

PROBLEMS AND PROSPECTS OF MERGER AND ACQUISITION DECISION IN BANKING SECTOR IN NEPAL

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ABSTRACT

The main purpose of this study is to find out the factors that would lead to making decision regarding going for merger and acquisition among the banks in Nepalese banking sector. This paper finds out various factors that would affect merger and acquisition decision in banking sector based upon previous studies, and tries to check whether these are significant in case of Nepalese banking sector or not. Based upon the previous studies done by various scholars, nine factors along with their corresponding hypothesis have been used for study. The nine factors are: emphasis on increasing income, emphasis on increasing sales of services, emphasis on financial diversification, emphasis on cost efficiency, emphasis on obtaining stronger position in market, emphasis on better branding, emphasis on achieving security, emphasis on fulfilling regulations requirement from regulatory authorities and emphasis on fulfilling capital requirement.

Key words: Merger. acquisition, behavioral, cost, position. security, regulations,

INTRODUCTION:

Mergers and acquisitions (M&A) are a recurring phenomenon in global scenario. Merger and acquisition activities are found in all sectors over the world including banking sector. Merger and acquisition in banking sector is influenced by various factors. The most dominant reason for M&A to take place is the synergy that can be created by the combination of business activities which will lead to better, faster and low cost performances. Essentially, a business will attempt to merge with another business that has complementary strengths and weaknesses.

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M&A is now renowned for being an action commonly undertaken by management, although research studies over many years have suggested that there is a consistent failure of 30-50 percent (Booz and Hamilton. 1985). However, in the most recent research done which covered 314 companies from several European countries, it was found that some 80 percent of the acquisitions were successful. The report stated that M&A is not a corporate objective in itself but is a means of achieving corporate goals although the results of the survey show that M&A objectives are geared to the company's visibility in its markets rather than hard edged economic returns.

While considering the banking sector, it is of no exception to be affected by the waves of merger and acquisition. Global mergers and acquisitions in banking sector have led to the study on determinants of these M&A activities and decision. Based upon the types of synergies, they could be income synergy, cost synergy, market power synergy and intangible synergy. This paper tries to find out the significant causes based on which the banks would decide to go for merger and acquisition in Nepal since merger (and acquisition) have gained momentum in the Nepalese banking sector in the current decade. Such factors shall be analyzed as per the information provided by experts working in various levels in Nepalese banking sector.

CONCEPTUAL FRAME WORK OF MERGER AND ACQUISITION:

Merger and acquisition activity in the United States has typically run in cycles, with peaks coinciding with periods of strong business growth. Indian merger activity has been marked by five prominent waves: One around the turn of the twentieth century, the second peaking in 1929 the third in the latter half of the 1960s the fourth in the first half of 1980s and the fifth in the latter half of the 1990s.

Merger is defined as combination of two or more companies into a single company where one survives and the other lose their corporate existence. The survivor acquires *the* assets as well as liabilities of the merged company or companies. A merger is a combination of two companies where one corporation is completely absorbed by another corporation. The less important company losses its identity and becomes part of the more important corporation, which retains its identity. A merger extinguishes the merged corporation and the surviving corporation assumes all the right, privileges, and liabilities of the merged corporation. A merger is not the same as a consolidation in which two corporations lose their separate identities and unite to form a completely new corporation.

Acquisition in general sense is acquiring the ownership in the property. Acquisition is the purchase by one company of controlling interest in the share capital

of another existing company. This means that even after the takeover although there is change in the management of both the firms retain their separate legal identity.

NEPAL: ATAGLANCE

Nepal is one of the countries located in South Asia, with agriculture as the main source of occupation, but currently dominated by service sector when analyzing the Gross Domestic Product (GDP). Nepal is a landlocked country with China in north and India in other remaining sides

Geographically, Nepal can be divided into Mountainous region (15 percent), Hilly region (68 percent) and Terai region (17 percent). With the presence of world's tallest mountain Mt. Everest, various rivers, religious places and natural beauties. Nepal has got huge potentiality with regards to the utilization of the natural resources as well as boosting the tourism sector. With the lack of entrepreneurial dynamism in the various sectors of economy. Nepal stands at the rank of 148 in case of economic freedom index (based upon government spending relative to GDP, restrictions on international trade, minimum wage rights, and the like) as calculated by The Heritage Foundation in 2022. With the population of 30.5 million, Nepal has the Gross Domestic Product (GDP) at market prices of \$122 billion as shown by World Bank. The economic growth rate was 6.66 percent in 2019, which is decline from 2018. It is 2020 was -2.37 percent which is increase in 2021 and remain at 4.25 percent a 6.62 percent increase from 2020 and it is estimated to moderate to 4.1 percent in 2023 down from an estimated growth of 5.8 percent in 2022.

