CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The history of Merger and Acquisitions began long before early 1900s. This period of time covers six main waves of Merger and Acquisitions for the past 100 years and these are those of the early 1900s, 1920s, 1960s, 1980s, 1990s, and 2000s. In the past decades, Merger and Acquisitions activities have increased rapidly and come to a light since 2000 when Asian 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 (Association of Southeast Asian Nations) nations entered into the Merger and Acquisitions activity as new major players in global market. Besides, cross- border Merger and Acquisitions became an instrument to pursue a business growth in global markets. According to Shrestha (2012), the concept of Merger and Acquisitions 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. However, many had doubts that the BFIs would go for merger immediately as there were no separate acts and verdict 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. The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980s by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brought 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".

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 gain 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. 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 60 financial institutions including commercial banks, development banks and finance companies have merged forming 27 financial institutions as of July 2014 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.

Table no. 1.1

Number of merged BFIs and their date of operation

S.N	Merged BFIs		Institutions Name & Class after Merger	Date of Operation after Merger
1	Himchuli Bikash Bank Ltd (Class " B")	Birgunj Finance Ltd ("C" Class)	H &B Development Bank Ltd (National Level "B" Class)	6/15 /2011
2	Business Development Bank (Class "B")	Universal Finance Ltd("C" Class)	Business Universal Development Bank("B" Class)	4/3/2012
3	Machhapuchchhre Bank Ltd ("A" Class)	Standard Finance Ltd ("C" Class)	Machhapuchchhre Bank Ltd ("A" Class)	7/9/2012
4	Global Bank Ltd ("A" Class)	Lord Buddha Finance Ltd &IME Finance Ltd	Global IME Bank Ltd ("A" Class)	7/10/2012

5	Pashupati Development Bank Ltd ("B" Class)	Uddham Bikash Bank ("B" Class)	Axis Development Bank Ltd (National Level "B" Class)	7/13/2012
6	Shine Development Bank Ltd ("B" Class)	Resunga Development Bank Ltd ("B" Class)	Shine Resunga Development Bank Ltd (National Level "B" Class)	3/17/2013
7	NIC Bank Ltd (" A" Class)	Bank of Asia Ltd ("A" Class)	NIC Asia Bank Ltd ("A" Class)	6/30/2013
8	Vibor Bikash Bank Ltd ("B" Class)	Bhajuratna Finance Ltd ("C" Class)	Vibor Bikas Bank Ltd (National Level "B" Class)	9/2/2012
9	Nepal Bangladesh Bank Ltd (" A" Class)	Nepal Sri-Janka Merchant Bank Ltd (" A" Class)	Nepal Bangladesh Bank Ltd(" A" Class)	1/26/2011
10	Professional Bikash Bank Ltd (" B" Class)	DiyaloBikas Bank Ltd (" B" Class)	Professional Diya lo Bikash Bank Ltd	7/9/2013
11	Araniko Development Bank Ltd ("B" Class)	Surya Development Bank Ltd ("C" Class)	Araniko Development Bank Ltd (National Level "B" Class)	7/14/2013
12	Samridhi Bikash Bank Ltd("B" Class) & Baibhav Bikash Bank Ltd (" B"Class)	Prabhu Finance Ltd (" C" Class)	Prabhu Bikash Bank Ltd (National Level "B" Class)	7/14/2013
13	Global IME Bank (“A” Class)	Social Development Bank (“B” Class) &Gulmi Bikash Bank (“B” Class)	Global IME bank Ltd (“A” Class)	7/14/2013
14	Global IME Bank Ltd (“A” Class)	Commerze & Trust Bank Ltd (“A” Class)	Global IME Bank Ltd. (“A” Class)	4/9/2014
15	Citizens Bank Int’l Ltd (“A” Class)	Nepal Housing and Merchant Finance (“C” Class)	Citizens Bank Int’l Ltd. (“A” Class)	5/8/2015
16	Parbhu Bank Ltd (“A” Class)	Grand Bank Ltd (“A” Class)	Parbhu Bank Ltd (“A” Class)	2/12/2016
17	Megha Bank Nepal Ltd (“A” Class)	Paschimanchal Development Bank Ltd (“B” Class)	Megha Bank Nepal Ltd (“A” Class)	4/25/2016
18	Bank of Kathmandu (“A” Class)	Lumbini Bank Ltd (“A” Class)	Bank of Kathmandu Ltd (“A” Class)	7/14/2016

Table no. 1.2

List of Financial Institution in Nepal

Types of Financial Institution	2014 (July)	2015 (Oct)	2016 (July)	2017 (Jan)	2018 (April)
Commercial Bank	30	30	30	28	28
Development Bank	81	76	73	57	57
Finance Companies	53	48	48	36	36
Micro Finance Financial Institution	37	40	41	48	48

Source: NRB Website

1.2 Brief introduction of sample BFIs

a. Machhapuchchhre Bank Limited

Machhapuchchhre bank limited registered in 1998 as the first regional commercial bank from the western region of Nepal. The "A" class commercial bank starts its banking operations from its own head office located in the pokhara since year 2000.

Machhapuchhre Bank Limited (MBL) and Standard Finance Limited started joint operation after merger from July 9 2012. The merged entity - Machhapuchhre Bank Limited - had a paid-up capital of Rs 2.47 billion. It was the second one commercial bank that has been gone under the merger process. After the merger the number of branch employees and paid-up capital was raised. The bank has 77 branch offices, 2 extension counter and 21 Branchless Banking Units and 88 ATMs spreads all across the country, it is one of the full- fledged national level commercial banks operating in Nepal.

b. NIC Asia Bank Limited

NICASIA Bank was founded as NIC Bank on 21 July 1998. It was renamed NICASIA Bank on 30 June 2013 after it merged with bank of Asia Nepal.

NICASIA bank has 184 branches and 190 ATMs with plans to continue to expand. It was named as Bank of the year (Nepal) by the banker, financial times, UK in 2007 and 2013. The bank has customer base of 270000 and strong capital base of close to RS 5billion.

NIC Asia bank's merger was first merger between two 'A' class commercial bank in history of Nepal. After the completion of the merger of NIC Bank and Bank of Asia Nepal (BOAN), NIC ASIA Bank commenced its operation on June 30, 2013. With the merger, NIC-Asia Bank turned into one of the largest commercial banks of Nepal in terms of capital base, balance-sheet size, branch/ATM network, customer base and employees. The Swap ratio in the merger process was 2:1.

c. Global IME bank Limited

Global Bank was the first category 'A' financial institution to lead the merger of three institutions. It was merge with Lord Buddha finance company and IME finance Company in 7/10/2012 and later on it was changed with Global IME Bank Limited. Two more Banks (Social Development Bank and Gulmi Bikash Bank) merged with Global IME Bank Limited in year 2013. Later in the year 2014, Global IME Bank Limited made another merger with Commerz and Trust Bank Limited an ‘A’ class Bank. Global Bank Limited was established in 2007 as an “A” class commercial bank in Nepal. The bank was established with the largest capital of NPR 1 billion. The paid up capital of the bank has since been increased to NPR 6.16 billion.

Global IME Bank Limited has been conferred with the bank of the year award 2014 for Nepal by the Bankers magazine (publication of the financial times, UK). GIBL has been appointed as handling bank unit of CREF (central renewable energy fund) under AEPC (alternative energy promotion center). GIBL has been the first ever bank selected for such propose by AEPC. Authorized capital of Global IME Bank is NPR 10,000 million and paid up capital is NPR 6164.27 million. The promoters hold 51.18% (Institutional Shareholders 17.58% and Individual Promoters 33.60%) while 48.82% is floated for the public. The bank has been maintaining harmonious correspondent relationship with above 60 different international bank from various countries to facilitate trade, remittance and other cross boarder services. Through these correspondents the bank is able to provide services in any major currencies in the world. The bank also maintains its extension offices in India and Middle East to assist in the remittance of funds from overseas Nepalese workers.

The bank is now operating 129 branches, 4 extension counters and 14 revenue collection counters spread throughout Nepal. The bank also operates 131 ATMs throughout the country strategically placed for the convenience of customers.

1.3 Problem Statement

Banks play vital role in economic growth of the country. As being a commercial institution, a commercial bank must make profit out of its operation for its survival and fulfillment of its responsibilities. The major activities of the banks include mobilization of resources, which involves cost, and profitable deploym ent of the resources, generating income. The excess return income over expenses is the main source of profit to the bank. In case the bank fails to generate sufficient returns on the resources deployed, it make a drain on the company's resources and country's resources as well. Shareholders and managers of banks turn to mergers and acquisitions in the hope of improving financial performance and competitive strength, business expansion, global reach, teach innovation etc. Some studies have suggested that merging banks perform better than the individual banks performed before the merger whereas other studies have not found any meaningful improvement in financial performance as a result of a merger. The study observed that mergers did not lead to an improvement in performances measured by profitability adjusted for the industry average. Whether merging two banks is a worthwhile undertaking.

In this away this study will be aim to answering the following research questions:

i) What are the impacts on employees and shareholder after merger and acquisition in BFIs?

ii) What are the challenges of Merger and Acquisition of BIFs?

iii) Whether the Merger and Acquisition could be helpful to strengthen.

1.4 Objectives of the Study

The main objective of this study is to find the Impact and Challenges of commercial bank specially four banks; NICASIA Bank Limited, Machhapuchhre Bank Ltd and Global IME Bank Ltd. after the merger and acquisitions

The specific objectives are

1. To assess the impact of Merger & Acquisition on employees & shareholders of the selected BFIs.
2. To examine the challenges of merger and acquisition of banks.
3. To examine the capital strength before and after Merger and Acquisitions.

1.5 Significance of the Study

The study would have significance to a number of stakeholders. The study would be of value to investors and firms in NEPSE in having knowledge on the understanding of the importance of mergers and acquisitions in analyzing company performance. It would also benefit other firms in competitive industry and others not listed at NEPSE. The study would further provide more insight into their relationship between mergers and acquisitions and performance of commercial banks which would be of value to academicians and researchers in the same field. The environment is very dynamic making it a requirement for practitioners of management to update themselves and their respective industries on the best practices required. The study would also contribute to the bulk of knowledge and research at the University as it would be used as a basis of reference by students for any future study in the field of mergers and acquisitions.

1.6 Limitations of the Study

Every study has its own limitations, so it is also not free from that. This study is conducted for the partial fulfillment of Master Degree in Business Studies (MBS), so it possesses some limitations of its own kind.

The main limitations of the study are as:

- The overall study only covers aspect of merger and acquisition of Banking and Financial sectors
- The analyzing part of the study covers only three merged institution i.e.; NIC Asia

Bank Ltd, Machhapuchhre Bank Ltd and Global IME Bank Ltd.

- Financial data of the bank is limited to just six fiscal year
- The data collected from the employees and customers of one institute may not be applicable to other institute.
- The financial data of the bank used in the study may not cover the actual figure of the industry
- The reliability of the study result depends on the respondents honesty.

1.7 Organizations of the Study

The study has been organized in to following five different chapters:

Chapter I: Introduction

This chapter has included introduction, general background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter II: Review of Literature

This chapter has included conceptual as well as theoretical review of the study. It includes the review of various journals, books, published or unpublished articles, thesis and other materials concerned with the study.

Chapter III: **Research Methodology**

This chapter answers the question of how research is conducted. It has included research design, population and sample, source and technique of data collection, data analysis tools and limitations of the methodology.

Chapter IV: Result

In this chapter, the collected data has been tabulated and analyzed by the use of various statistical tools, financial and accounting tools, graphs and figures. It also included the major findings of the study.

Chapter V: Conclusion

This is the last chapter of the study covered the summary of the study. The main conclusions were drawn on the basis of analysis of data and some recommendations as well as suggestions were made on the basis of the study.

Bibliography and appendix have also been incorporated at the end of the study.

