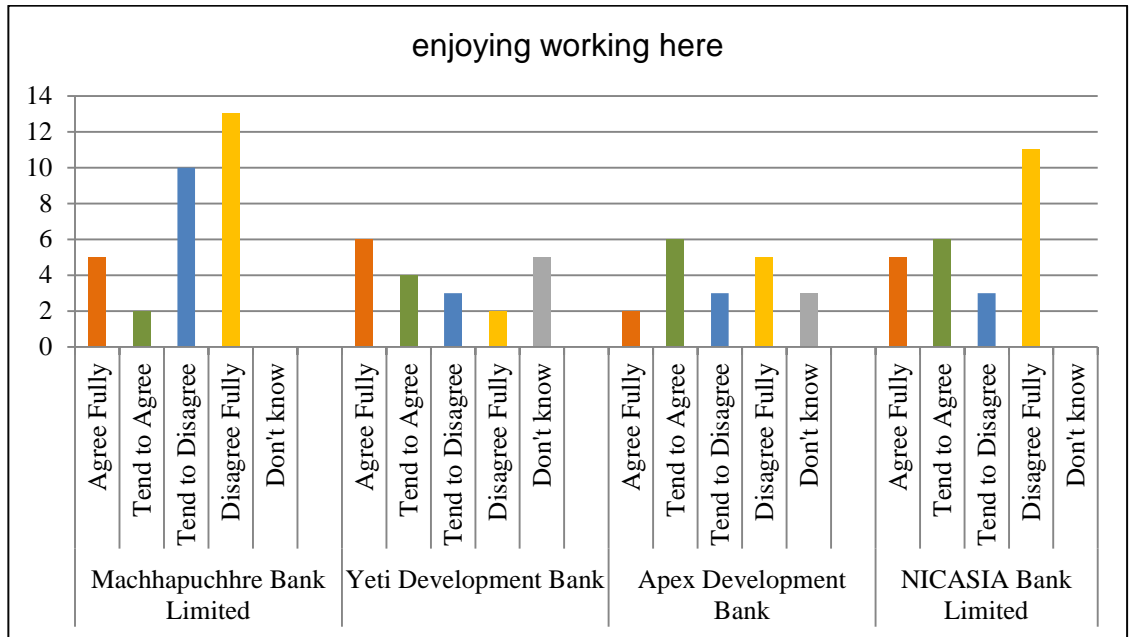


Figure 6: enjoy working here

It is believed that the working condition, remuneration, wages and incentives are better in private banks compared to state-owned banks. However, the result suggested that employees were strongly disagreeing and dissatisfied with the wages, working conditions, remuneration and salary. Now, it is quite clear that the voice of employees was undervalued by high level of formality and bureaucracy.

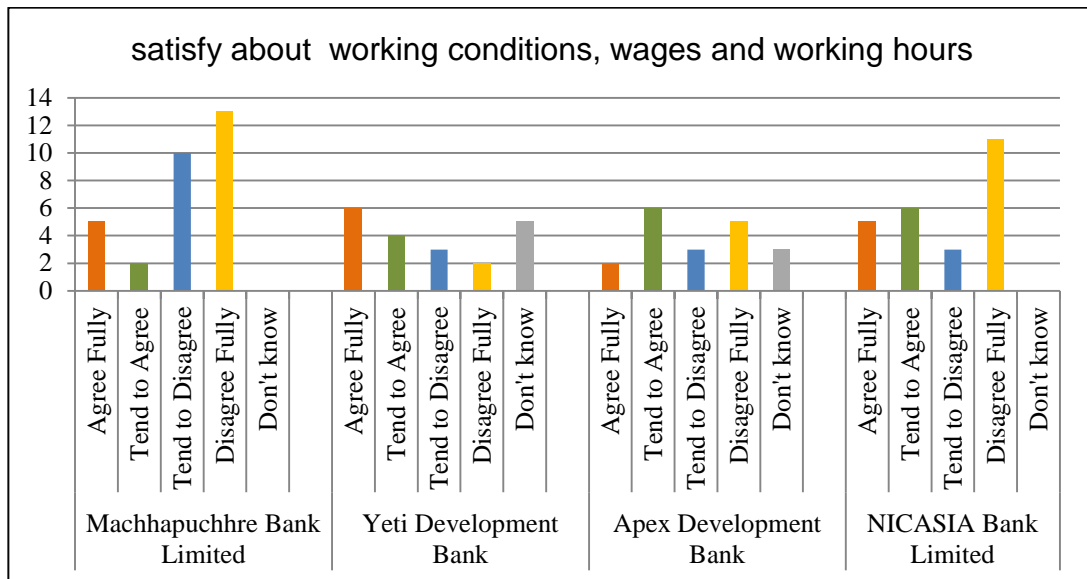


Figure 7: satisfy about working conditions, wages and working hours

Job losses in financial sector as a result of merger and acquisition have been more severe. However, result implies that, on average 8 employees fully disagree of looking a new company/ a new job. It is clear that not all job losses in banking industry can be associated with the merger and acquisitions.

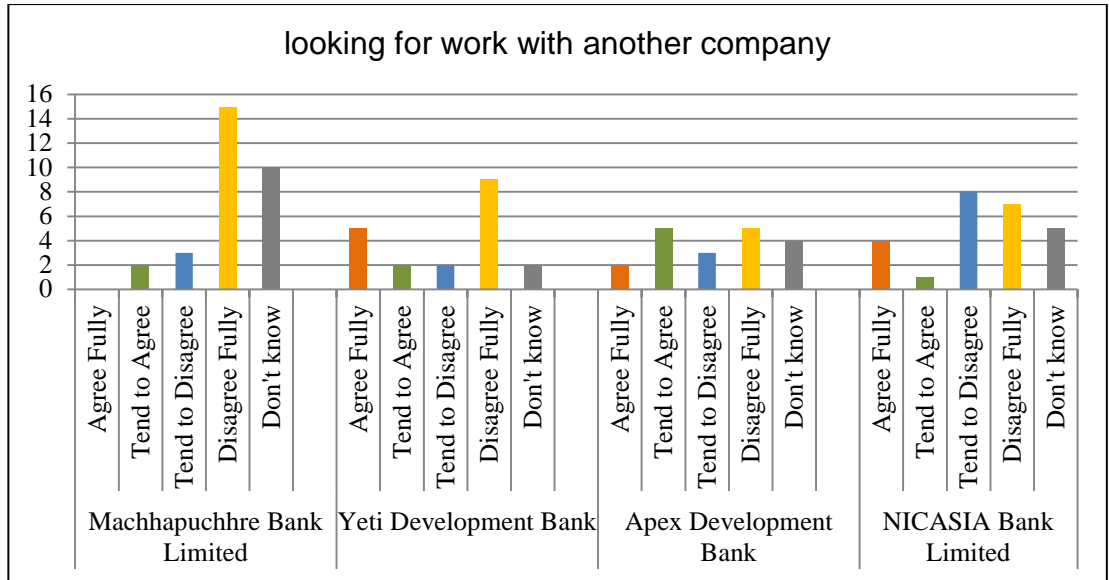


Figure 8: Looking for work with another company

### 6.1.3 Impact of M&A on employees working company

This paper further asks the question whether the impact of mergers and acquisition have had on the company. Revealed results provided evidence of 20 financial institutions dissolved their previous identity and operated under a new name. However, 23 financial institutions absorb another company to increase their paid-up capital.