As per World Bank, although the primary source of income in Nepal is agriculture, with its contribution of 23.95 percent in 2022; remittance has been playing a major role in the economic sector of Nepal thereby covering 23.95, 14.29 and 61.76 percentage of GDP in the years 2020, 2021 and 2022 respectively. Nepal Rastra Bank, the central bank of Nepal, states that GDP from Agricultural, Industrial and Service sector was 23.95 percent, 14.29 percent and 61.76 percent in the fiscal year 2021/2022.

BANKING SECTOR IN NEPAL :

Nepal Rastra Bank is the central bank of Nepal which started its operation in 1956 under the Nepal Rastra Bank Act 1955. As per the information provided by Maskey and Subedi (2009), the history of banking sector in Nepal traces back to 1937 when the first ever bank was established in Nepal named as Nepal Bank Limited. In the study conducted by Maskey and Subedi (2009). They have stated that the history shows that Nepal Bank Limited was established was a semi government bank with NRs. 10 million as authorized capital and NRs. 892 thousand as paid up capital. The writers further indicate that in

Nepal, metallic coins were in use until mid-forties because of which handling of money was very hard. Thus, the then Government of Nepal felt the need to establish separate body to handle the currencies as well as promote the financial organization in the country. The writers further indicate that when Nepal Bank Limited was formed, the need of governing bank was felt slowly as Nepal Bank Limited had to act as a central bank without necessary laws and foundations and thus, Nepal Rastra Bank was established. Then, with a view to develop the industrial sector of Nepal, Industrial Development Bank was established in 1957, which later reformed to Nepal Industrial Development Corporation. Later, Rastriva Banijya Bank was established in 1965 as second commercial bank and Agricultural Development Bank was established in 1968 to develop the agricultural sector of Nepal. After that, there were no new banks in Nepal for almost two decades. The banking sector began to see new banks along with joint ventures after

The liberalization and deregulation policy was adopted by Nepal Rastra Bank. Such financial sector policies, regulations and institutional developments were introduced from 1980. By introducing such policy, the government encouraged the private sector as well as foreign parties to increase their participation in the banking sector of Nepal. Currently, Nepalese banking sector consists of four categories of banks: category A as commercial banks, category B as development banks, category C as finance companies and category D as micro-finance development banks. Commercial banks of Nepal mostly specialize in accepting deposit and providing loans. Apart from that, they are allowed to provide service of currency exchange as per the direction provided by Nepal Rastra Bank. Development banks are more concerned with utilizing savings from the customers and redirecting them for various investment and development purpose. The function of finance company is also like that of any other depository institution in Nepal performing depository and lending service. Microfinance development bank is more related with the rural areas and providing the deposit-loan function at the micro level to poor and disadvantaged groups. As per annual report of Nepal Rastra Bank for the fiscal year 2013/2014, the number of bank and financial institutions(including the cooperatives and non-government organizations with limited banking) licensed by the NRB decreased to 248 in mid-July 2014 from 254 a year ago. The decline in the total number banks and financial institutions (BFIs) was due to the merger of 64 BFIs into 25 after the promulgation of Merger By-Law, 2011. Accordingly, in mid-July 2014, the number of commercial banks remained 30, development banks 84, finance companies 53 and micro-finance development banks remained 33. Out of 37 "D" class microfinance institutions, there were 5 Grameen Bikas Banks (rural development banks), 28 replicators of Grameen Bank and 4 wholesale microfinance institutions in operation in mid-July 2014. On July 3,