CHAPTER-II

LITERATURE REVIEW

2.1 Conceptual Review

It indicates the theory related to merger and acquisition, concept of merger and acquisition, history of merger and acquisition and impact and challenges of merger and acquisition of Nepalese commercial bank. It also overlooks the merged Bank and Financial Institution, the merger bylaw introduced by Nepal Rastra Bank as well as the types of merger.

2.1.1 Theory Related to Merger and Acquisition

2.1.1.1 Bank Concentrate on Theory

Concentration refers to the degree of control of economic activity by large firms (Sathye, 2002). Bank concentration theory is linked to the work of (kunt and Levine, 2000) and that of (Boyd and Runkle, 1993). Kunt and Levine (2000) said that, bank Concentration implies a fewer number of banks. A smaller number of banks may facilitate bank Supervision and monitoring by the private sector with beneficial spill over for overall banking sector stability. Concentration theory of banks is often related to the concept of economies of scale. Increases in concentration levels could be due to considerable size enlargement of the dominant firms and considerable size reduction of the non-dominant firms. Conversely, reduction in concentration levels could be due to considerable size reduction of the dominant firm and considerable size enlargement of the non-dominant firms. The degree to which banking market structure matters for competition and performance is a hotly debated topic. As a result of lack of consensus on the matter, a number of bank concentration theories now exist. Mainly, these theories could be classified into pro- concentration theories and pro-deconcentration theories. Therefore, the theoretical analysis of the bank concentration theory shall be based on these two aspects of the theory; pro-concentration theory and the pro-deconcentration theory.

Pro-concentration theory

Proponents of banking sector concentration argue that economies of scale drive bank mergers and acquisitions (increasing concentration), so that increased concentration goes hand-in hand with efficiency improvements. Kunt and Levine (2000) suggest that greater bank concentration enhances bank stability; Proponents of this 'concentration-stability' view argue that larger banks can diversify better so that banking systems characterized by a few large banks will tend to be less fragile than banking systems with many small banks, where Allen and Gale (2003) says that, Concentrated banking systems may also enhance profits and therefore lower bank fragility. High profits provide a buffer against adverse shocks and increase the franchise value of the bank. Gradually, a few large banks are easier to monitor than many small banks, so that corporate control of banks will be more effective and the risks of contagion less pronounced in a concentrated banking system (Kuntand Levine, 2003). This indicates that crises are less likely to occur in more concentrated banking systems. In other words, the theory suggests that a less concentrated banking sector with many small banks has more chance to fall in financial crises than a concentrated banking sector with a few banks. According to Kunt and Levine (2000) increased concentration goes together with efficiency improvements. In terms of stability, greater concentration may augment the size, market power, and profits of banks, and thereby enhance diversification and create greater incentives for secure banks to avoid imprudent risk-taking. Thus, the pro- concentration theory advocates for few large banks in the banking industry , believing that large banks are "too big to fail", less vulnerable to banking crises and that they could be easily monitored and controlled.

Pro-deconcentration theory

According to the proponents of the deconcentration theory, concentration will intensify market power and political influence of financial conglomerates, obstruct competition in and access to financial services, reduce efficiency, and destabilize financial systems as banks become too big to discipline and use their influence to shape banking regulations and policies (Kunt and Levine, 2000). In the words of

Yusuf, PhD observe that, Kunt and Levine (2000) tells about the concentration may not only lead to banks that are too-big-to- fail and too-big-to discipline, concentration may create banks that disproportionately shape society's policies, regulations, and institutions governing banking sector activities. Similarly, large, politically influential banks may help shape the policies and regulations influencing banks' activities in ways that help banks, but not necessarily in ways that help the overall economy. For instance, concentrated banks may seek to stifle stock market development by pushing for higher taxes on capital gains and by discouraging regulations that protect the rights of small investors and promote accounting transparency. To boost the profitability of large clients, powerful banks may also seek to control "unruly" markets by weakening anti-trust laws and other policies designed to promote competition. Another pro-deconcentration position is that a more concentrated banking structure enhances bank fragility. Advocates of this 'concentration-fragility' view note that larger banks frequently receive subsidies through implicit 'too big to fail' policies that small banks do not enjoy. This occurs when regulators fear potential macroeconomic consequences of large bank failures. The greater subsidy for larger banks may in turn intensify risk-taking incentives beyond any diversification advantages enjoyed by them, thereby increasing the fragility of concentrated banking systems (Boyd and Runkle, 1993). Proponents of the concentration-fragility view disagree with the proposition that a few large banks are easier to monitor than many small banks. They believe that increased banking concentration will reduce the availability of credit supply to the economy, as concentration of banks will reduce small and medium scale enterprises' access to credit facilities. The policy implication of the pro-deconcentration theory is that higher market concentration is associated with lower socio-economic welfare thus, higher concentration is undesirable. The theory therefore, advocates for a less concentrated banking sector with many small banks.

2.1.1.2 "Eat or be Eaten" Theory of Mergers

According to the Professor Sheidu, The "Eat or be eaten" theory of mergers was propounded by Gorton, Kahl and Rosen (2005) as a response to the various merger waves experienced in the United State in the 1960s up to the late 1990s.

Gorton, Kahl and Rosen (2005) combine elements of neoclassical and behavioral theories in a new theoretical frame work called Eat or Be Eaten. The Eat or be eaten theory presents a model of defensive mergers and acquisitions. The theory argues that mergers and acquisitions can occur when managers prefer that their firms remain independent rather than be acquired. The theory further assumes that managers can reduce their chances of being acquired by acquiring another firm and hence increasing the size of their own firm. From the Article of professor Sheidu, Gorton, Kahl and Rosen (2005) describes the basic elements of the "eat or be eaten" theory is based on the following assumptions: First, managers may have a preference for keeping their firms independent. Managers of acquired firms are likely to play subordinated roles in the new firms or may even lose their jobs. Secondly, there is a state of the world in which at least some mergers generate value. Thirdly, a firm of a given size cannot acquire a larger firm. The larger the acquisition, the more difficult it is to finance. The assumption that a firm cannot acquire a firm that is larger than itself implies that a firm can reduce its chance of being acquired by acquiring another firm smaller than it. This increases its size, which then reduces the number of other firms that are potential acquirers. Merger waves arise because of the externalities involved in defensive mergers: one firm's defensive acquisition makes other firms more vulnerable as takeover targets, which induces them to make defensive acquisitions themselves, resulting in a race for firm size. Thus, the potentially profitable acquisition opportunity for one firm can lead to an "eat or be eaten" merger wave. From the Article published on international journal of business and Social Science by Professor Sheidu (et al, 2005) also observe that managerial self-interest could lead to inefficient mergers and acquisitions decisions. Often, managers make defensive mergers that protect their jobs at the expense of their shareholders. They may do so even if the expected synergies of the mergers are negative. The underlying idea is that, sometimes, maximization of private benefits of control weighs heavier for managers than looking after shareholder value. Then, when there is an expectation of a future industry shock that may make at least one acquisition profitable, some managers will try to look to the survival of their firm and, at least as important, their own positions, by engaging in preemptive acquisitions now, even if these acquisitions destroy shareholder value. Thus, the policy thrust of the "eat or be eaten" theory is that mergers and acquisitions could take place either to avoid being acquired by other firms, maintain company's independence, increase a firm's size or protect its managers' jobs. In other words, managerial defensive motives may be the reason for mergers and acquisitions as managers may want to make acquisitions to increase their firm's size and hence reduce the likelihood of their firms being taken over. In a way of linkage, the theory that best explains the mergers and acquisitions exercise of 2004- 2005, is the bank concentration theory, particularly, the pro-concentration theory. The theory that explains why the bank opted for mergers and acquisitions could be linked to the "eat or be eaten theory" and the "neo-classical theory" of Economics.

2.1.1.3 Agency Theory

Mergers and acquisitions can end up destroying value rather than creating synergies even though managers act fully rationally. The literature of agency theory throws light on how managers ' interest in maximizing their own utility can lead to decisions that are not in the interest of the shareholders. However, the decisions are fully conscious and are a result of opportunism rather than irrational behavior (Bjarke and Peter, 2010). Agency theory originated from economics, specifically information economics (Kivisto, 2007). According to Moe (1984) the theory was initially developed to investigate more general questions of incomplete information and risk sharing. Moe (1984) illustrates the work of Spence and Zeckhauser (1971), Rose (1973) and Arrow (1971) as the originators of agency theory. Their work which focused on property rights and addressed issues concerning contracts, shirking and monitoring of team production was expanded by Jensen and Meckling (1976). By Jensen and Meckling (1976) Agency Theory is specifically directed at the ubiquitous agency relationship in which one party (the principal) delegates works to another (the agent), who performs that work. The central idea is that the Principal is always too busy to do a given job and so hires the Agent and pays the agent's wage. But being too busy also means that the Principal cannot monitor the Agent perfectly. The Agent receives the wage but also takes costly decisions for the firm. The agency theory assumes full rationality for both the owners and managers (Thomsen, 2008).

Conflict of interest between the two parties will in agency theory be analyzed with an opportunistic behavioral assumption. Hence, the agent will always work for his personal interest and will take advantage of the superior information to own-benefit, as in what Gorton, Kahl and Rosen (2005) referred to as eat or be eaten mergers decisions to protect managers' job. The policy thrust of the agency theory is that most if not all mergers and acquisitions bids are not to the benefits of shareholders and business owners and may not yield any synergies since managers always have superior information of the business prospects and would take advantage of every opportunity to satisfy their personal interest.

2.1.2 Concept of Merger and Acquisition

According to Anthony (2008) a merger refers to the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). An acquisition, on the other hand, is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. Umar (2009) analyze a merger is a transaction involving two or more companies in which shares are exchanged but in which only one company survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. The resulting firm is likely to have a name derived from its composite firms, while an acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring company. Okpanachi (2011) views mergers and acquisitions as global business terms used in achieving business growth and survival. A merger entails the coming together of two or more firms to become one big firm while acquisition is the taking over or purchase of a small firm by a big firm, both of which are pursuing similar motives. Therefore, a merger can be seen as the combination or amalgamation of two or more separate companies into a single company where one survives and the others lose their corporate existence while acquisitions can be seen as the taking over of the controlling shareholding interest. Usually, at the end of the process, there exist two separate entities or companies. The target company becomes a division or a subsidiary of the acquiring company. According to Ransariya (2010) a merger can be taken as an abbreviation which means:

M: Mixing
E: Entities
R: Resources for
G: Growth
E:Enrichmentan and
R:Renovation

Thus, one can conveniently refer to a merger as the mixing of entities' resources for growth and renovation. Basically, mergers and acquisitions are forms of consolidation. The terms mergers, acquisitions and consolidation are often confused, appear similar and are mostly used interchangeably. However,the three have different meanings. Unlike mergers and acquisitions, consolidation refers to the fusion of two or more existing companies into a new company in which the former companies are extinguished or losses their identities. Okonkwo (2004) consolidation is a business combination where two or more companies join to form an entirely new company, all the combining companies are dissolved and only the new entity continues to operate. Ajayi (2005) views consolidation is viewed as the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector.

2.1.3 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, 2003)

2.1.3.1 Horizontal Mergers

Horizontal mergers happen when a company merger or takes over another company that offers the same or similar product lines and services to the final consumers, which means that it is in the same industry and at the same stage of production. Companies, in this case, are usually direct competitors. (Different types of Merger and Acquisition), 2015 Horizontal merger have been the most important and prevalent from of merger in Nepal. The Nepalese financial sector has witnessed twenty sets of Horizontal mergers among the Banking and Financial Institutions. The merger among bank would be a horizontal merger. (Annual Bank Supervision Report 2012-13.)

2.1.3.2 Vertical Mergers

A vertical merger is done with an aim to combine two companies that are in the same value chain of producing the same good and service, but the only difference is the stage of production at which they are operating. (Different types of Merger and Acquisitions (M&A), 2015). For example, the merger between hotelier and tour operator come under vertical merger.

2.1.3.3 Conglomerate Mergers

When two companies that operate in completely different industry go for merger regardless of the stage of production, then such merger is known as conglomerate merger. This is usually done to diversify into other industries, which helps reduce risks, (Different types of Merger and Acquisition (M&A), 2015).