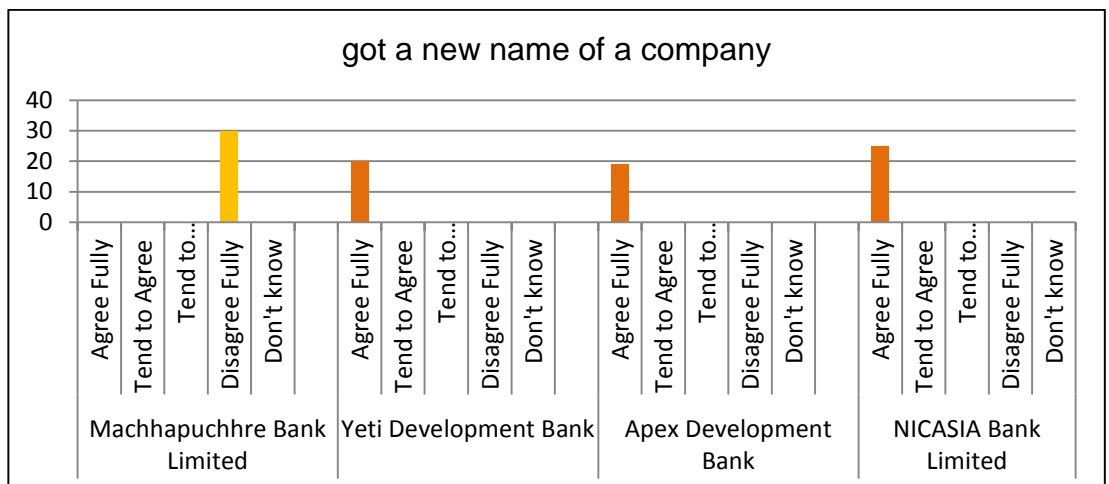


Figure 9: got a new name of a company

Merger activity necessarily created a high degree of hope among the employees, as merged entity reported a better financial performance in 2012 and 2013. All the employees of the sampled had agreed and fully agree that the company will perform better in future.

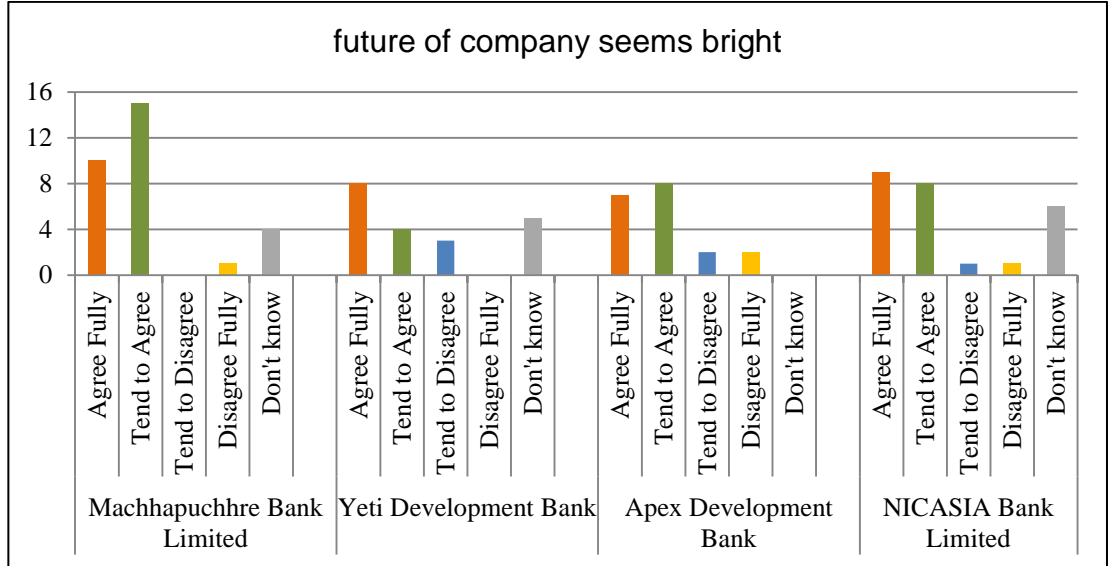


Figure 10: future of company seems bright

Another result revealed that employees were fully disagree that the company reward good work fairly because the employees concerned were less likely to be consulted in higher management.