2014, approval has been granted from NRB for the establishment of one national-level "Nepal Grameen Bikas Bank Ltd" with the merger of 4 rural development banks into Paschimanchal Grameen Bikas Bank. The number of deposit accounts and borrowers in these microfinance institutions reached 1.2 million and 1.1 million respectively. These microfinance institutions have provided set-vices in 71 districts in mid-July 2014. The financial intermediary sector, in overall, grew by 1.8 percent in 2014, as opposed to 0.8 percent decrease in the previous year. Nepalese economic sector did not go through the larger economic crisis as la in various countries in the decade 2000-2010. However, the need to restructure the banking sector through merger and acquisition WIN felt by Nepal Rostra Bank. So, it created the environment for activities to occur. Nepal Rostra Bank (2014) has stated in Nepalese language that oiler the deregulation in Nepalese banking sector, the number of banking and financial institution* increased but it did not lead to healthy competitive enviroment. Also, it was felt that there were many banking and financial institutions looking for institutional stability while others looking for the safe and easy exit, NRB introduced the Merger Act, 2068 B. S.. The decline in the total number banks and financial institutions (BFIs) was due to the merger of 64 BFIs into 25 after the promulgation of Merger By-Law, 2011. Merger and acquisition in banking sector has been a frequent activity in Nepalese banking sector

End of mid- March 2022 the number of commercial banks, development bank and financial companies is 27, 17, and 17 respectively and 66 microfinance institutions (MFIs) and one infrastructure development bank. The bank merger rate was 2.8 percent with 134 bank merger in Nepal. There are 6 merger and acquisition in banking sector in Nepal in year 2022. Out of them two merger. First is two commercial bank Nepal Investment Bank and Mega bank Limited with the paid up capital Rs 18.31 billion and 16.2 billion respectively. Secound is Nepal Credit and Commerce bank Limite (NCCB) AND Kumari Bank Limited (KBL) with the paid up capital of KBL was 25.85 billion. There are four acquisition in year 2022 one of them formed merchant bank name Garima Capital Bank Limited by Garima Bikash Bank Limited and KCL Astute Capital Limited. Secound is commercial bank formed by Nabil Bank Limited and Nepal Bangladesh Bank Limited after acquisition common name Nabil Bank Limited. Third one is formed Micro Finance after acquisition Deprose LaghuBitta Bittiya Sastha Limited. Which is formed by Deprose LaghuBitta Sastha Limited LaghuBitta Bittiya Sastha Limited. Microfinance institutions, Merger and acquisition in banking sector has been a frequent activity in Nepalese banking sector. NIBL and Himalayan Bank Limited (HBL) attempted to get merged, which however failed at the last hour of the merger process.

Finance Minister Janardan Sharma and HBL's former chairman Tulasi Prasad Gautam were even dragged into controversies for this failure.

After the merger between NIBL and HBL went inconclusive, Nepal Rastra Bank has been pressing both the banks to find suitable partners to go into a new merger process. While NIBL has found a partner, HBL is yet to disclose its development.

Currently, NIBL has a paid-up capital of Rs 18.31 billion while that of MBNL is Rs 16.12 billion. If the merger process concludes as per plan, the merged bank will have a capital base of Rs 34.43 billion. Even as the banking sector was reeling under an acute shortage of liquidity with the country facing severe economic headwinds, there was a series of understandings between banks in 2022 to go for mergers and acquisitions. The fact that the total number of commercial banks that had reached 32 in 2012 has come down to 22 by this January clearly shows that NRB has been successful in achieving its aim to reduce the number of banks in the country. In the last one year, M&As between 10 commercial banks have concluded and the entities have started their unified business as five banks. In the last one year, M&As between 10 commercial banks have concluded and the entities have started their unified business as five banks. Himalayan Bank and Civil Bank have already called their annual general meeting to endorse the merger MoU. Once they merged, the number will come down to 21. And, if the proposed merger between Laxmi Bank and Sunrise Bank materialized, the total number of commercial banks in the country will drop to 20.

With the central bank prodding four other commercial banks for the merger, the total number of commercial banks will likely come down to 18 in the near future. And, if that happens, it would be something near what the NRB in its 2022 study has envisioned.

The Nepal Rastra Bank (NRB) started seeking 'big mergers' of banks to create big financial entities that are able to bear larger risks, withstand domestic and international economic shocks, and provide modern banking services to the population and aid in the economic development of the country in meaningful ways.. Even as the banking sector is grappling with a prolonged liquidity crunch and shortage of loanable funds, the consolidation drive is redefining the banking industry. It's been a couple of years since the central bank forced banks and financial institutions (BFIs) to go for consolidation. Earlier, NIBL and Himalayan Bank Limited (HBL) attempted to get merged, which however failed at the last hour of the merger process. Finance Minister Janardan Sharma and HBL's former chairman Tulasi Prasad Gautam were even dragged into controversies for this failure.