2.1.4 The Rationale for Mergers and Acquisitions

Banking sector reforms in Nepal are driven by the need to deepen the financial sector and reposition the Nepalese economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. It is also aimed at addressing issues such as governance,risk management and operational inefficiencies; the center of the reforms is around firming up capitalization (Ajayi, 2005). The various institutional and technical weaknesses exhibited by the Nepalese banking industry and the need to improve its intermediation functions and reposition it for efficient performances are the main reasons for mergers and acquisitions of banks in Nepal According to Solodu (2004), banking reforms are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation. Capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market. Anthony (2008) opines that the concept of synergy is the underlying reason for mergers and acquisitions. Synergy is the interaction or cooperation of two or more organizations to produce a combined effect greater than the sum of the two organizations operating independently. Mathematically, this can be stated as: Value (A + B) > Value (A) + Value (B). The explanation for this occurrence is that either the firms were not performing to optimal level prior to merging or that benefits were achieved by the merger. Following this logic, firms are motivated to involve in mergers and acquisitions in order to create synergies. To Uchendu (2005) banking sector reforms· and its sub-component, bank consolidation, have resulted from a deliberate policy response to correct perceived or impending banking sector crises and subsequent failures. However, there are a variety of reasons why banks opted for mergers and acquisitions. These reasons include gaining operating economies by eliminating duplications and unhealthy competitions, to acquire aggressive and competent management, to diversify and improve quality of earnings and to seek rapid growth, improve liquidity and financial stability of the bank. According to Anthony (2008) there can be many and varied reasons for the purchaser seeking to acquire other companies. These reasons may include: to enter a more profitable market, to diversify or expand its products and to avoid the expenses of starting up in a new business, field or industry. On the other hand, sellers may want, among other things, to be acquired to be able to secure new or additional financing, or meet the liquidity asset needs of its owner such as the marketable securities of the acquirer. Imala (2005) identified eight reasons for mergers and acquisitions in the financial services sector. They include:

a. Cost savings; attributable to economies of scale as well as more efficient allocation of resources.

b. Revenue enhancement; resulting from the impact of consolidation on the bank size, scope, and its overallmarket power.

c. Risk reduction; due to change m organizational focus and efficient organizational structure.

d. New developments; which impose high fixed costs and the need to spread these costs across a large customer base.

e. The advent of deregulation; which removes many important legal and regulatory barriers.

f. Globalization; which engenders a more globally integrated financial services industry and facilitates the provision of wholesale financial services and geographical expansion of banking operations.

g. Financial stability; characterized by the smooth functioning of various components of the financial system, with each component resilient to shock.

h. Shareholders' pressure on management to improve profit margins and returns on investment, made possible by new and powerful shareholder blocks.

Though, mergers and acquisitions of banks in the Nepalese economy started as the first merger between Himchuli development bank and Birgunj Finance to form the H and B National level Development bank. Nepal Rastra Bank introduced the merger by law 2011 to cope the effective performance for BFIs in Nepal. To the respective class of Bank and Financial Institution of Nepal, Nepal Rastra Bank made the direction to maintain the minimum range of their paid up capital. By this reforms were designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation. Thus, the reforms were to ensure a diversified, strong and reliable banking industry where depositor s' money was safe, and position banks to play active developmental roles in the Nepalese economy.

2 1.5 Motives for Merger and Acquisition

Merger and Acquisition has become 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:

2.1.5.1 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 (Pamphilips, 2011). 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, 2003)

"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" (Pamphilips , 2011) . 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 (Pamphilips, 2011). 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. (Pamphilips et al, 2011)

2.1.5.2 Revenue Enhancement

According to Ross (2003) "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 confirms 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 superimposes on the Microsoft front page, the sales took off reflecting Microsoft marketing muscle" (Ross, 2003). 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, 2003)

2.1.5.3 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, 2003). According to Motis (2007), a firm can obtain cost advantage when its average cost per unit decreases as the total level of output

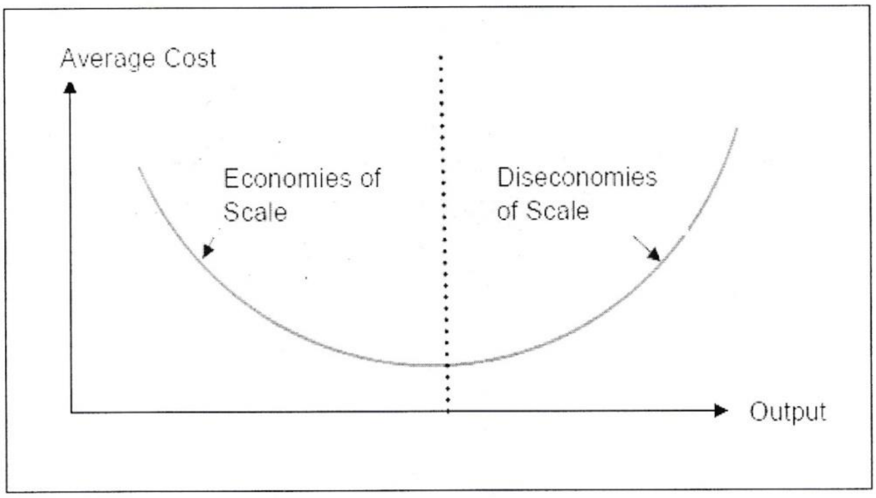


Figure no. 2.1 Economies of scale (Ross, 2003)

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)

2.1.5.4 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, 2003; Motis, 2007)

2.1.6 MERGER BYLAWS 2011 BY NEPAL RASTRABANK

2.1.6.1 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)

2.1.6.2 Guidelines and Conditions for Opting Merger Bylaws2011

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)

2.1.6.3 Major Provisions of Merger Bylaws2011

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.

2.2 Review of Related Studies

2.2.1 Review of Related Articles

Kafle (2013) in his article, "Merger and Acquisition in Nepalese Banking sector" Presents that; the Nepalese Banking Sector is facing a huge problem and is in critical juncture. Therefore, in order to cope with this problem Nepal Rasta Bank (NRB) has directed the Banking Institutions to go in the process of mergers and acquisitions. NRB has provided several benefits to the merging institutions. Responding to the benefits presented by NRB, the banks and the financial institutions of the country are opting in the process of merger. In the present Scenario, there are mainly three reasons that forced the Nepalese Banking Sector to go into the process of M&A, liquidity crunch, capital requirement, and open market.

Hafeez, Umbreen, Zaheer and Muhammad (201l) in their article "Analysis of Merger and Acquisition in Banking Sector of Pakistan Qureshi" published on Inter- disciplinary Journal of Contemporary Research in Business has found on their study that the effects of mergers and acquisition on the financial performance of Banks in Pakistan. The operating performance, capital adequacy and solvency measures were compared for 3-years pre and post-merger from the financial statements of the HMB (Habib Metropolitan bank) and NIB (National Investment Bank). The results of the study showed that ROA and ROE of HMB did not indicate significant improvement but on average it can be concluded that overall performance of the bank improves as a result of M&A activity. Similarly, the results of the acquisition activity of Commercial Bank and National Investment Bank also indicates the same results that ROA and ROE decreased but other financial performance indicators showed significant improvement during post-merger period.

Maire and Collerette (2011) studied the case on "An international post-merger integration project in the private banking sector". It raised the challenges that were met, describes the methodology and the tools used to manage the process, and highlights the factors that led to success. This experience suggests that successful integration management mainly rests upon capabilities in communication, organization, and change management. It also highlighted the importance of having an Integration Manager in charge of the process in order to favor integration success. In particular, it appears that pace is the heartbeat of integration progress and that one of the Integration Manager's main roles is to set the pace of integration by applying pressure to speed up progress, while also providing a climate where people can be motivated to work together towards organizational objectives and success.

Anderibom, Samuila and Obute (2015) in their article "THE EFFECTS OF MERGER AND ACQUISITION ON THE PERFORMANCE OF COMMERCIAL BANK INNIGERIA" Published on International Journal of Education and Research had found that, the bank CAR (Capital adequacy ratio) for the period after merger and acquisition is higher than the mean before the exercise. The exercise has improved the performance of the bank in term of capital adequacy. The bank ROA (return of asset) has not improved by the exercised after merger of the bank, which told the management competency had not improve. The mean ratio of profit before tax for the period after exercise the merger of bank had higher. The bank performance hence in terms of earning efficiency has improved. The mean ratio of investment deposit ratio after exercised of merger of the bank has higher. The bank maintained and improved the liquidity efficiency. That's why; the bank performance is higher than that of pre- merger. The bank exercised performance is improved in terms of asset quality due to the mean ratio of performing loans to total loans after exercise is higher.

The Nigerian Bank and financial institution, they improved their performance after exercise of their merger. In somewhat cases it needs to improve the exercise regard to Management Competency.

Valente (2003) in his article "Financial Strategies in merger and acquisition (M & A): The case of regulated firms" has been found that, higher debt level results in a lower profitability for a potential acquirer and therefore in a lower profitability of acquisition. Thus the choice of the optimal debt level is based on trading off a decrease in the likelihood of acquisition against an increase in the share of the expected synergy gain for the targets shareholders.

The adaption of general model to the regulatory process showed that capital structure can play a role in the strategic interaction between regulators and firms, with important implication in terms of regulatory policy. In equilibrium, the regulated firms issue a positive amount of debt as a consequence of regulation despite the existence of bankruptcy cost. Debt serves to raise the regulated rates as the regulator seeks to reduce expected bankruptcy cost, although the probability of bankruptcy remains positive at the equilibrium.

He also found that, in the regulatory process, regulator sets rates after the firms select its investment and capital structure. The managers of the regulated firm acting on behalf of shareholders maximize the market value of the firm, making their strategic choices about capital structure and the investment plan, anticipating regulators decisions and capital market response.

Joash and Njangiru (2015) in their research entitled "The Effect of Merger and Acquisition on Financial Performance of Banks (A survey of Commercial Banks in Kenya) published on the International Journal of Innovative Research and Development has been found that,

1. Change in Net Profit & Return on capital as a result of Merger/ Acquisition. The findings showed that majority of BFIs are increased their net profit. Whether return on capital by Banks is increased but few of them remain constant on their return on capital. It also indicates that, the influence of Merger and Acquisition on Net Profit & return on capital was high as an expectation. Majority of sample size was given the result that, it does not influence on net profit and ROA.
2. Effect of Mergers/Acquisitions on shareholder value. The effects of Mergers and Acquisition on the shareholders' value majority of the respondents agreed that the merger / acquisition in their banks, EPS has been improved. Whether, majority of the respondents are dilemma on raise the price of share. The majority of respondents agreed on that to be in dilemma to raise the dividend issued to the shareholder also.
3. Effects of Mergers /Acquisitions on profitability of Banks On the size of Market Share, majority of the respondents indicated that, the process of merger, majority of them said that, bank must not agree to earn much as expectation after merger. Whether majority of the respondents agreed on the Bank can increase the number of customer after merger.

Novickyte and Perdroja (2015) in their article entitled "Assessment of Merger and Acquisition in Banking on small open Economy as sustainable Domestic Financial system Development" have been found that, the conclusion taken from the answers from experts. They found the answer of the question of Whether the ongoing consolidation (Merger & Acquisition) in the banking market process the stability of the financial system; in the short and medium term banking consolidation process could stabilize the domestic financial system, but on the other hand this process can form high concentration and can damage the market. Also it may limit the development of smaller banks and may increase the risk of moral Hazard. As well as consolidation may have adverse social aspects leading to job losses in the sector. Country's financial system becomes more stable if acquired a bank which has an experiencing operational difficulties but an increased risk of a merger between two higher risk entities, integration and operation of cultural differences can have an adverse effect on their business after the merger.