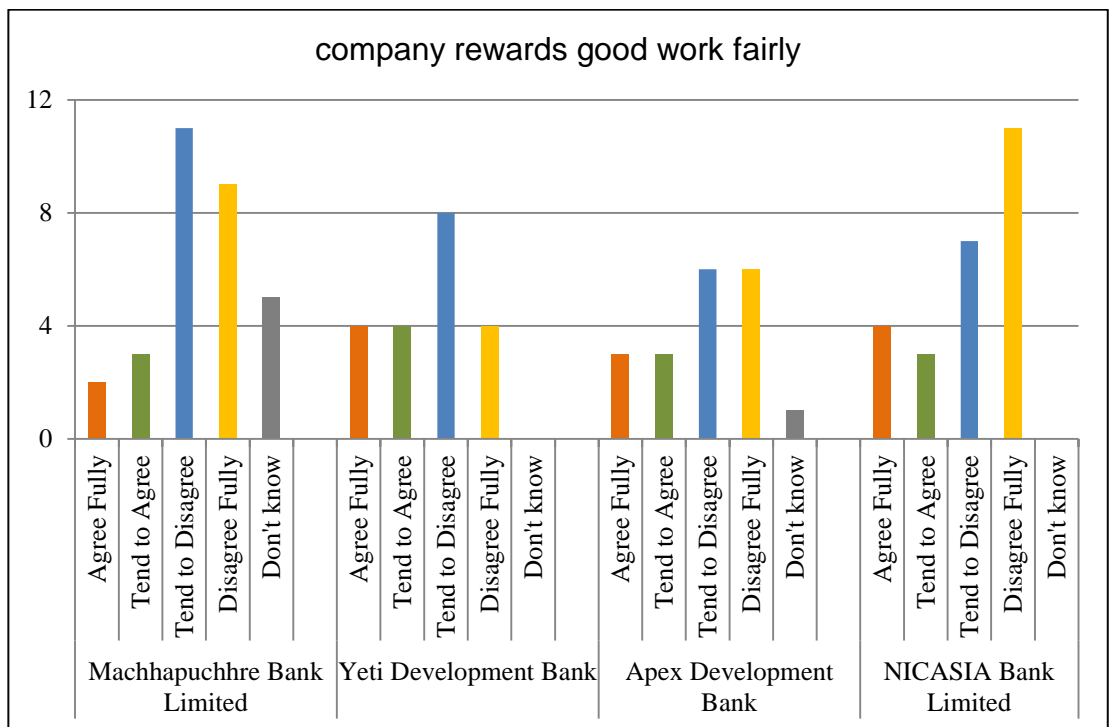


Figure 11: company rewards good work fairly



### 6.2 Impact of M&A on merged entity clients and customers

It is difficult to assess the impact of merger and acquisition on customers because it depends on the impact of other factors such as education level, media coverage, information technology, communication and infrastructure. A total of 98 participants took part in the survey. Surprisingly, 80 percent of banks customer are not aware of ongoing merger trend in Nepalese financial sector. Only 20 percent customers are aware of ongoing M&A activities in Nepalese financial sector. The financial services rendered by banks have not yet reached to the poor people particularly people living in remote areas of the country.

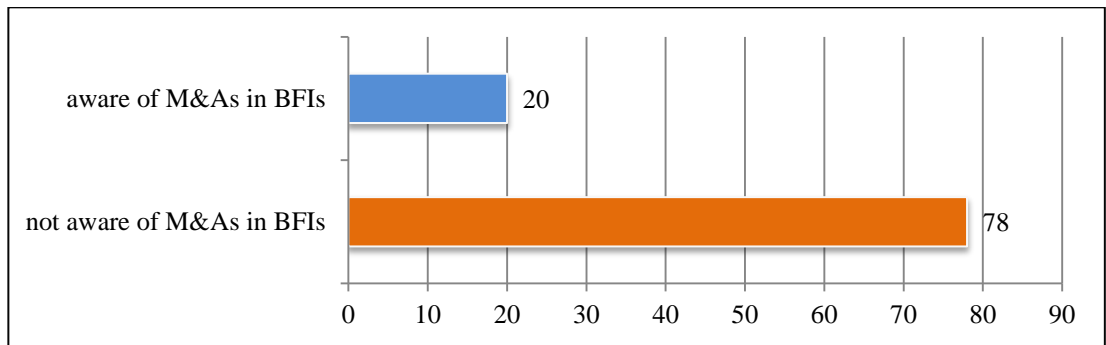


Figure 12: number of customer aware and not aware of M&A activity in Nepal

Analyzing the research result, it can be seen the almost all clients and corporate customer agree and fully agree that the customer service of merged banks is fast and caring.

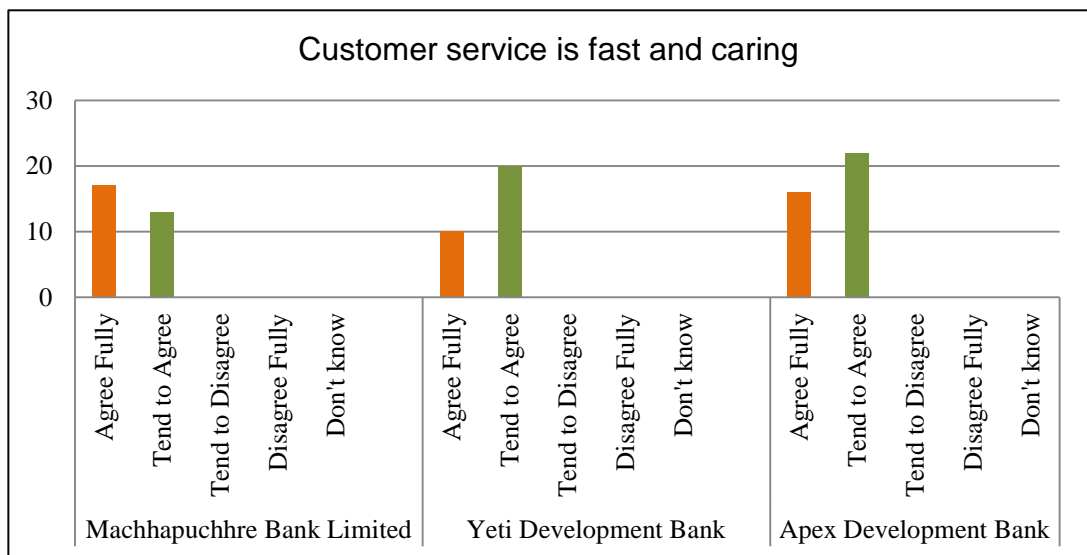


Figure 13: customer service is fast and caring

Similarly, another result revealed that there was significant impact of M&A on interest rate of the customer deposits, as 16 customers fully and 12 customers partly agree that the merged banks lowered the interest rate from 12 percent to 4 percent.