After the merger between NIBL and HBL went inconclusive, Nepal Rastra Bank has been pressing both the banks to find suitable partners to go into a new merger process. While NIBL has found a partner, HBL is yet to disclose its development.

Thus, although NRB paved a framework for M&A activities, the reasons behind the banks' decision to go for M&A have not been the subject of study. There are various problems faced by the Nepal banking sector or various opportunities that the BFIs see when merging with or acquiring other banks. These reasons and opportunities have not been studied so far. Thus, this paper tries to explain the relationships of various factors affecting the merger and acquisition decision of Nepalese banks. **RESEARCH OBJECTIVES:**

The objectives of this research are as follows: • to find out problems and prospects of merger and acquisition decision in banking sector in Nepal.

SIGNIFICANCE OF THE STUDY

This will help the planners as well as policy makers to maximize the value of the concerned stakeholders based upon the merger and acquisition strategy. The BFIs will be able to find out the focused causes that might lead them towards the merger and acquisition activities in the future.

METHOD OF THE STUDY

In order to obtain the variables for data, past knowledge was 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. Taking the research question as a base, both hypotheses as well as conceptual framework were brought into light. After that, questionnaires were developed which would address the issues of hypotheses. With regards to the primary and secondary data collection methods; primary data were collected for the research purpose in order to find out if our hypothesis based on previous studies were correct or not. Thus, primary data were the main sources of data for the purpose of research paper analysis and the collection method of data was on 5 point Likert scale.

REVIEW 01: LITERATURE

Vurdimna Pawaskar (2001), "Effect of Mergers on Corporate Performance in India" he studied the impact of mergers on corporate performance. It compared the pre- and post-merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post-merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability. The study conducted by Shanmugam (2003) in Malaysia stated that the zeal to achieve higher efficiency and competitiveness were the main determinants for M&A deals in Malaysian banks. Mergers and acquisition decisions are usually driven by an ambition to gain as much weight as possible in the international banking space, to eliminate competition from profitable areas of business, to procure added financial benefits for the shareholders, to expand the range of services, and to effectively manage the resources available.

Vanitha. S (2007) "Mergers and Acquisition in Manufacturing Industry" she analyzed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The author found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies. Smirnova (2014) has stated that attempts to analyze the merger and acquisition in banking sector were performed quite recently. The studies show that in case of developed countries, there is negative relationship between a bank's profitability and the likelihood of being acquired (Amel and Rhoades, 1989; Wheelock and Wilson, 2000).

MERGER AND ACQUISITION IN BANKING SECTOR IN NEPAL:

In recent years, mergers and acquisitions have been the burning issue in the banking sector. Complying with the global scenario, Nepalese banks and financial institutions are currently going through the situation of merger and acquisition. The first banks to merge in Nepal were Himchuli Bikash Bank (category "B") and Birgunj Finance Limited ("C") on which the banks were renamed to H & B Development Bank Limited (National Level category "B") and the banking operation started from 6/15/2011 after merger. In Nepal, the banks have not gone for acquisition so far. The Banks and Financial Institutions Acquisitions Bylaw came into practice only from 2014 (Nepal Rastra Bank Allows

Acquisitions of Financial Institutions. 20 14). The NRB decreased to 248 in mid-July 2014 from 254 a year ago. The decline in the total number banks and financial institutions (BFIs) was due to the merger of 64 BFIs into 25 after the promulgation of Merger By-Law, 2011. Accordingly, in mid-July 2014, the number of commercial banks remained 30, development banks 84, finance companies 53 and micro-finance development banks remained 33. Out of 37 "D" class microfinance institutions, there were S Grameen Bikas Banks (rural development banks), 28 replicators of Grameen Bank and 4 wholesale microfinance institutions in operation in mid-July 2014. On July 3, 2014, approval has been granted from NRB for the establishment of one national-level "Nepal Grameen Bikas Bank Ltd" with the merger of 4 rural development banks into Paschimanchal Grameen Bikas Bank. The number of deposit accounts and borrowers in these microfinance institutions reached 1.2 million and 1.1 million respectively. These microfinance institutions have provided set-vices in 71 districts in mid-July 2014. The financial intermediary sector, in overall, grew by 1.8 percent in 2014, as opposed to 0.8 percent decrease in the previous year. Merger and acquisition in banking sector has been a frequent activity in Nepalese banking sector. Nepal Consumer Development Bank merged with another bank became a Reliable development bank. Again, Reliable development bank merged with Global IME..