The researcher also found the result from the question factors that potentially affect the stability of the banking sectors answered from the experts has been found that; factors had a positive impact on the stability of the banking sector (i.e., asset quality, bank capital structure and the application of international accounting standards).the researcher also found the result for the question to identify measures that would allow a small open economy to achieve financial stability and security answered by the experts that, the promotion of competition in the banking sectors and active foreign financial institution in the capital of local banks ensure or at least keep a small open economy and financial system stable. Academic experts added that Mergers and Acquisitions among Domestics Bank and (or) between foreign banks and domestics banks also contributes to the stability of the financial system. Corrla (2008) in his article "Cross boarder bank acquisition: is there a performance effect?" published in the journal, international finance discussion papers has been found that on different research questions as follows

1) Determinants of cross boarder acquisition

   The coefficients for ROA & ROE are negative & positive & significant for the cost of income ratio. All coefficients are significant at the 1% level. It suggest that, there was a higher probability for ex- ante poorly performing banks of being acquired in a cross boarder deal. The concentration has a positive and significant coefficient with a similar level across the three columns. The result on the relation between bank concentration and the probability of a cross boarder found that, the variable had a negative effect on cross boarder bank entry.

2) Performance effect

The result showed that cost efficiency is harder to realize in emerging countries in the short run. Finally as it was the case in the estimation using the full sample of Banks, there is a decrease in loan loss provisions. The decline in this provision is explained by a reduction in post- acquisition lending activity in targets located in emerging economies. But this change in the amount of bank loan is mot observed in the data for banks in developed countries. The decrease in loan loss provision in target banks located in their countries could be attributed to earning management.

3) Performance, economic integration and information costs

The result for emerging economies shown that, the coefficients on the event time indicators are all negative but only significant in the cost to income ratio estimation. Country pair characteristics do not enter the regression with significant coefficient, although language, legal and comparative economic size have the right signs in most of the cases.

The results in this section should a significant information costs associated with the language use in the host and home countries, especially when measuring overheads costs and non- interest income after an acquisition. On the other hand difference in legal origin and geographical distance do not affect post- acquisition performances.

Dr. Khan, Raoe and Ms. Dhakal (2015) in his article, "Impact and challenges of Mergers and Acquisition in Nepalese Banking and Financial Institutions " in the journal of Exclusive Management Science has been found that,

The main findings of this paper are on the impact and challenges Merger & Acquisition activities on Nepalese BFIs can be listed below:

1. The Merger & Acquisition activities are increasing m Nepalese Banking and Financial Institutions. It is basically due to the Merger bylaws 2011 imposed by NRB on Nepalese BFIs.

2. Initially the NRB had to apply force merger for the BFIs, which were not performing good in the market. Later BFIs themselves opted for merge activities. The basic reasons were liquidity crunch, capital requirement and open market.
3. The Merger & Acquisition activities of particular banks certainly impacts on their employees, customers and shareholders.
4. The results obtained provide the evidence that Merger & Acquisition activities have a significant impact on the employees of particular organization. The employees are less feared of losing job, they are satisfied with the work and working condition and find job challenging and interesting, they feel that changes have been implemented well and future of company seems bright, the strategies and policies are positive. Still there is high chance that they will go for other organizations. The main negative impact seen among employees is regarding HR issues like cultural complexity, favoritism, senior management clash in positions, problem in socialization etc.
5. The results obtained provide the evidence that Merger & Acquisition activities have a significant impact on the customers of particular organization. Most of the customers were aware about ongoing merger. 61.5% of customers have experienced of changes in value, products, service and reputation of the bank. 73% of them agree that customer service is fast and caring as well as adoption of new technologies. Maximum of customers agree with fair treatment of customer by staffs. 57.6% of them agree with increment of service charge after merger. Customers suggest the bank to offer new Service, reduce service charge and adopt new marketing policy.
6. The results obtained provide the evidence that Merger & Acquisition activities have a significant impact on the shareholders of particular organization. Some of the important financial indicators were analyses which were in increasing trend being beneficial to the shareholders. Indicators like paid up capital , reserve and surplus, total assets, net profit, market price per share, price/earnings ratio, capital adequacy ratio, book value per share etc. rose up in post-merger phase, which is beneficial for

shareholders. Some of the indicators like earnings per share, returns on equity has decreased and non- performing loan to total loan has increased which is nor beneficial for the shareholder. Overall, the financial performance is better in post-merger phase.

7. The main challenges faced during the merger process are related to the human resources. The organization is not successful to implement the policies well in regard to the human resource aspect like cultural clash, position issues, socialization, etc.
8. The merger of one particular bank also impacts the whole financial system as well. The number of poor performing financial institutions has decreased, the stock market has inclined, and more trades are happening in stock market, the competition has increased hence forcing banks to come up with new services.

Alam, Khan, Dr. Fareehazafar (2014) in their article, Strategic Management: Managing Mergers and Acquisition) published on international journal of BRIC Business Research has been found that, Mergers and Acquisition increased market shares and profitability that are vital for survival. Mergers and Acquisition enable companies to work as one and thus increase their total market value. Mergers and Acquisitions are becoming a means of survival and are not less than a competitive weapon among business firms in today's world. This paper discussed the importance of these and contributed to the subject in that it discussed how business firms strategically and successfully adopt and reap benefits or merging and acquiring throughout business rational, integration and conglomeration.

Lee and Penning (1996) in their article "Mergers and Acquisitions: Strategic-organizational Fit and outcomes" has been found that Effects of preconditions vary by type of outcome. The finding was on environmental selection favors do not automatically make the firm accumulated acquisitive knowledge. Firms that were involved in additional M & As may be the firms that had the capability to handle Merger induced internal diversity. Those firms tried to take advantage of that capability or to retain their strategic momentum. The ability of sustain acquisitive behavior appears to be continual by the pairs of merging firms to be compatible, while dissolution is only marginally affected by the pairs harmony. The finding was one would conjecture that other banks are unlikely to seek Mellon out as an Merger & Acquisition partner.

Incompatibility is not a good predictor of Merger & Acquisitions failure one might speculate that in face of divergent structure and cultures, the individual professionals are not strongly affected by the reality of the past acquisition era. While the fusion of and the two firm's governance structure requires significant efforts. The day to day operation may remain loosely coupled.

Among accounting firms, the choice of mates with Merger & Acquisition history is hardly "a select". Peer firms are either drawn to those firms that display a better than average fit or disharmonious firms have little inclination to grow through acquisition.

It also finds out that, the maintenance and enhancement of strategic fit provides a potential inducement for further expansion initiatives. They also found out the, Merger & Acquisitions are a major punctuation in a firms history and give rise to change in industry structure. The resources that the two firms bring together and re-bundle in the subsequent implementation process inform us about the future prospects of the firms.

Oloye and Osuma (2015) in their article "Impact of Mergers and Acquisitions on the performance of Nigerian Banks (A case stud y of selected Banks)" published in the Pyrex journal of Business and Finance Management Research has been found the following findings,

- **Theoretical findings**
  1. The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties; it is the symmetric expectations of gains which results in a friendly merger being proposed and accepted (Adegboyega, 2012).
  2. Romano (1992) stated that acquisitions generate substantial gains to target company shareholders.
  3. Adebayo and Olalekan (2012) opined that Mergers and acquisitions have

improved the overall performances of banks significantly.

4. According to Umoh (2004) mergers and acquisitions are expected to address the problem of distress among insolvent banks without an initial resort to liquidation.
5. Mergers and Acquisitions are aimed at achieving cost efficiency through economies of scale, and to diversify and expand on the range of business activities for improved performance.
6. Joshua (2011) advocated that mergers and acquisitions are global business terms used in achieving business growth and survival.

- **Empirical Findings**

After proper analyses, the following findings have been based on the analyses conducted in chapter four of this research.

1. The research found out that mergers and acquisition is an effective means of ensuring the stability and profitability of the banking sector.
2. The study has shown that shareholders fund has contributed positively to the profit after tax of Nigerian banks.
3. From the review of literatures in chapter two, it was inferred that corporate restructuring exercise has affected the capital adequacy of commercial banks positively.
4. From this research it was also deduced that one of the key reasons for mergers is to achieve a synergy whereby the combined outputs of the merged firms are greater than their individual output when they are in isolation.

Lin and Chang (2013) in their article, "The influence of mergers and acquisitions on the management performance of financial institutions in The Taiwan region", Problems and perspective in management has been found that: DEA measurement of bank efficiency change after merger that efficiency primarily arises from failures in allocative efficiency rather than technical efficiency.

Bank efficiency values remain in a fluctuating state; technical efficiency and allocative efficiency effects are variable, but the main impact on overall efficiency drives from allocative efficiency. This phenomenon likely resulted from the negative impact of a credit crisis abroad and the result and immense investment loses and increased in overdue loans. All of which hinders the growth of the financial sector as a whole. Domestic lower level financial institutions repeatedly encounter challenges caused by extremely high NPL Ratios. Merger and Acquisition banks are largely low level economic institutions with incomplete systems unsatisfactory operations and repeated losses.

Motis (2007) in his thesis "Mergers and Acquisitions Motives" has been studied on different maters and the result were find out that, By the review of lack a structural analysis of the mergers mechanism and do not offer by consequence, a proper assessment for inferring merger gains. Moreover, the study drawn the acquiring firms in mergers do not significantly gain from the deal. Whereas, empirical case- by - case study offered a very appealing accuracy in evaluating mergers unilateral effect.

By the findings from the questions have been proposed as, merger motives, drivers that increase the value of the merger firms since their effect is an increase on the actual or future and economic profits.

A list of rational that goes into the interest of the manager of the firm and does not in the firm's value that is in their mergers the driver is to increase the acquiring firm manager's wealth even if this may cause a decrease in the firm's value.

2.2.2 Review of Related Thesis

Thuy and Kamolarat (2008) in their thesis, "Critical success factor in merger and acquisitions projects” A study from the perspectives of advisory forms has been found the different issued answer as following;

1. Complete and clear objectives, goals and scope of the project

   The merger and acquisitions of advisory firm can help the client to develop clear criteria, identify their desired goal; the overall score is much higher than that of other, which showed the importance of this factor in the view of the merger and acquisitions of advisory firm.

2. Client consultation and acceptance

   Client in that study that refers to the seller who wishes to the sale their company it was essential that the Merger and Acquisition advisory firm need to consult and achieve their acceptance throughout Merger and Acquisition project especially during the planning and negotiation process. Clearly the client is very important. But once we understand client objectives or strategy, we can work fine with that, but clearly they need client on board. Overall the criticality of client consultation and acceptance was as high as that of complete and clear objectives goals and scope of the projects.

3. Project managers competence and commitment

   The project manager competence included the ability to delegate authority ability to co- ordinate as well as commitment to the project. He was committed to meeting the project goals and deeply involved in the project from beginning to end. Project Manager should be people oriented and result oriented, diplomatic and hard driving

4. Communication and information sharing information and exchange

   The result was find out that, it is essential to ensure that communication can effectively transfer and exchange relevant information among projects participants and the clients key stakeholders during the project process. All of the interviewers agreed that communication and information sharing and exchange is critical throughout the whole Merger & Acquisition process.

5. Merger & Acquisition advisory firm's own resource planning

   The findings were no interviewers rated extremely important for both of the factors. Meanwhile the majority of survey respondents rank them as very important and fairly important accordingly.

Shrestha (2014) in his research "Value enhancement through Mergers and Acquisitions, An empirical study from a mobile company in Nepal", has been extracted the findings that on different aspects.

The majority of respondents are agreed on; there is an increasing in the efficiency after the mergers and acquisitions. The company has smoothly worked out its operation. Whether in the customer care services, result find out that Majority of the respondents from employees' perspective are strongly believed that, the customer care service has changed significantly.

On the other hand in the share ownership scheme of employees involved is indicated that a ' large number of respondents are involved in the share ownership scheme and majority of those respondents are agreed on that the ownership scheme represents as a better financial scheme. By the view of employee with different share ownership scheme and their view on co- ownership feelings through the share ownership scheme, find out through researcher was, majority of the respondents are strongly agreed about the feeling of co- ownership.