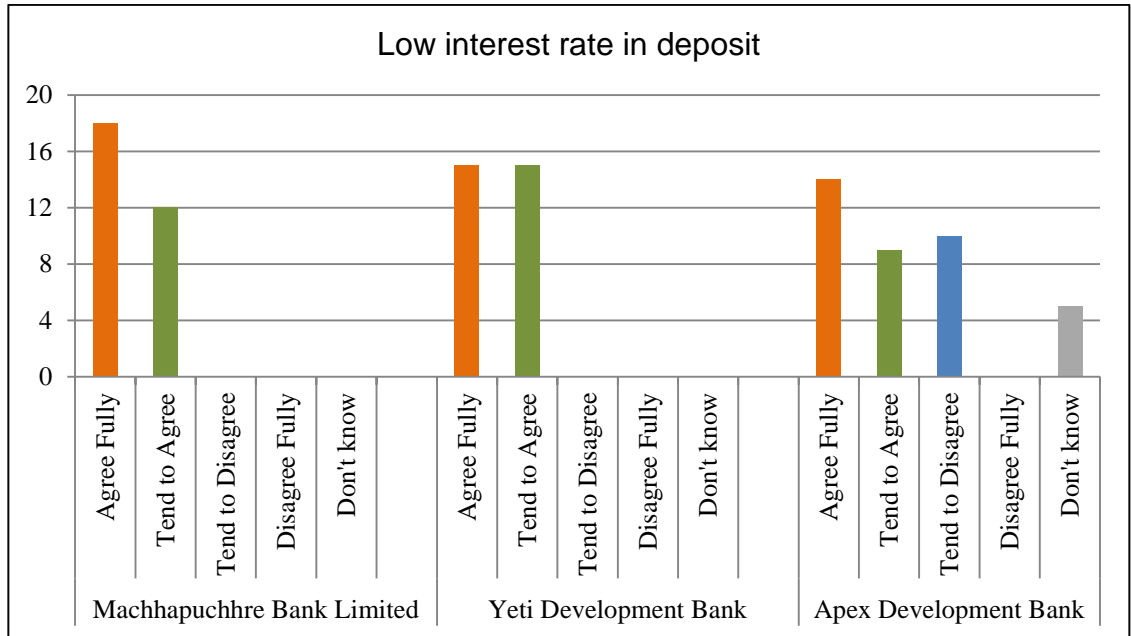


Figure 14: Low interest rate in deposit

Increment in service charges for loan, collateral with regard to merged banks shown by customer is very high. On average, 6 customers fully agree, 12 partly agree while 4 customers agree fully and 4 partly agree, while 6 customers have no idea about the changes in service charges. Therefore, in long run, it will detach the customer from financial services.

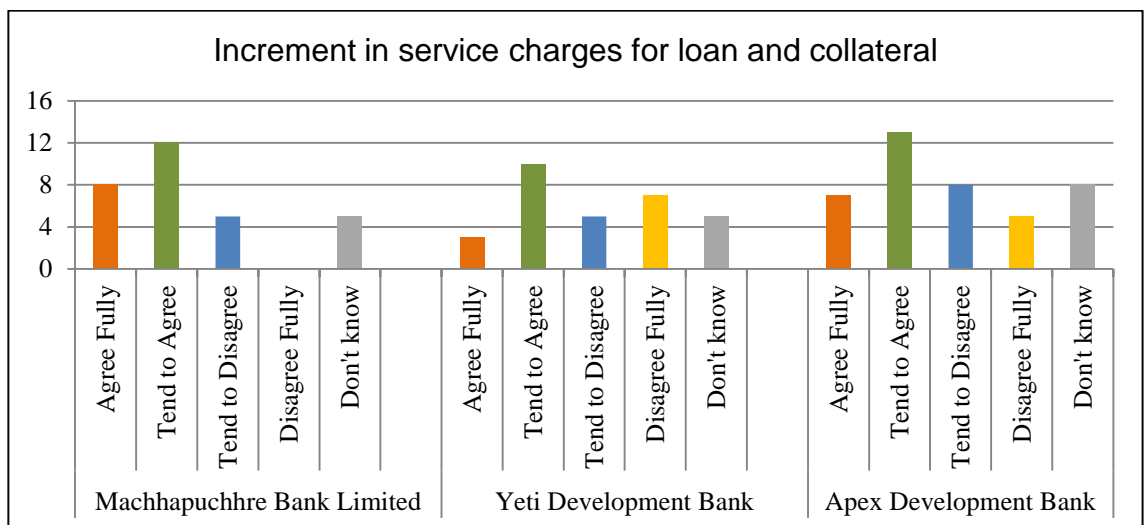


Figure 15: Increment in service charges for loan and collateral

### 6.3 Impact of M&A on shareholders

To identify the impact of merger and acquisition on shareholder's, this research work compare and analyze the extensive pre-and post-merger financial performance of the two sampled merged banks namely Machhapuchchhre Bank Limited and Global IME Bank Limited by using different financial and accounting indicators. Comparative statement analysis is an analysis method to understand the comparative position of financial and operational performance at different period of time (Paramasvian-Sunramanian 2013, 15).

Net profit/loss, Earnings per Share (EPS), Return on Equity (ROE), and Market Value per Share (MVPS) are the important financial indicators as it measures the rate of return on shareholder's investment. A trend analysis was conducted to understand the trend relationship with various figures appear in financial statements. The trend analysis can be taken as index number showing relative changes in the financial information. (Khan-Jain 2007, 70-75, 88.)

Net Profit/Loss is the total earnings or deficit of the concern company. It is calculated by subtracting all the expenses with its total revenue published by the company as an income statement. It measures the financial performance of the company. (Chandra 2008, 49.)

Table 6: Sample calculation of Net profit/loss

Particulars	Amount(Rs)	Amount(Rs)
Total Sales	100	
Less: Cost of goods sale	(50)	
Gross Profit		50
Less: Operating Expenses		(30)
Operating Profit		20
Less: Tax		(5)
<b>Net Profit/Loss</b>		<b>15</b>

Earnings Per Share measures the profit earned to the equity stakeholders on per share basis. It is calculated by dividing the net profit by number of outstanding shares. However, EPS does not show how much to be paid to the shareholder's as a dividend nor how much of the net profit will be allocated as a retained earnings. It gives an overall figure of net earnings belong to the ordinary shareholder's on per share basis. (Khan-Jain 2007, 24.)

<b>EPS=</b>	Net Profit Available to equity shareholders
	Number of Ordinary shares outstanding

Return on Equity (ROE) measures the rate of profit generated by utilizing the shareholder's funds. It is calculated by dividing the profit after taxes by average shareholder's equity. The ratio show how effectively the shareholder's investment has been utilized by the firm. (Khan-Jain 2007, 23.)

<b>Return on Equity(ROE) =</b>	Net profit after taxes	*100
	Average total shareholder's equity	

**Note:** The amount of financial figures calculated in the table 7 and 8 was in Nepalese currency, NPR. The financial statement published by the merged entity is based on the Nepali calendar which is 56 years and 8 month ahead of English calendar.

#### Sampled Bank I (Machhapuchchhre Bank Limited)

Machhapuchchhre Bank Limited is the largest commercial bank in western region of Nepal which was established in 1988 and started its operation from the 2000. Machhapuchchhre Bank has merged with Standard Finance Limited in the year 2012 and become the first largest bank in western region based on the paid-up capital, i.e. Rs. 2.47 billion rupees. Since after the merger, the bank has reported a tremendous growth in its profit in the second quarter of the fiscal year 2013/2014. In addition, the market price per share has increased to NPR 440 compared to NPR 133 in the previous year. More recently, the board meeting of the bank has passed a proposal to merge with any other financial institutions. (Machhapuchchhre Bank Limited 2014.)

Table 7: Financial indicators of MBL (Nepal Rastra Bank 2014; ShareSansar 2013)

Machhapuchchhre Bank Limited					
Particulars	Pre-merger				Post-merger
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net Profit After Tax	47,843,000	9,410,000	67,402,000	Merged with Standard Finance Limited	67,402,000
Return on Equity	1.74%	3.82%	2.35%		2.35%
Earnings per share	4.31	0.77	10.88		10.88

Following the merger trend in Nepal, a new ray of hope has arisen in the financial sector. In the midst of entire pre- and post merger scenario, Machhapuchchhre Bank Limited has performed better in fiscal year 2013 compared to the corresponding pre- merger period. MBL was able to make steady net profit of Rs.67, 402,000. The trend analysis shows that the Machhapuchchhre Bank was expected to make an increment in their earnings in future too.