After lots of Bank merge Nepal process, the old banks, now have new names. List of all New Bank Names and Old bank names of Nepal. This list includes the name of banks before it merged with another bank.

BEFORE MERGE	AFTER MERGE
<ul style="list-style-type: none"> -Infrastructure Development Bank Ltd -Apex Development Bank Ltd. -Supreme Development Bank Ltd -International Development Bank -Swastik Merchant Finance Limited -Royal Merchant Banking and Finance Limited -Rara Bikash Bank Limited -Api Finance Limited 	NCC BANK LTD
<ul style="list-style-type: none"> -Grand Bank Nepal Ltd. -Kist Bank Ltd. -Gaurishankar Development Ltd -Zenith Finance Ltd -Sambridhi Bikash Bank Limited -Baibhav Finance Limited 	PRABHU BANK LTD

<ul style="list-style-type: none"> -Century Commercial Bank Limited (Merged with Prabhu bank after acquiring the following banks) -Alpine Development Bank Limited -Seti Finance Limited -Sagarmatha Finance Limited -Innovative Development Bank Limited -Araniko Development Bank Limited -Surya Development limited -Patan Finance Ltd. -Sagarmatha Merchant & Finance Company Ltd. 	
<ul style="list-style-type: none"> -Raptibheri Bikas Bank Limited -Jhimruk Bikash Bank Ltd. 	JYOTI BIKAS BANK LIMITED
<ul style="list-style-type: none"> -Kamana Bikas Bank Limited -Sewa Bikas Bank Limited -Kaski Finance Ltd. 	KAMANA SEWA BIKAS BANK LIMITED
<ul style="list-style-type: none"> -Cosmos Development Bank Ltd. -Bageswori Bikash Bank Limited 	SHANGRILA DEVELOPMENT BANK LTD
<ul style="list-style-type: none"> -Purwanchal Grameen Bikash Bank Limited -Madyamanchal Grameen Bikash Bank Limited -Paschimanchal Grameen Bikash Bank Limited -Madya Paschimanchal Grameen Bikash Bank Limited -Sudur Paschimanchal Grameen Bikash Bank Limited 	<p>GRAMEEN BIKAS LAGHUBITTA BITTIYA SANSTHA</p> <p>(Nepal Grameen Bikas Bank Limited renamed to Grameen Bikas Laghubitta Bittiya Sanstha)</p>
<ul style="list-style-type: none"> -Reliable Development Bank Limited -Pacific Development Bank Ltd. -Social Development Limited -Gulmi Bikash Bank Limited -IME Finance Limited -Lord Budha Finance Ltd. -Commerz & Trust Bank Limited -Subhalaxmi Finance Limited 	GLOBAL IME BANK LIMITED

<ul style="list-style-type: none"> -Hathway Finance Ltd -Nepal Consumer Development Limited -Janata Bank Nepal Ltd (Janata Bank merged with Global IME after acquiring the following banks) -Siddhartha Development Bank Ltd. -Triveni Bikas Bank Limited -Ekata Bikas Bank Ltd. -Nepal Awas Finance Ltd. -Public Development Ltd. -Bright Development Ltd -Bank of Kathmandu Ltd. -Lumbini Bank Ltd. (merged with Bank of Kathmandu Ltd. initially) -Navadurga Finance Company Limited (merged with Bank of Kathmandu Ltd. initially) 	
<ul style="list-style-type: none"> -Pathibhara Bikas Bank Ltd. -Bhrikuti Bikas Bank Ltd -Clean Energy Development Ltd. -Prudential Finance Co Ltd. -Om Development Bank Limited (Bank merged with NMB after acquiring the following banks) -Manaslu Bikas Bank Limited -City Development Ltd -Om Finance Ltd. 	NMB BANK LTD