The Researcher also find out that on the loyalty of the respondents through ownership scheme was majority of the respondents are felt more loyal towards the company after being offered to own that share in the company. The employees participation on strategic decision making has been found that majority of respondents agreed on, they are sometimes involved in the strategic decision making. Few of them always have a part of the decision making process.

Adhikari (2014) in his thesis "Merger and Acquisition as an Indispensable tool for strengthening Nepalese Banking and Financial Institutions" has been found that, BFIs have a significant influence on the working department of employees. Employees of HRM tend to fall sharply triggered by merger activity. The result also found that, the employees working outside the capital city shows no fear of losing a current job as well as no remarkable shift of employees has been observed. The result was also found that the employees are not enjoying working on the sampled bank. They 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.

On the other hand, the study had resulted that sample bank can produce more returns to its shareholders in the days to come.

2.3 Research Gap

In course of searching for this thesis on related topics, researcher found some report on the situation of Nepalese banks and financial industry, challenges of Nepalese financial institution, present condition of merger and acquisition in Nepalese financial industry. But in going condition of merger and acquisition for Nepalese banks and financial institution theirs impact and their survival in the upcoming future were not studies deeply and scientifically. When NRB issued merger Bylaw 2011 there is drastically change in Nepalese financial institution and becomes wind for going one after another in merger. Thus researcher thought to have fresh study on field. After reviewing previous related thesis, some books, reports and related articles above and some other documents as a reference researcher prepared questionnaire to be asked to bankers, banks staff and those who knows about banker's merger and acquisition. The response to the written questionnaire and response to my enquiries to the related persons are presented in the fourth chapter. Some secondary data acquired during study are also been presented in the fourth chapter.

Laxmi Bank and HISEF Finance Ltd. being the first merger in the country, till now Nepalese Banking Industry has seen more than 30 mergers among banking and financial institution. in order to facilitate our study we have chosen three commercial banks. All the studies mentioned above had covered the data revised in structure, but this study cover the data of 6 years period based on primary as well as secondary data.

CHAPTER-III
METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology adopted for this project. This includes the population of the study, sample size, and sampling technique. This research is carried out to examine whether mergers and acquisition have either a positive or a negative impact on the performance of Bank and Financial Institution in Nepal. It also explains the research design and all activities involved in the collection and analysis of data for the research work.

3.2 Research Methodology

This research work provides a comprehensive insight to the ongoing merger and acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs) when Nepal Rastra Bank, as a supervisory and regulatory body of all the BIFs. Introduced a forceful merger by- law in 2011. The objective of this research work is to explore the possible effects and impacts on the financial BFIs caused by merger and acquisition in the Nepalese Financial sector. 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 bylaw was introduced, the BIFs 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 repaid 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.

3.3 Research Design

This study depends on the primary data and secondary data. It includes all the process of collecting verifying and evaluating of past evidence systematically and objectively to reach final conclusion. Some statistical and financial tools have been adopted to analyze factors. The process of thesis writing is considered to have started from defining the research questions, finding out of the variables involved, and usage of various data collection method and analysis of such data in order to obtain the conclusions/result.

In order to obtain the variables for data, past knowledge were used in order to recognize the relevant independent as well as dependent variables. These variables were based upon various theories involved in merger and acquisition: neoclassical, agency, behavioral and resource dependency theories. Various researches on the factors affecting merger and acquisition and thus, its decision, were taken into consideration and the factors that affect the merger and acquisition decision in banking sector were selected from among them. After the identification of such variables, research question based upon research objective was developed. Thus, primary data were the main sources of data for the purpose of research analysis.

The research is mainly based on two types of research design i.e. descriptive and analytical. Descriptive research design describes the general procedure of merger and its impact on Nepalese financial sector. The analytical research design makes analysis of the gathered facts.

3.4 Population and Sample

There are altogether 28 commercial banks, which are functioning all over the nation. Their stocks are traded actively in the stock market. In this study, impact and challenges of Global IME Bank Ltd, NICASIA Bank Ltd and Machhapuchchhre Bank Ltd are selected from population. The selected commercial banks are selected on the basis of their reputation, assets, share pricing and the time when it was merged. Among the sample banks, 10 person respondents were form NIC Asia Bank Ltd., 12 person were from Global IME Bank Ltd. and 8 person were from Machhapuchhre Bank Ltd.

The demography can be shown in the percentage below:

Table no. 3.1

Demography of respondents with percentage

Respondents from Bank	Percent	Education	percent	Marital status	Percent
NIC Asia	33.33	Bachelor	30.00	Married	34.78
Global IME	40.00	Master	66.67	Unmarried	65.22
Machhapuchhre Bank	26.67	Above Master	3.33		

3.5 Sources of Data

The required data information for analysis is directly collected from the annual reports of sample banks and primary data are collected through questionnaire to banking official. Supplementary data and information are collected form number of institution like shanker Dev Campus Library and Documentation Section of T.U. Library, NRB Central Office etc. All the data are complied, processed and tabulated. Formal and informal talks to the concerned persons of the department of the bank were also helpful to obtain the additional economic journals, bulletins, magazines etc.

3.6 Data Analysis Tools

There should be used various financial & statistical tools to achieve the objectives of the study. The analysis of data will be done according to pattern of data available due to limited time and resources. Simple analytical statistical tools such as graph, percentage, etc. are taken for the study. Some strong financial tools such as ratio analysis, profitability ratio and risk ratio analysis have been used for financial analysis. We were using software like MS. Excel, MS. Word etc.

The various result obtained with the help of financial and statistical tools, which are tabulated under different heading. Then they are compared with each other to interpret the results. Generally three kinds of tools have been used to achieve the purpose:

- Primary Data
    - Questionnaire Tools
- Secondary Data
    - Financial Tools

- **Primary Data**
    - **Questionnaire tools**

Questionnaire from the respondents of sample bank is the primary data resource, from which the hidden data that have not been found from secondary data can be found. Various classes of respondents are the resources for such tools.

- **Secondary Data**
    - **Financial Tools**

A financial tool basically helps to examine the financial strength and weakness of the banks. There are various financial tools; some of them are as follows:

i. **Net profit to gross profit**

Net profit to gross profit is used to measure the overall efficiency of the banks in terms of profit and financial position and Performance of any institutions. For the better financial performance, generally net profit to gross profit of the firms should be higher.

Net Profit = Total Sales – Total Expenses

ii. Earning per Share

Earning Per share is the ratio of Net profit of the company divided by number of outstanding shares. It is the earning a shareholder can have per unit of his shares.

EPS = $\frac{Net\ Profit}{No\ of\ Share\ Outstanding}$

iii. Market price per Share

Market price is the privilege price of the shares in the stock market. It is the true value on the share of that particular bank. It is based on the trading price by the shareholders.

iv. Credit to Deposit Ratio

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity. A higher ratio indicates more reliance on deposits for lending and vice-versa.

C/D Ratio = $\frac{Total\ Credit}{Total\ Deposit}$

v. Non-Performing Loan to Total Loan

It is the bad debt loan to total loan under flow. Increase of the bad debt loan the performance of the bank become weak.

Non-Performing Loan = $\frac{Non-performing\ loan}{Total\ Loan}$

vi. Returns on Assets

Return on Assets is the ratio of net profit to total assets. It is the ratio to determine how much of total assets contributed to the net profit. Return on assets (ROA) measures the rate of profit generated by utilizing the assets. It is calculated by dividing the profit after taxes by total assets. The ratio show how effectively the assets have been utilized by the firm.

Return on Assets = $\frac{NPAT}{Total\ Assets}$

vii. Returns on Equity

Return on Equity is the ratio of net profit to shareholders equity fund. It is the ratio to determine how much of shareholder's equity fund contributed to the net profit.

Return on Equity = $\frac{Net\ Profit}{Total\ Equity}$

viii. Price/Earning Ratio

The price earning ratio is the ratio of market price per share by earning per share. It show how many times the market price is over the earning per share.

P/E Ratio = $\frac{Market\ Price\ Per\ share}{Earning\ Per\ Share}$

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter makes systematic presentation and data. Analysis is based on the data obtained from both primary and secondary sources. Primary sources includes mainly the responses to questionnaires by different bank staff of sample merged banks of Nepal till date. The probable reason and effects for the result obtained are tried to analyze as far as possible. This is the key chapter, as it help achieve the objectives of the study mentioned in the first chapter.

The data collected through primary and secondary sources related to the study are presented using different table & charts after filtration. This chapter shows the creativity and ability of the researcher to present the related data and his/her analysis technique & efficiency. The different figures of BIFs before merger and after merger are compared to fine the strength or weakness of the BIFs involved in merger process. Similarly, the bank staff opinion regarding merger and its impact brought in the organization collected through questionnaire, interviews are given in this section. After the end of data presentation and analysis the findings if the study are also list.

4.1 Analysis of secondary data

4.1.1 Impact of Merger and Acquisition

4.1.1.1 Impact on Capital Structure

Capital is the backbone of the BFIs. The inadequacy of capital causes penalty and fine by NRB. So, BIFs should maintain adequate capital adequacy ratio. It is the base for credit expansion. Adequate large amount of capital availability for BIFs as they could invest in large scale profitable investments which could not be assessed by small capital based BIFs. Each and every BIFs seeks for more and more capital because more capital gives more opportunity and it present the change in capital structure of some selected sample banks because of merger. It could be presented in table and bar diagram as follows:

Table no. 4.1

Change in Capital before and after merger

RS (In millions)

BIF	**NIC Bank**	**Bank of Asia Nepal (BOAN)**	**NIC Asia Bank (after merger)**
Share Capital	1312	2000	2312
BIF	Machhapuchhre Bank	Standard Finance Ltd.	Machhapushhre Bank Ltd.(after merger)
Share Capital	1627.20	1001.88	2629.08
BIF	Global IME Ltd.	Commerz& Trust Bank	Global IME Bank (after merger)
Share Capital	2250.35	530	2780.90

Source: Annual Reports of NIC, BOAN, NICA, MBL, SFL, GIMEL, CTB and GIMEBL

Figure No. 4.1

Change in capital before and after merger

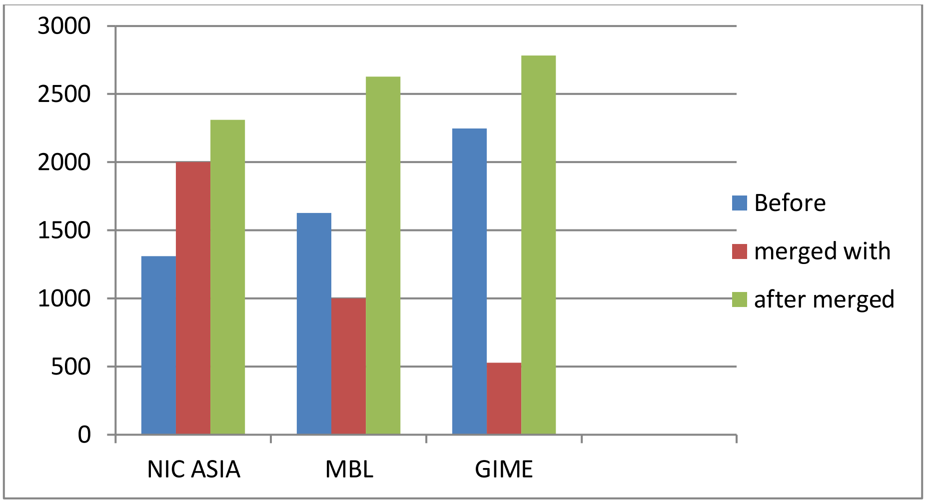


Table no. 4.1 and Figure no. 4.1 shows the capital status of all the selected sample BFIs a year before merger for old BIFs. The NIC had NPR 1312 million share capital whereas BOAN had 2000 million share capital. Both had not preference share capital or bond and debenture. The new formed merged NICA have 2312 million share of capital. It also has not issued any preference share or bonds & debenture. Similarly, SFL had NPR 1001.88 million equity share capital where as MBL had NPR 1627.20 million equity share capital. Both SFL and MBL had not any other preferred share or bonds & debenture used as source of capital. The merged new entity Machhapuchhre Bank has NPR 2629.08 million equity share capital. It also has not any other source of capital employed. It could be observed that there is no any additional capital increased on merger process. Like that Global IME Bank had NPR 2250.35 million and that of Commerz and Trust had NPR 530 million. The new formed GIME had total of NPR 2780.90 million the increment is merely sum of capital of merged firms. This type of increment could not be considered as productive capital increment. It is just only increment in figures rather than increment in capital that contributes on productivity increment and economic development of the country.