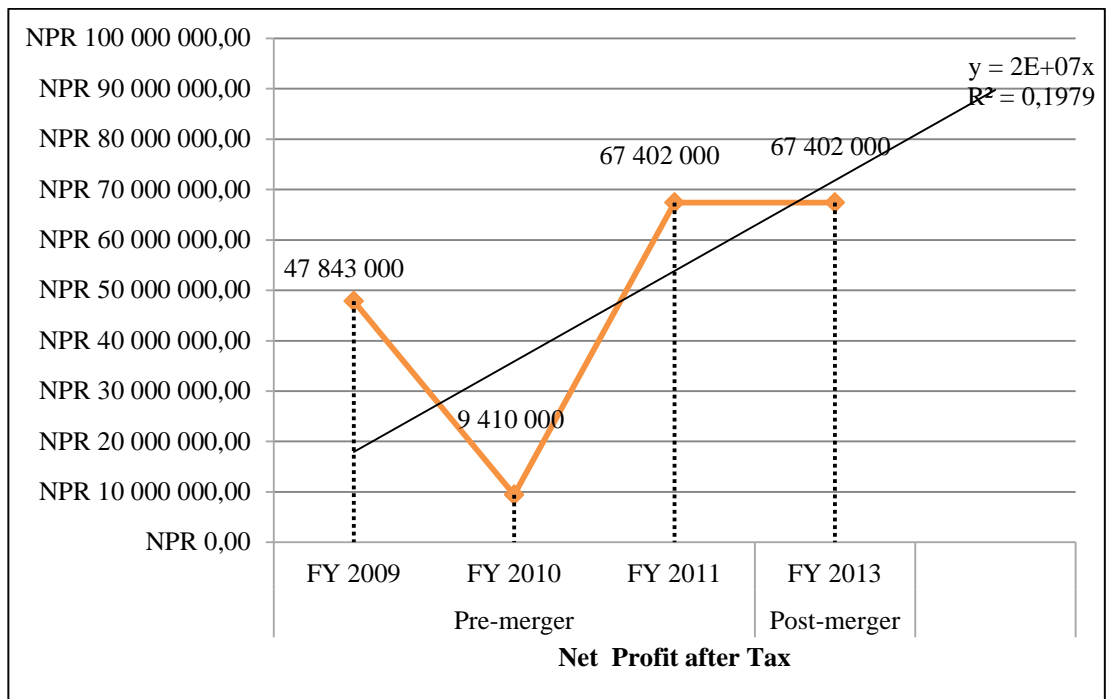


Figure 16: Net Profit after Tax (NPAT) of MBL Bank

During the post-merger period, the EPS of Machhapuchchhre Bank Limited was 10.88 which is higher than the average EPS in pre-merger period. The post merger performance compared to pre-merger performance witnessed some volatility due to the contrast in net earnings. The anticipation of higher EPS in coming years was expected by the trend analysis.

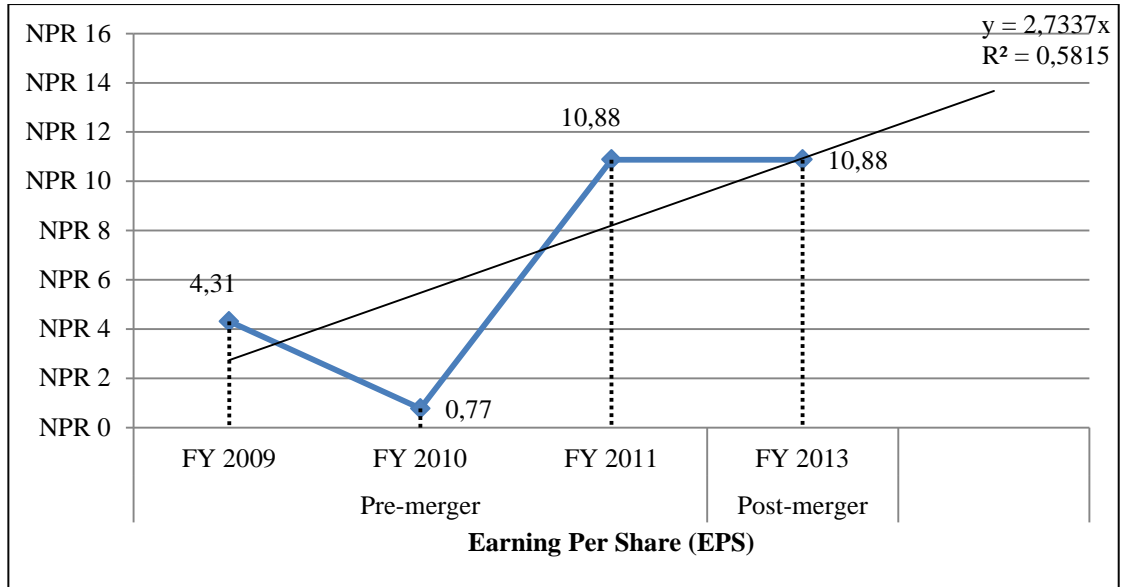


Figure 17: Earnings per Share of MBL Bank

As the figure suggests, MBL has highest ROE in the fiscal year 2010. But looking at the post-merger period, the growth tends to tumble in the year 2013. Therefore, the MBL had to pay due attention to stimulate the rate of return to its shareholder's.