<ul style="list-style-type: none"> -Ace Development Bank Ltd. -Mega Bank (Mega bank merged with NIBL after acquiring the following banks) -Paschimanchal Development Ltd. -Tourism Development Bank Ltd. -Matribhumi Bikas Bank Ltd -Kalinchowk Development Bank Ltd. -Gandaki Bikas Bank (Bank merged with Mega bank after acquiring the following banks) -Fewa Bikas Bank -Biswo Bikash Bank Ltd 	<p>NEPAL INVESTMENT MEGA BANK LTD.</p>
<ul style="list-style-type: none"> -Yeti Development Bank Ltd. -Malika Bikas Bank Limited -Mahalaxmi Finance Limited -Siddhartha Finance Limited -Imperial Finance Limited -Manakamana Development Limited -Yeti Finance Limited -Valley Finance Limited 	<p>MAHALAXMI BIKAS BANK LTD</p>
<ul style="list-style-type: none"> -Lumbini Finance & Leasing Company Limited -Vibor Society Development Bank Limited -Vibor Bikas Bank Ltd. -Society Development Ltd. -Bhajuratna Finance Limited -H & B Development Bank -Birgunj Finance Ltd. -Himchuli Bikas Bank 	<p>LUMBINI BIKAS BANK LIMITED</p>
<ul style="list-style-type: none"> -NIDC Capital Market Ltd. -Narayani National Finance Ltd. -National Finance limited -Narayani Finance Ltd. 	<p>SUNRISE BANK LTD</p>

-Biratlaxmi Bikash Bank Ltd. -Country Development Bank Ltd. -Khadbari Development Limited -Kailash Bikas Bank Limited (Bank merged with Prime Commercial after acquiring the following banks) -Nepal Express Finance Ltd -Metro Development Ltd	PRIME COMMERCIAL BANK LTD
-Civil Bank Limited (Bank merged with Himalayan Bank after acquiring the following banks) -Unique Finance Limited -Hama Merchant and Finance Limited -International Leasing & Finance Company Limited -Axis Development limited -Civil Merchant Bitiya Sanstha Limited -Pashupati Development Limited -Udham Bikash Bank Limited	HIMALAYAN BANK
-Bhaktapur Finance Company Ltd	CENTRAL FINANCE LTD.
-Professional Diyalo Development Bank Ltd. -Diyalo Bikash Bank Limited -Professinal Development Limited -Hisef Finance Limited	LAXMI BANK LTD
-Business Universal Development Limited -Business Development Limited -Universal Finance Limited -Business Development Limited -Universal Finance Limited	SIDDHARTHA BANK LIMITED
-Bagmati Development Bank Ltd.	SANIMA BANK LTD
-Kasthamandap Development Bank Limited -Mahakali Bikash Bank Limited -Kakrebiyar Bikash Bank Limited -Paschimanchal Finance Limited -Shikhar Finance Limited	KUMARI BANK LIMITED

-Western Development Bank Limited (Bank merged with Kumari bank after acquiring the following banks) -Namaste Bittiya Sanstha Limited -Deva Bikas Bank Limited (merged with Kumari Bank after acquiring the following banks) -Sajha Bikas Bank Limited -Union Finance Limited -NDEP Development Bank Limited -Rising Development Bank Limited	
-Subekshya Bikash Bank Ltd. -Nilgiri Bikas Bank Ltd	GARIMA BIKAS BANK LIMITED
-Premier Finance Limited -Nepal Housing and Merchant Finance Limited -Peoples Finance Limited	CITIZENS BANK INTERNATIONAL LIMITED
-lotus Investment Finance Limited	RELIANCE FINANCE LIMITED
-Civic Development Ltd.	MUKTINATH BIKAS BANK LIMITED
-Gorkha Bikas Bank (Nepal) Ltd -Kathmandu Finance Ltd.	GORKHA FINANCE LIMITED
-Gaumukhi Bikas Bank Ltd. -Shine Development Bank Ltd. -Resunga Development Bank Ltd.	SHINE RESUNGA DEVELOPMENT BANK LIMITED
-Standard Finance Limited	MACHHAPUCHCHHRE BANK LIMITED
-Butwal Finance Limited -Alpic Everest Finance Limited -CMB Finance Limited	SYNERGY FINANCE LIMITED
-Shree Investment and Finance Company Ltd.	SHREE INVESTMENT

-Everest Finance Ltd.	FINANCE COMPANY LIMITED
-NIC Bank Limited -Bank of Asia Nepal Limited	NIC ASIA BANK LIMITED
-Nepal Bangladesh Bank Limited (Merged with Nabil Bank after acquiring the following banks) -Nepal Srilanka Merchant Finance Limited -Nepal Bangladesh Finance Limited	NABIL BANK LIMITED

The above table shows the various cases of merger among various banks until 2022. It shows the list of all bank names prior merger and the new name of banks post-merger performance.