4.1.1.2 Credit Deposit Ratio Status before and after Merger

Credit deposit ratio shows that percentage of credit lending by BIFs from its deposit NRB has fixed a ceiling of C/D ratio for all the BIFs operating in Nepal. BIFs with C/D ratio more than that ceiling are subject to NRB punishment, fine & penalties. In the past few year BIFs had landed their deposits more on housing & real estate most of which were turned into non-performing and liquidity crunch in market increased C/D ratio of some BIFs more than 90.00% where as per NRB it should be less than 80.00%. In the scenario, this thesis explores C/D ratio of BIFs before and after merger to find out whether it is within NRB guideline or not.

Table no. 4.2

C/D Ratio Before and After Merger

Rs (In thousand)

BIF	**NIC Bank**	**BOAN**	**NIC Asia (After merger)**
Total Credit	17523000	12165921.41	32416000
Total Deposit	22244000	15351266.18	40133000
C/D Ratio	78.78%	79.25%	80.78%
BIF	MBL	SFL	Machhapurchhre Bank (After merger)
Total Credit	14408748.68	2838980.73	156027084

Total Deposit	16409968.01	2778440.37	21546396.53
C/D Ratio	87.80%	102.19%	72.41%
BIF	GIME	Commerz& Trust Bank	GIME (After merger)
Total Credit	26991600	20643231.54	41777650
Total Deposit	34111500	27132500	52292060
C/D Ratio	79.13%	76.08%	79.89%

Source: Annual Report of NIC, BOA, NICA, MBL, SFL, GIME & CTB

The table no. 4.2 presents the status of total deposit and total credit of BIFs taken under study for the thesis along with their calculated C/D ratio. The data are taken from the F.Y. 2068/69 for BOA & NIC where as they merged in 2070/03/16 and started operation as NICA. The data of NICA were from the F.Y. 2069/70. Similarly, MBL & SFL data were taken from the annual report of F.Y. 2067/68 prior fiscal year of their merger and as they were merged in 2069/03/25 Machhapuchhre bank data were taken from F.Y. 2068/69 annual report. GIME and Commerz and Trust Banks data were taken from the annual report of F.Y. 2069/70 since both the bank got merged in 2071/01/05.

The BOA C/D ratio was 79.25% and of NIC were 78.78% with average of 79.02% for these two BFIs in F.Y. 2068/69. After merger NICA has 80.78% C/D ratio which was increased by 1.76% but still it falls under NRB standard of C/D ratio. Similarly, MBL C/D ratio was 87.80% and SFL were 102.18% with an average of 94.99% for these two BFIs in F.Y. 2067/68. After merger in F.Y. 2068/69 C/D ratio became 72.41% reducing by 22.58% and that falls under the NRB C/D ratio standard. Global IME's C/D ratio was 79.13% and of CTB was 76.08% in F.Y. 2068/69. After merger Global IME's C/D ratio becomes 79.89% from the study of C/D ratio it could be concluded that merger of BIFs definitely helps in reduction of C/D ratio for BFIs but still management efforts should be increased to reduce C/D ratio significantly and bring under NRB standard especially by those BFIs merged with higher C/D ratios.

4.1.2 Impact of Merger and Acquisition on Shareholder's Equity

4.1.2.1 Financial Indicators of NIC Asia Bank Limited.

NIC Asia Bank has its antecedents in NIC Bank which was established on 21 July 1998. The Bank was rechristened as NIC Asia Bank after the merger of NIC Bank with Bank or Asia Nepal on 30th June 2013. Now the Bank is one of the largest private sector commercial Bank in the country in terms of capital base, balance-sheet size. Current paid-up capital of NIC Asia is 8017 millions. It is fast progressing bank of Nepal.

Table no. 4.3

Financial Indicators of NIC Asia Bank Limited.

Particular	**Pre-Merger**		**Post-Merger**			
Fiscal Year	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
NPAT	391.779m	642.13m	831.59m	680.32m	1067.14m	1473.47m
ROA	1.64%	1.78%	1.71%	1.21%	1.51%	1.64%
ROE	21.71%	14.63%	15.93%	13.05%	16.50%	16.84%
P/E Ratio	15.67%	11.69%	26.96%	24.11%	28.19%	19.30%
EPS	29.87	47.41	35.98	25.59	28.31	23.06
MVPS	468	554	970	617	798	445
Non- performing loan	0.12%	0.66%	0.68%	0.41%	0.11%	0.04%

Source: Annual report of NIC Asia Bank Ltd, 2073/74

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. NIC Asia Bank Limited has performed better in fiscal year 2072/73, 2073/74 compared to the corresponding pre- and post - merger period NIC Asia was able to make steady net profit of 411 million. The trend analysis shows that the NIC Asia Bank was expected to make an increment in their earning in future too. The ROA of NIC Asia range between 1.21 and 1.78 during the period of study. After the year of merger of the NIC Asia Bank , it has seen downward trend of ROA. Post-merger period ROE of the Bank was slightly lower than pre-merger period. In pre-merger period the P/E Ratio of the bank was higher than the P/E Ratio on post-merger period. EPS of NIC Asia is fluctuating. The ratio of fluctuation is however same in pre-merger and post-merger period. MVPS of the bank was increasing trend pre-merger period but post-merger period MVPS is fluctuating. Non-performing loan of the bank was decreasing in post-merger period than pre-merger period.

4.1.2.2 Financial Indicators of Machhapuchhre Bank Ltd.

Machhapuchhre Bank Limited is the largest commercial bank in western region of Nepal which was established in 1988 and started its operation from the 2000. Machhapuchhre Bank has merged with standard financial limited in the year 2012 and become the first largest bank in western region based on the paid-up capital, i.e. Rs. 2.776 billion rupees. Since after merger, the bank has reported a tremendous growth in its profit in the second quarter of the fiscal year 2013. Now with a paid-up capital of over 8.05 billion rupees, 77 branch office, 2 extension counter, and 88 ATMs spreads all across the country. It is one of the full fledged national level commercial bank operating in Nepal.

Table no. 4.4

Financial Indicators of Machhapuchhre Bank Limited.

Particular	**Pre-merger**	**Post-merger**				
Financial Year	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
NPAT	52.22m	360.39m	409.92m	500.99m	1115.06m	1302.23m
ROA	0.28%	1.43%	1.36%	1.21%	1.49%	1.89%
ROE	3.8%	10.88%	18.74%	19.04%	16.04%	21.96%
P/E Ratio	31.05%	33.96%	31.40%	25.40%	27.15%	15%
EPS	2.61	5.98	18.34	22.20	25.04	24.00
MVPS	180.00	203.00	576.00	564.00	680.00	360
Non-performing credit	2.84%	2.84%	1.78%	0.64%	0.55%	0.38%

Source: Annual report of Machhapuchhre Bank Limited.

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, Machhapuchhre Bank Limited has performed better in fiscal year 2069/70 compared to the corresponding pre-merger year 2068/69. MBL is able to make steady increase in net profit in the following year. The trend analysis shows that the Machhapuchhre Bank is expected to make an increment in its earning in future too. ROA of MBL is gone upward after merger of the bank. Also ROE of the bank is upward after merger bank. P/E Ratio of the bank is fluctuating after merger. The EPS of MBL is grown rapidly in year 2070/71, that is immediately after the merger due to increase in the net profit. After the year of merger of the bank, it is seen upward trend of EPA. Also MVPS of the bank is highly increased after merger. Non-performing loan of the bank is decreased after merger period than before merger period.

4.1.2.3 Financial Indicators of Global IME Bank

Global IME Bank Ltd merged after the successful merger of Global Bank Ltd, IME Financial Institution and Lord Buddha finance Ltd in year 2012. Two more development bank, Social Development Bank and Gulmi Bikash Bank merged with Global IME Bank Ltd in year 2013. Later in the year 2014, Global IME Bank Ltd made another merger with commerz and Trust Bank Nepal Ltd. Global IME acquired Reliable Development Bank in the year 2017.

Table no. 4.5

Financial Indicators of Global IME Bank Limited

Particular	**Per-merger**		**Post-merger**			
Fiscal Year	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
NPAT	265.31m	449.21m	974m	961m	1382.2m	2006.2m
ROA	0.87%	1.15%	1.62%	1.39%	1.58%	1.72%
ROE	13.88%	16.50%	18.67%	13.12%	16.47%	19.03%
P/E Ratio	13.57	26.74	32.70	30.74	26.64	17.19
EPS	11.79	16.15	19.57	15.58	19.33	22.57
MVPS	160.00	432.00	640.00	479.00	515.00	388
Non-performing loan	1.64%	2.27%	2.55%	2.23%	1.89%	1.60%

Source: Annual Report of Global IME Bank Limited

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. Global IME Bank has performed better in fiscal year 2070/71 compared to the corresponding pre-merger year 2069/70. Global IME Bank is able to make steady increase in net profit in the following year. The trend analysis shows that the Global IME Bank is expected to make an increment in its future too. The ROA of Global IME Bank is gone upward after merger. After the year of merger of the Global IME Bank, it has seen downward trend of ROA. ROE of the bank is fluctuating after merger. P/E Ratio of the bank is downward trend after merger of the bank. The EPS of GBIME is fluctuating after merger. MVPS of GBIME is increase slightly in year 2070/71 than year 2069/70. After the year of merger of the bank, it is fluctuating of MVPS. After the year of merger of the bank, it is downward trend of Non-performing loan.

4.2 Analysis of Primary Data

Impact on Employee

The survey was conducted to analysis the impact of merger of the bank on employees. 40 questionnaires were distributed to the employees out of whom only 30respondents. Therefore, this analysis includes the survey of 30 respondents. The respondents include 8 of age between 18 to 25 years, 13 between 26 and 31 years, 6 between 32 and 37 years and 3 between 38 and 43 years. There were 20 male respondents and 10 female respondents. There were 11 respondents of junior assistant level, 12 senior assistant levels, 4 officer level and 3 of others are managerial level positions. Among the respondents, 14 had experience of less than 4 years, 7 between 5 to 9 years, 6 between 10 to 14years and 3 of others between 14 to 16 years. Among the sample banks, 10respondents were from NIC Asia Bank Ltd, 12were from Global IME Bank Ltd and rest 8 respondents were from Machhapuchchhre Bank Ltd. All the responses are taken from the respective Bank in the current date after the merger of the Banks.