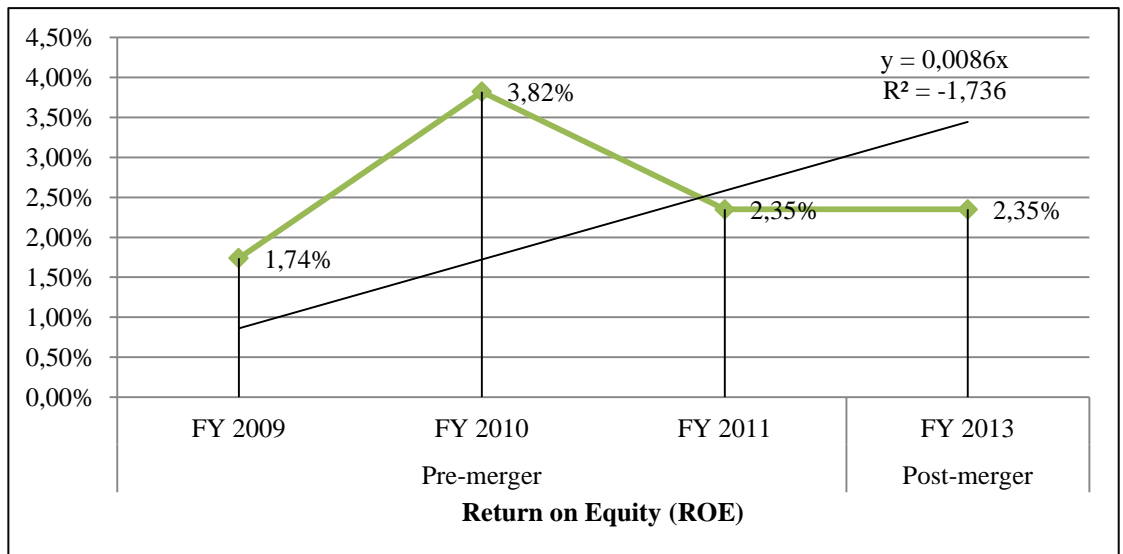


Figure 18: Return on Equity (ROE) of MBL Bank

Sample Bank II (Global IME Bank Limited)

In the year 2012, Global Bank Limited has merged with IME Finance and Lord Buddha Finance Limited. All the three BFIs dissolved their previous identity and operated under a new brand name Global IME Bank Limited. Now, the paid-up capital of Global IME bank has increased to NPR 2.42 billion. (Global IME Bank Limited 2014.)

Table 8: Financial indicators of Global IME Bank Limited (Nepal Rastra Bank 2014; ShareSansar 2013)

Global IME Bank Limited					
Particulars	Pre-merger			Post-merger	
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net Profit after Tax (NPAT)	73,003,292	224,977,751	265,316,025	Merger of Global Bank, IME Finance, Lord Buddha Finance	271,428,000
Return on Equity (ROE)	13.17%	9.51%	12.41%		16.50%
Earnings Per Share (EPS)	10.2	14.06	11.79		10.88

Global IME bank has a highest net profit of NPR 271,428,000 after merger period. It seems that, the bank will maintain the aggressiveness in making more profit in the year 2014 and 2015.

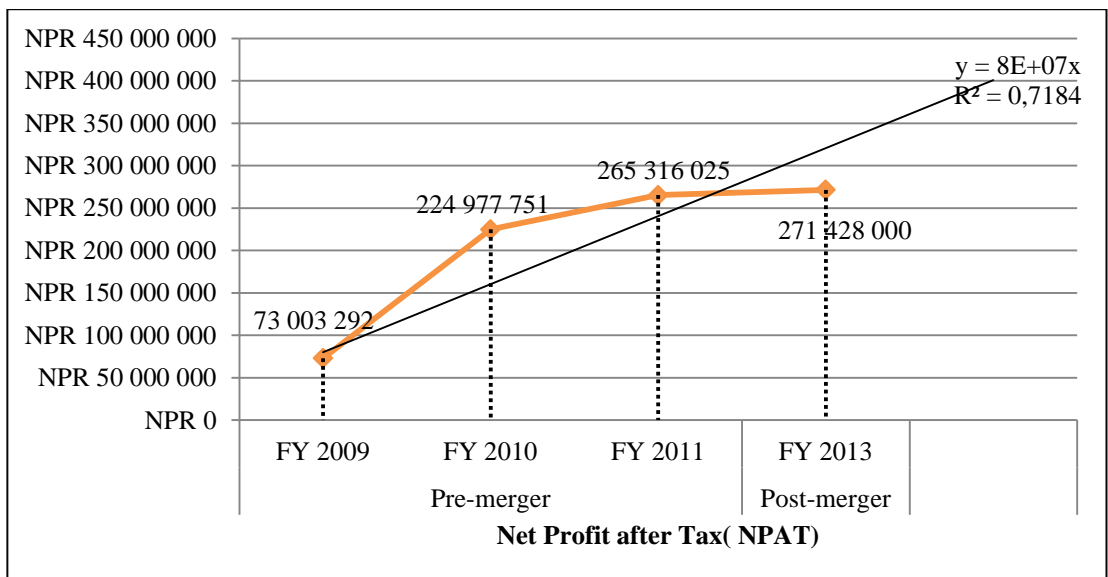


Figure 19: Net profit after Tax (NPAT) of Global IME Bank

There has been a significant growth in ROE of Global IME bank i.e. 16.50 percent in the fiscal year 2013 when the Global IME bank emerged after a successful merger. The increase of figure suggests that the Global IME bank is the best performer from shareholder’s point of view.

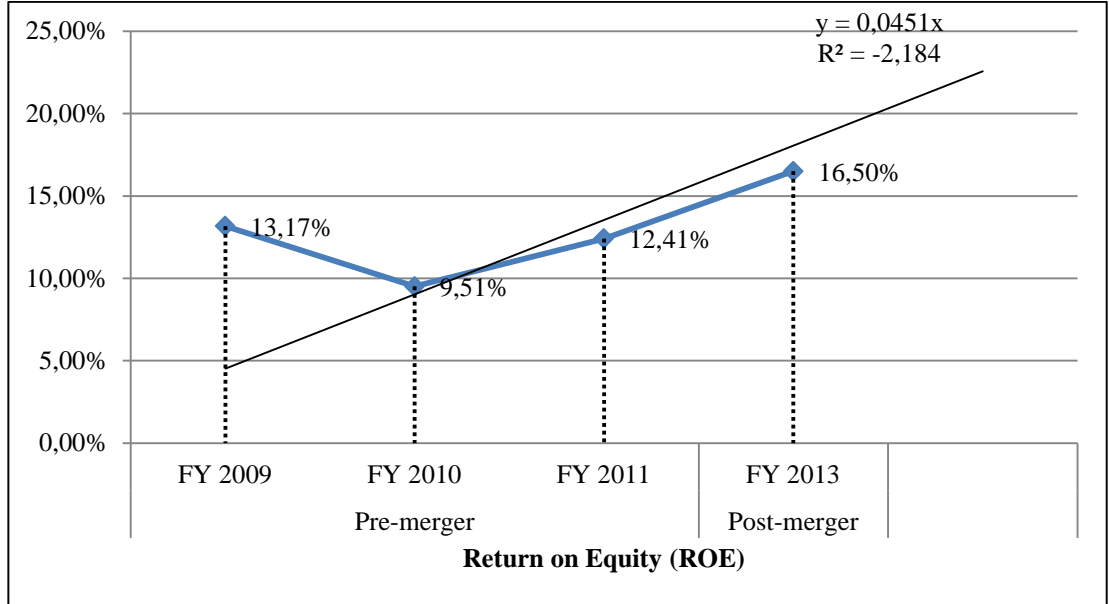


Figure 20: Return on Equity (ROE) of Global IME Bank

The figure that the EPS of Global IME Bank Limited has been falling gradually to 10.88 in the fiscal year 2013 compared to 14.06 in fiscal year 2010. Even though the target of merger was not achieved, EPS trend line has brings a ray hope among shareholders in coming years.