RISK IN MERGER AND ACQUISITION:

Merger and acquisitions are not hundred percent risk free activities/achievements. With regards to various uncertain events there can be problems in or problems created by merger and acquisition. Clashes related to difference between organization cultures. Inadequate information flows, lack of transparency etc. are the risks factors involved. Similarly, merger also means that there will be sharing of confidential information among the companies involved and by chance if the merger fails to occur, then it would result in the companies knowing things about each other that were supposed to be confidential. A study was conducted by Nepal Rastra Bank (2015) among Nepalese banks with regards to the changes in risk management caused by merger and acquisition. Among the participants who were founders, 51.4 percent stated that the result was positive, 41.1 percent stated that the situation had not changed and 7.5 percent state that the situation had worsened. Among the participants who were employees and managers, 41.1 percent stated that the result was positive, 47.1 percent stated that the situation had not changed while 11 percent stated that the situation had worsened. The report which was based on an opinion survey carried out by NRB shows that the majority of the top management of BFIs believe the current number of BFIs in Nepal is more than necessary. One-half of the respondents of the survey opined that the appropriate number of commercial banks in Nepal is 11 to 15. Another one-fifth of the respondents preferred 5 to 10 commercial banks, 15 percent were in favor of 16 to 20 banks and the rest were in favor of the existence of 20 to 25 commercial banks.

“Of those respondents who feel that the current number of commercial banks is more than optimal, about 57.1 percent of the respondents from the BFIs and 50.9 percent of the

experts opined that the optimal number of commercial banks in Nepal should be in the range of 11 to 15,” reads the report.

The M&As have come at a time when Nepal’s economy is shrouded by dark clouds of uncertainty that have indeed affected the banking sector. Over the past 2-3 years, banks have found themselves surrounded by a number of challenges that have come in the form of a severe liquidity crisis and sharp hikes in interest rates. In the last fiscal year, the total deposits in the banking system grew by just 9 percent, while the growth of the private sector lending was at 13.3 percent. Lately, a huge gap in financial resources has been seen with low deposit levels and higher demand for loans. Some 15 months ago, the lending rate was 8.43 percent which is now 12.6 percent.

“During the Covid-19 pandemic, liquidity in the financial system was in excess but the borrowing demand was low. So massive flow of loans at low margins occurred when the Covid lockdowns were lifted in 2020 and 2021. The central bank also introduced refinancing for businesses affected by the pandemic. There was relaxation on loan repayments with restructuring and rescheduling of loans. It created excessive liquidity in the market,” said Anil Kumar Upadhyay, former CEO of Agricultural Development Bank.

The money went to import-based consumption and sectors such as real estate and the stock market. But a large chunk of that money did not return to the banking channel creating a shortage of investment-grade liquidity in the system. This has increased the non-performing loans (NPL) in the system. Post-Covid, it was increasingly difficult for small commercial banks to be able to go it alone for very long. Falling net profit, and increased cost of business forced the new commercial banks to find suitable partners. Interestingly, the existence of a new generation of commercial banks that received the licenses in the last 15 years has ended in the current merger bandwagon.

CONCLUSION:

The main purpose of making this research paper was to find out about the factors that have their significant contribution in the merger and acquisition decision carried out in the context of Nepalese banking scenario. Studies regarding factors affecting merger and acquisition in the banking sector have been done in the past with regards to various countries as well as settings. For instance, Smirnova (2014) has drafted various internal and external motives of merger and acquisition.

Similarly, Novickyte and Predroja (2015) have also identified various factors related to synergy based on neoclassical, agency and behavioral theories that are related to merger and acquisition. With regards to banking sector of Nepal, such factors affecting merger and acquisition has not been the prime subject of study so far. Research paper on post-

merger performance of banking sectors in Nepal has been conducted by Nepal Rastra Bank but the factors that would make the bank consider merger and acquisition has not been studied. In case of nine possible variables: emphasis on increasing income, emphasis on increasing sales of services, emphasis on financial diversification, emphasis on cost efficiency, emphasis on obtaining stronger position in market, emphasis on better branding, emphasis on achieving security, emphasis on fulfilling regulations from regulatory authorities and emphasis on fulfilling capital requirement: only four of them were significant in Nepalese context: emphasis on providing service, emphasis on cost efficiency, emphasis on better branding and emphasis on fulfilling capital requirement. However, emphasis on better branding was found to be negatively significant.

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