4.2.1 Did you get desired job position after the merger

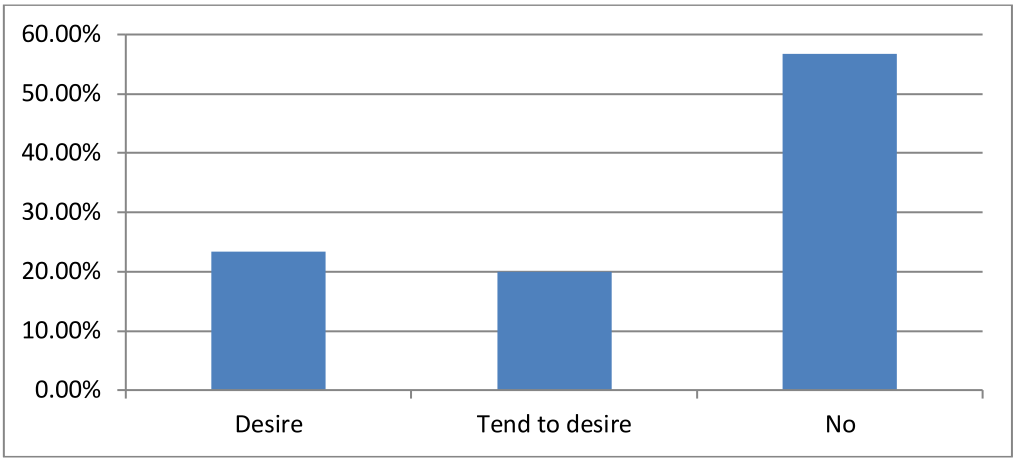
Table no. 4.6
Getting desired job position after merger

Indicator	Frequency	Percent	Cumulative
Desire	7	23.33	23.33
Tend to desire	6	20.00	43.33
No	17	56.67	100
Total	30	100	

Source: Opinion survey 2018

Figure no. 4.2

Getting desired job position after merger



As presented in table no. 4.6, 23.33% respondents got the desired job position after the bank merger where as 56.67% of them did not get the desired job position after the merger of the bank. This clearly shows that, the employees' are dissatisfied with the bank merger in relation to job promotion and achievement.

4.2.2 Work and working condition is felt little more complex after merger

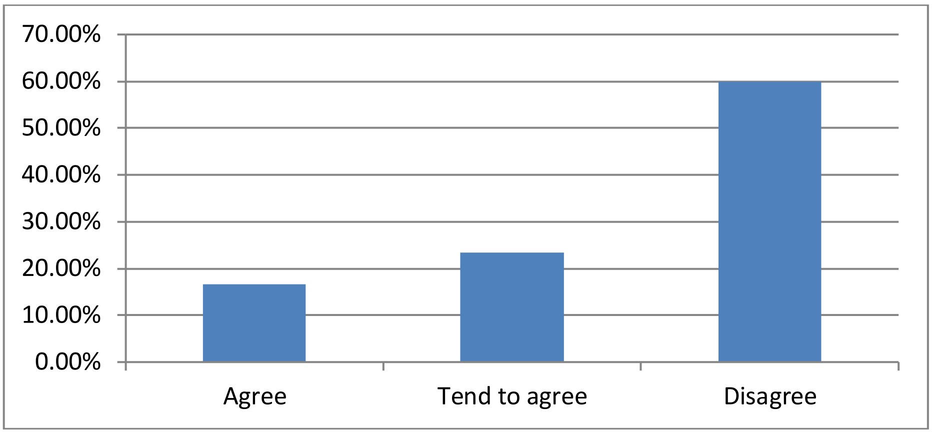
Table no. 4.7
Complexities of work and working condition after merger

Indicator	Frequency	Percent	Cumulative frequency
Agree	5	16.67	16.67
Tend to agree	7	23.33	40.00
Disagree	18	60.00	100
Total	30	100	

Source: Opinion survey 2018

Figure no. 4.3

Complexities of work and working condition after merger



As presented in table no. 4.7, 16.67% respondents answered that work and working condition is the post-merger bank is felt complex where as 23.33% of them are tending to agree on complexities on the working environment. Out of them 60.00% are mentioned that there is no complexities in work and working condition. From the calculation majority of the respondents i.e. 60.00% of them are willingly said that there is no complexity in the work and working condition after the merger of bank. It results that, majority of the employee are satisfied with the merger of bank in relation to work and working condition of bank after merger.

4.2.3 Does your job position meet expected level of challenging and interesting job suitable to your academic qualification?

Table no. 4.8

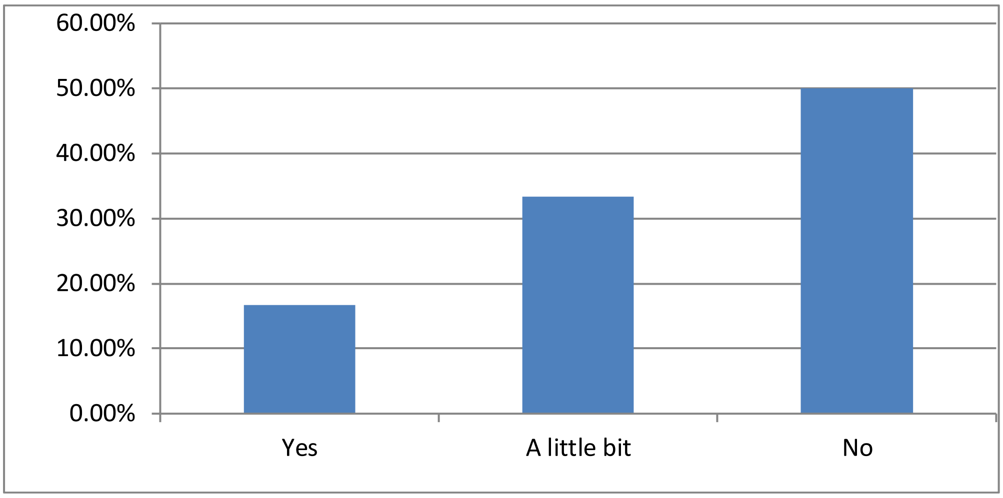
Challenging and interesting job suitable to your academic qualification

Indicator	Bachelor	Master	Above	Total	Percent
Yes	2	2	1	5	16.67
A little bit	4	6	-	10	33.33
No	3	12	-	15	50
Total	9	20	1	30	100

Source: Opinion survey 2018

Figure no. 4.4

Challenging and interesting job suitable to your academic qualification



As presented in table no. 4.8, 16.67% respondents are agreed on academic qualification meet the challenging and interesting job position. Whereas 33.33% of them are little bit agreed on it touches the challenging and interesting job. But 50%of them are disagree on the job must not give the challenging and interesting job after the merger. Overall we can say that there is controversy on acquiring the challenging and interesting job in relation to the academic qualification.

4.2.4 Are you hopeful on your future might be bright after merger of banks

Table no. 4.9

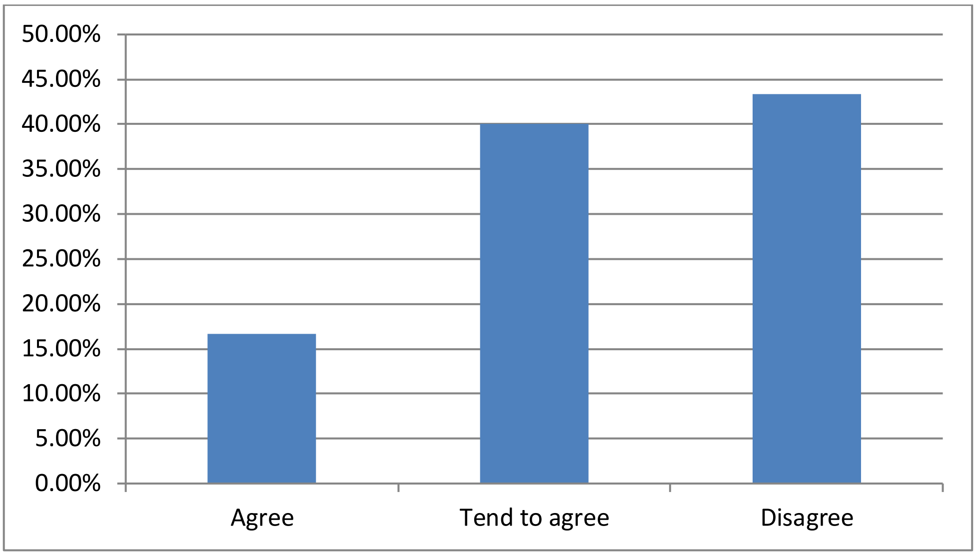
Brightness of future due to merger

Indicator	Frequency	Percent	Cumulative
Agree	5	16.67	16.67
Tend to agree	12	40.00	56.67
Disagree	13	43.33	100
Total	30	100	

Source: Opinion survey 2018

Figure no. 4.5

Brightness of future due to merger



As presented in table no. 4.9, 16.67% respondents are agree on due to the merger their future will be bright. Whereas, 40.00% of them are tending to agree on it makes the future bright. But 43.33% of them are not hopeful that there is no bright future after merger of the bank. In cumulative majority of the respondents i.e. 56.67% of the respondents are agreed on their future must be the bright after merger of the bank. Hence employees are satisfied with the bank merger and acquisition in relation to the future brightness.

4.2.5 Do you feel that merger and acquisition of bank tends to grow fear of losing the job?

Table no. 4.10

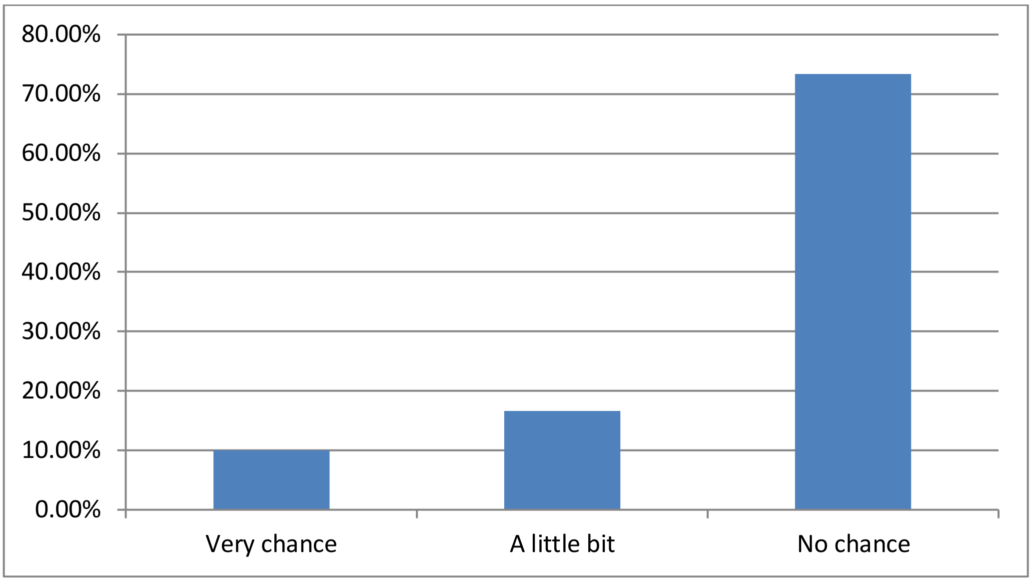
Tends to grow fear of losing the job due to merger of the bank

Indicator	Frequency	Percent	Cumulative frequency
Very chance	3	10.00	10.00
A little bit	5	16.67	26.67
No chance	22	73.33	100
Total	30	100	

Source: Opinion survey 2018

Figure no. 4.6

Tends to grow fear of losing job due to merger of the bank



As presented in table no. 4.10, 10.00% respondents are agree on merger of the bank has tends to grow fear of losing the job and 16.67% of them are little bit agree towards have a fear of losing the job. Whereas 73.33% of the respondents are said that, there is no fear of lose the job. From the result majority of the respondents opinion that, continuous merger of the bank do not have the fear of lose the job.