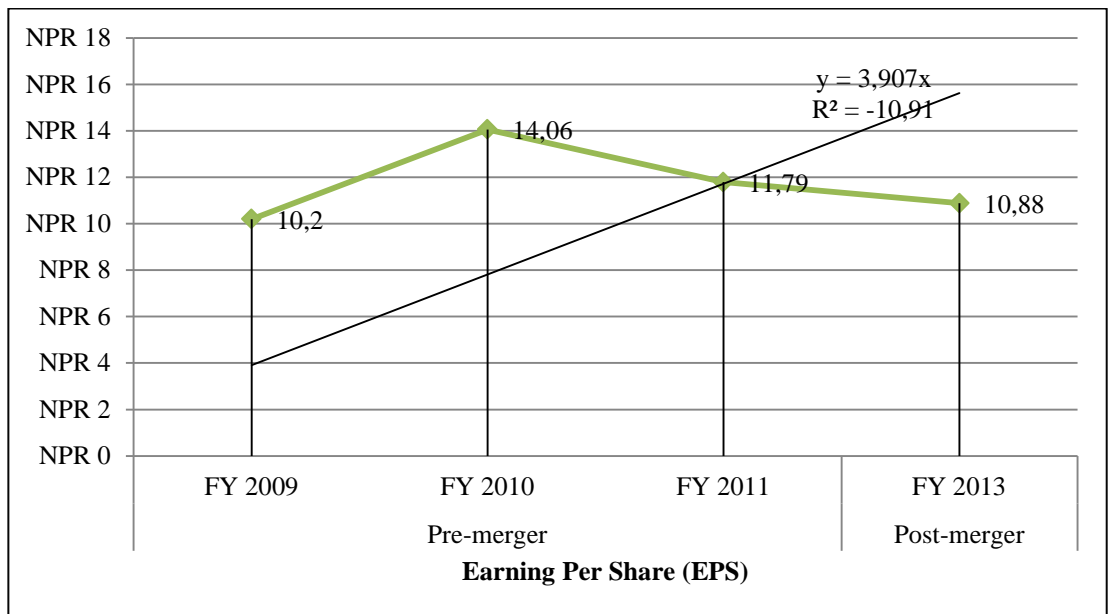


Figure 21: Earnings Per Share (EPS) of Global IME Bank



## **6.4 Impact of M&A on Financial sector**

To identify the impact of M&A on financial sector of Nepal, an open interview was conducted with Mr. Manoj Raj Ghimire. Currently, Manoj Raj Ghimire is the branch manager of Machhapuchhre Bank Limited in Aanboo Khaireni Branch, Tanahun, Nepal. He is an experienced banker who has worked in Machhapuchchhre Bank for 13 years in different branches and various departments such as accounts, internal audit, employee's trainer and business development.

### **What is the present situation of Nepal Banking and Financial Institutions?**

Now, the banking and financial institutions of Nepal are more stable and secure in terms of liquidity crunch. As NRB has introduced a merger bylaws policy on 2011, 43 financial institutions has consolidate with each other. The share market activity has inclined since merger announcement and share value has doubled within a years of merger activity. This is sure to have a positive impact of national economy. Currently, we can see that banks are able to invest in long term project such as hydropower, communication and transportation.

### **The financial institutions is blamed that it has concentrated its services only to major cities and invested in non-productive sector. What do you say about it?**

It is quite obvious that financial institutions have concentrated their services to major cities of the country. Lack of infrastructure is the main reason for expanding the banking services to the remote areas. Another issue is that the financial sectors are established for making profits. Bankers invest their capital where is there is high earning with minimal risk.

### **Economic liberalization in Nepal started on 1950's, since then there is a tremendous growth of financial institutions, however, the quality of service provided by financial institutions is still questionable. What is your comment on that?**

The blame is baseless. The quality of service provided by BFIs has increased parallelly with the expansion of financial sector. I am working in Machhapuchchhre Bank Limited for the last 13 years. If you compare the service quality of financial sector 5 years before and now, the customer satisfaction rate is high with reference to service rendered. I agree that the tremendous growth of financial institutions and lack of skilled manpower's bring up new challenges with operational risk. In addition to, there is unfair competition among financial institutions where there is a possibility that quality of financial institutions might suffer.

**How do you see the new licensing policy of NRB to increase the paid-up capital for all the banking and financial institutions?**

As per the current licensing policy of NRB, commercial banks should have a paid-up capital of Rs 2 billion, development banks should have Rs 100-640 million and the finance companies should have Rs 100-300 million. This new policy obliges the bank and financial institutions to increase their paid-up capital by inflowing the extra capital from shareholder or to go for a merger. In 2011, NRB introduced a forceful merger bylaw that pressurizes all the BFIs to go for an immediate merger. I think the policy has come in right time to save the Nepalese financial sector from collapsing.

**Do you think that the Nepalese financial institutions will go for merger and acquisition?**

Since the merger bylaw has been implemented, the financial sector has witnessed 42 sets of merger activity including commercial banks. There is no choice for financial institutions rather to go for a merger. However, majority of Nepalese banks are owned and controlled by small number of business houses. The mindset of the owners and financial institutions do not want to let off their control.

**What are the emerging challenges for merger transition among BFIs?**

There are some noticeable challenges to for merger transition among BFIs such as brand name, structure of shareholders and board of directors, employee's management, banking software and new management teams.

**Since the 43 different set of merger among BFIs has taken place, how the financial market can benefit from the ongoing merger and acquisition?**

If you look at the trend of share market before and merger, one can see a wide gap of trading volume in share market. The share value of Machhapuchchhre Bank has doubled within the period of 3 years. A number of BFIs has transferred their capital into reserve which makes them financially stable. The positive impact of merger has been visible in the volume of financial market also. Before merger, the share trading was NPR 3 crore in a day. But, today the financial market has been able to make a trading of 40 crore per day.

**Where do you see the financial market in days to come?**

I am optimistic and positive yet there are many challenges to cope in order to make the financial market financially viable and stable. Merger and acquisition will bring down the number of financial institutions and flow of investment to the financial market boost the sluggish share market as well as the overall economy of the country. In the previous years, financial market was tumbled by the intense competition among BFIs and the share price has been overvalued because the secondary market customer did not show any interest to buy the shares. However, the scenario has changed today largely due to the forceful merger and acquisition introduced by Nepal Rastra Bank.

## 7. DISCUSSION AND CONCLUSION

The purpose of this research was to investigate the impact of ongoing M&As on Nepali BFIs and to assess the empirical results whether the M&A's play an important role in strengthening the Nepalese banks and financial institutions. Web-based online survey tool has been used to identify the impact of M&A's on the employees and service consumers of merged entities. Sample banks were Machhapuchchhre Bank Limited, Apex Development Limited, Yeti Development Bank Limited and NIC Asia Bank Limited.

In sub-chapter 6.1.1, the result obtained provides the evidence that BFIs have a significant influence on the working department of employees. Employees of HRM tend to fall sharply triggered by merger activity. Similarly, as shown by the result in chapter 6.1.2 and 6.1.3, it implies that the employees working outside the capital city shows no fear of losing a current job as well no remarkable shift of employees has been observed. Also, 31 out of 94 employees fully disagree, meaning that they were not enjoying working on the sampled banks. It also appears that the employees were not satisfied by the wages, salary and working hours of the concern BFIs. However, employees are optimistic about the future on the new company and wish to continue their job in the concern BFIs.

In the chapter 6.2, the results shows the 80 percent of service consumers of banks are not aware of the merger transition in Nepali BFIs. Only few, corporate and rich clients were aware of the structural changes in BFIs. The increment in service charge and complex procedure of merged BFIs has an immense effect on the consumers. In the long run, it will detached customer from bank service and offerings. However, customers were fully satisfied with the quality of service provided by the private banks of Nepal.

In the chapter 6.3, the result has obtained by comparing the pre-and post-merger financial performance of sampled banks namely Machhapuchchhre Bank Limited and Global IME Bank limited. Results suggest that Global IME bank is technically efficient in generating more returns to share owners. However, looking at the post-merger trend, we can conclude that the sampled bank can produce more return to its shareholder's in the days to

come. Despite many setbacks, the Nepal Rastra Bank has successfully implemented the merger bylaws policy in Nepali BFIs and transformed the weak and unstable financial institutions into strong, stable and credible financial institutions.

The author would like to recommend some suggestions for further research as there are many areas still need to be discovered in relation to the merger transition in Nepal and its impact on employees, customer, shareholder's and financial market. In order to get more precise data, the author recommends future researchers to adopt better research techniques and method and cover more merged banks into consideration since this research has been conducted only in few merged BFIs. For the time being, the research can be helpful for the Nepal Rastra Bank and BFIs of Nepal to develop new policy and strategy in the future.

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**APPENDICES**

Survey Questionnaire

Appendix 1

Survey Questionnaire

Appendix 2

### Merged Bank and Financial Institutions Employee Survey

The following questionnaire is a part of a merged BFIs employee's survey, conducted as a part of thesis work.

The aim of the survey is to analyze the impact of M&A on employees. Answers to the survey remain confidential, so you can freely express your personal opinions. It will take around 10 minutes to answer the questionnaire.

We thank you for your participation.

Santosh Adhikari  
Lapland University of Applied Science  
Rovaniemi, Finland  
Santosh.Adhikari@edu.lapinamk.fi

1. Name the type of Bank and Financial Institutions you are working at the moment?
  - Commercial Bank
  - Development Bank
  - Financial Companies
  - Other, Please specify
  
2. Name the Bank and Financial Institutions you are employed for?
  
3. In which department do you work?
  - HRM
  - Loan
  - Treasury
  - Cash Vault
  - Teller
  - Online and customer service
  - Finance and Investment
  - Accounting
  
4. How long you have been employed for the company?
  - Less than 1 year

- 1- less than 2 years
- 2- less than 3 years
- 5- less than 15 years
- 15- less than 25 years

5. Are you aware of merger bylaws imposed by Nepal Rastra Bank on bank and financial institutions?

- Yes
- No

6. Please rate your impact of M&A concerning your work?

	Agree fully	Tend to agree	Tend to disagree	Disagree fully	Don't know
I fear of losing a current job					
I get a new supervisor					
I enjoy working here					
My working is more challenging and interesting					
I am satisfied with the work, wages and working conditions					
My job is mentally taxing and causes stress					
I have recently thought of looking for work with another company					

7. What are the other impacts of M&A in your workplace?

8. Please rate your impact of merger and acquisitions concerning your department?

	Agree fully	Tend to agree	Tend to disagree	Disagree fully	Don't know
I have a new colleagues in my work place					
New Leadership in our department					
If I disagree with anything, I can freely express my opinions to my senior management					
In our department we live up to the values and principles of the company					
Staff has accepted the changes in work quickly in our department					

9. What are the other impacts of M&A in the activities of your working department?

10. Please rate your impact of M&A concerning your company

	Agree fully	Tend to agree	Tend to disagree	Disagree fully	Don't know
We got a new name of our company					
Our company recent development and changes in the right direction					
The future of the company seems bright					
Our company rewards good work fairly					
The changes in our company have been implemented well					
Our company carries new values and objectives					
Activities are complicated by too much bureaucracy and formality in our company					

11. What are the other impacts of M&A in your company?

12. Please offer your suggestions on what way M&A impact you and way to improve this.

### Merged Bank and Financial Institutions Employee Survey

The following questionnaire is a part of a merged BFIs employee's survey, conducted as a part of thesis work.

The aim of the survey is to analyze the impact of M&A on employees. Answers to the survey remain confidential, so you can freely express your personal opinions. It will take around 10 minutes to answer the questionnaire.

We thank you for your participation.

Santosh Adhikari  
Lapland University of Applied Science  
Rovaniemi, Finland  
Santosh.Adhikari@edu.lapinamk.fi

1. Name the type of Bank and financial Institutions you have a bank account?

- Commercial Bank
- Development Bank
- Finance Companies
- Other, Please Specify

2. Name the bank and financial institutions you have a bank account?

3. Please select the type of your bank account?

- Current Account
- Savings Account
- Fixed Deposit Account
- Other, Please Specify

4. Do you experience any changes in the value, products, services and reputation of the company?

- Yes
- No

5. Please rate your service experience after M&A?

	Agree fully	Tend to agree	Tend to disagree	Disagree fully	Don't know
Customer service is fast and caring					
General Information is available from info desk					
Staff smile and greeted well					
I didn't felt any changes in the customer service					
Staff treat its customer fairly and evenly					

6. Please rate your service experience on the facilities of BFIs after M&A?

	Agree fully	Tend to agree	Tend to disagree	Disagree fully	Don't know
Low Interest in deposits					
Increment in service charge for loan, borrowings, collateral					
Number of ATM counter are cut-offs					
Number of branches has been decreased					
Adoption of new technologies					
Services and charges monopoly					

7. Do you think banking M&A has restricted competition and created monopoly?

8. Please offer your suggestions how banking M&A impact you and way to improve this.