4.2.6 Is bank able to make the effective socialization process after merger?

Table no. 4.11

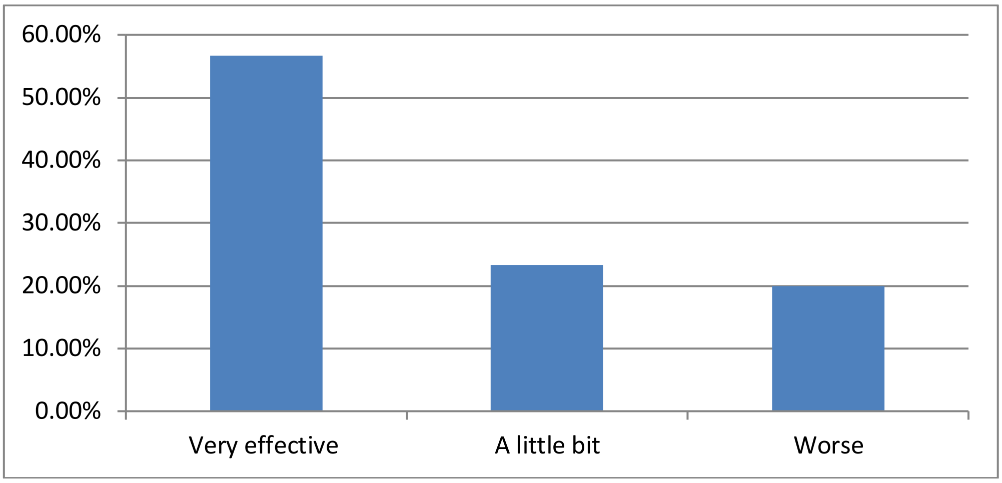
Effectiveness the socialization process

Indicator	Frequency	Percent	Cumulative frequency
Very effective	17	56.67	56.67
A little bit	7	23.33	80.00
Worse	6	20.00	100
Total	30	100	

Source: Opinion survey 2018

Figure no. 4.7

Effectiveness the socialization process



As presented in table no. 4.11, 56.67% respondents are positive towards socialization process is very effective and 23.33% of them are tilted towards the effectiveness in the socialization process of employee after the merger of the bank but 20.00% of the respondents are mentioned that there is worse socialization process of employees after the merger of the bank. In cumulative form, 80.00% of the respondents are agreed on, there is effective socialization process conducted by the bank after the merger of the bank. Hence the employees are satisfied with the bank merger in relation to the socialization process.

4.2.7 Did the employees feel any cultural complexities after merger?

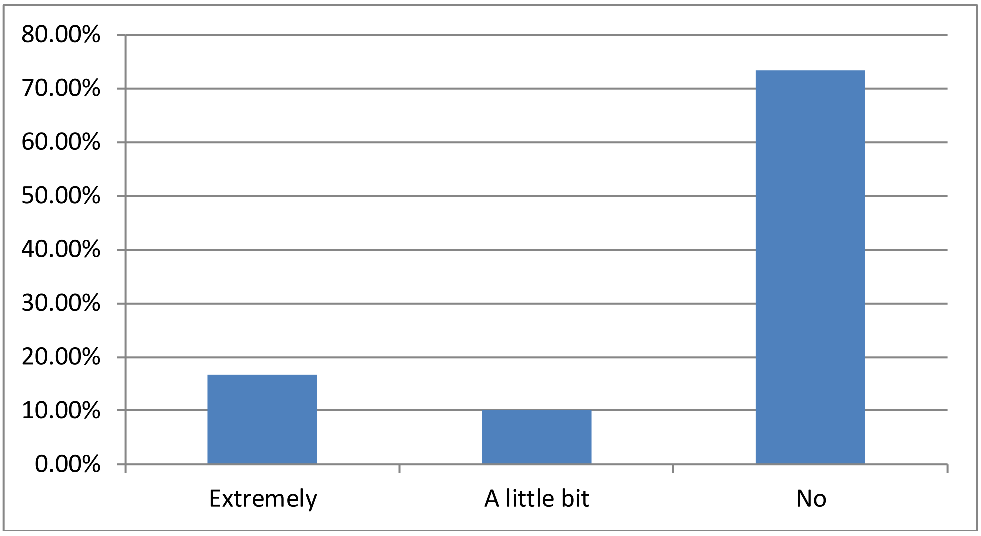
Table no. 4.12
Seen of cultural complexities

Indicator	Frequency	Percent	Cumulative frequency
Extremely	5	16.67	16.67
A little bit	3	10.00	26.67
No	22	73.33	100
Total	30	100	

Source: Opinion survey 2018

Figure no 4.8

Seen of cultural complexities



As presented in table no. 4.12, 16.67% respondents are extremely agreed on cultural complexities are seen after the merger of the bank. 10.00% of them are tend to agree on it made the cultural complexities but 73.33 % of them must not agree on the cultural complexities are seen after the merger of the bank. Hence majority of the respondents are responding that, there is no complexities are seen after the merger of the bank. It said that, after the merger of bank, cultural complexity has not seen.

4.3 Finding of the Study

This section includes the key finding of the study obtained from the finding are presented in the next chapter.

1. The results obtained provide the evidence that Merger & Acquisition activities have a significant impact on the employees of particular organization. The employees 73.33% are no feared of losing job, 56.67% are feel that, future of employee seems bright.
2. The employee 60.00% of them felt that, the work and working condition of the bank after merger is seems to be good.
3. 73.33% of the employees are agreed for no cultural complexities seen among the employee.

4. 80.00% of the respondents from banks are able to socialize the employee effectively.
5. Hence after the merger of the BIFs, they have to boost up their performances regarding fearless in job, brightness of the future, working condition better, no cultural clash, have a good socialization process and get a good remuneration.
6. The employees 50.00% are controversy on acquiring the challenging and interesting job in relation to the academic qualification.
7. 56.67% of them are not getting the desired job position after the merger of the bank.
8. Hence after the merger of the bank, the main negative impact faced by the BIFs are they not sure for getting the right job for right candidate, job promotion and achievement is not a desirable its take too longer process.
9. The main advantage of the BIFs after the merger of the bank is to raise their paid-up capital. Net profit after tax (NPAT) of the bank continuously increase in order, which is positive impact to the BIFs. Market value per share (MVPS) of the BIFs after merger is increase. All of the merged entities have good market value after merger. Return on Asset (ROA) of the BIFs after merger has been seen as increasing trend. Credit to deposit ratio of the BIFs after merger of the bank is seen good position. To have a good ratio, there must maintain the ratio by 80%. Hence MBL & NIC Asia Bank maintains such level of ratio. Whereas, Global IME Bank is also have not poor but they managed their liquidity position of the bank. Earning per share of the bank has seen positively increasing trend.
10. It is discovered that impact of merger shows positive impact on NPAT of all the banks. Where EPS is satisfied in case of Global IME and Machhapuchhre bank but it has negative impact on EPS of NIC Asia, ROE is going well with NIC Asia and MBL after merger but merger is not the solution. Merger do not have positive impact on ROA for all the sampled banks.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

This research was conducted to analyze the impact and challenges of Merger and Acquisition activities in Nepalese commercial Bank. The impact was considered to be on employees and shareholders whereas the challenges were considered to be on Banks Manager as well as Institution. The sample bank was NIC Asia Bank Ltd, Machhapuchchhre Bank and Global IME Bank. NIC Asia was formed in 2012 with merger of NIC Bank and Bank of Asia Nepal. Machhapuchchhre Bank Limited was formed in 2012 with merger of Machhapuchchhre Bank Limited and Standard Finance Limited. Whereas Global IME Bank limited was merged several times with different BFIs. It was merged with Lord Buddha Finance Company and IME Finance company Limited in 2012. It was also merged with Gulmi Bikash Bank and Social Development Bank in 2013. Gradually Global IME Bank Limited was latest merged with Commerze and Trust Bank Limited in 2014. Here after the merger of the Bank and Financial Institutions, the Impact of Bank on employee has greatly affected. Employees of the commercial Banks are more satisfied in regard of the stability in job, acquiring more challenging job having more educated person, most of them are also tend to agree on their future is bright after the merger of the bank. Most of the respondents have not fear of losing the job after merger of the bank. The employee of the sample Bank are represents that they are satisfied by their present range of salary, they also more willingly said that the socialization process of the Bank are effectively conducted and there has not seen any cultural complexities. The questionnaire the respondents are also said that the work and working conditions become more complexities after merger of the Bank. The net profit of the given sample banks after merger of the bank is grown up than that of pre- merger. The earning per share of the Bank after merger is also seen in the growth level but after a year of merger its growth has seen with slightly downward trend. Market value of the Banks after merger is grown highly. After a year of merger MVS is downward sloping. Price earning ratio of the sample Bank shows that not well growth. There might be the some issues to happening that but in exception of some of the bank most of the bank has not reform on P/E ratio. In the given sample Bank return on asset is seen as a positive growth. But after a year of merger, NIC Asia Bank has seen a negative trend in ROA. After the merger of the bank, there has seen a positive trend in return in equity. Due to the merger impact the ROE of all Banks have gone on positive away. Credit to deposit ratio of the Bank has somewhat increasing in trend. The non- performing loan to total loan has gradually gone downward. Its impact is positive to sustain from bad loan. The Book value per share of the bank after merger process is increase. It is good symptoms of the Bank. After merger of the institutions no of size of the bank become expand, that is why number of employee become more than that of pre-merger. Its impact is somewhat goes to fear of losing the job.

5.2 Conclusion

The Nepal Rastra Bank seems to have successfully implemented the merger bylaws policy in Nepali BFIs in correct timing and transformed the weak and unstable financial institutions into strong, stable and credible financial institutions. Although the initial merger was forceful, it took certain time for BFIs to self-implement this policy and has taken a great shape tremendously. The impacts of Merger & Acquisition activities remain debatable topic. It is difficult to analyze whether the impact is positive or negative. It is different for different employees, shareholders and a different bank as well. However, the Merger & Acquisition activities has been seen as beneficial in context of Nepal. The poor performing banks have been merged and banks have become more competitive and standard. In context of Nepal, the merger seems to be more of procedural and physical type rather than socio cultural. The merged banks seem to perform well than before considering quantitative value the financial figures.

However, the qualitative factors like services provided by banks are difficult to analyze. The main difficulties faced by the banks in terms of the merger are swap ratio, composition of BOD, management team structure, the socio-cultural factors like cultural complexity, informal relationship, nepotism, favoritism, corporate cultural clash, position issues, collusions in managerial level, fear of losing job, adjustment problem, socialization etc. In developed countries, Merger & Acquisition is facilitated by an Investment Banker who carries out a successful Merger & Acquisition by coordinating various phases of the process viz. Pre-merger, and post-merger. In Nepal Merger & Acquisition is carried by merging banks themselves leading to delay and cumbersome process. Hiring of consultants is taken as additional cost burden. A planned and strategized communication with the staff, assessment of their anxiety before the merger and grievance redress post-merger is imperatival activities. The success of one-merger activities can take whole capital market in positive direction.

5.3 Recommendation

Mergers and acquisitions should be well thought about processes which in view of this study should not necessarily be a one-time process. The process can be elongated to ensure that there is complete mutual understanding between or among the merging or acquiring organizations. This implies that intensive and extensive feasibility studies should be carried out before the merging or acquiring process is undertaken.

1. The Merger and Acquisitions is a strong solution for Nepalese bank to improve competitiveness in the context of global level competition.
2. It is recommended that the Nepal Rastra Bank should monitor the activities and encourage for merger of the banks to be able to extend their operations to the highest level in the economy.
3. Recommended the prospective investors to invest in the equity of the banks with successful Merger.
4. Loan department of the Global IME bank is suggested to make detail analysis of loan proposal.

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APPENDICES

Appendix -I

Survey Questionnaire

Merger Bank and Financial Institution Employee Survey

The Following questionnaire is a part of a merged BIFs employee's survey, conducted as a part of the thesis work.

The aim of the survey is to analyze the impact of merger and acquisition 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

Thakur Prasad Khadka

Central Development of Management, TU Kirtipur

Questionnaire:

1) Did you get desired job position after the merger
   i) Desire
   ii) Tend to desire
   iii) No
2) Work and Working condition is felt little more complex after merger
   i) Agree
   ii) Tend to agree
   iii) Disagree
3) Does your job position meet expected level of challenging and interesting job suitable to your academic qualification?
   i) Yes
   ii) A little bit
   iii) No

4) Are you hopeful on your career developed after merger of banks?
   i) Agree
   ii) Tend to agree
   iii) Disagree

5) Do you feel that merger and acquisition of bank tends to grow fear of losing the job?
   i) Very chance
   ii) A little bit
   iii) No chance

6) Is bank able to make the effective socialization process after merger?
   i) Very effective
   ii) A little bit
   iii) Worse

7) Did the employees feel any cultural complexities after merger?
   i) Extremely
   ii) A little bit
   iii) No