IMPACT AND CHALLENGES OF MERGER AND ACQUISITION IN NEPALESE BANKING AND FINANCIAL INSTITUTIONS

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Abstract

After the Nepal Rastra Bank implemented the Merger Bylaws Policy in 2011, Nepalese Market was able to observe increasing trend in Merger and Acquisition in Banking and Financial Institutions (BFIs) of Nepal. Therefore, this paper presents the reasons for opting merger activities among BFIs and also focuses on the post-merger impact to the employees, customers and shareholders of the merged bank. The research method used in this paper was descriptive research, which implies the results based on the survey and the analysis. The impact on employees and customers were analysed through questionnaires whereas the impact on shareholders were observed through analysis of financial data of merged bank in 2 years of pre and post-merger phase. The results showed that employees were satisfied with work, wages, working conditions etc. but they were intensely impacted in the HR issues like cultural clash, positions issues, socialization, favouritism etc. The customers felt the changes in value, product and service in post-merger phase but required more innovative service. The overall financial data showed that bank had improved a lot in post-merger phase hence increasing the shareholder's wealth. The challenges were observed in swap ratio, formation of BOD, structure of management team, HR issues, IT issues etc. Therefore, M&A was a must in Nepalese market for changing the poor performing BFIs into strong and credible institutions. The BFIs should consider the socio-cultural factors along with procedural and physical factors for merger. They should also involve with expert or investment banks for full-fledged merger advisory service to avoid the delay and cumbersome process of merger observed in Nepal.

Keywords: *M&A challenges, employees, customers, shareholders*

Introduction

The history of Merger and Acquisitions began long before early 1900s. This period of time covers six main waves of M&A for the past 100 years and these are those of the early 1900's, 1920's, 1960's, 1980's, 1990's, and 2000's. In the past decades, M&A activities have increased rapidly and come to a light since 2000 when Asian 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 M&A activity as new major players in global market. Besides, cross-border M&A became an instrument to pursue a business growth in global markets.

According to Shrestha (2012), the concept of M&A was an entirely new thing to the Banking and Financial Institutions (BFIs) of Nepal when the Nepal Rastra Bank, supervisory and regulatory body of all the BFIs has issued merger by-laws in May 2011. 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 1980's 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 gained acceleration over the last two years in 2011 and 2013 when the Himchuli Finance and Birgunj Finance first sparked the merger trend and consolidated to become the H&B Development Bank. The merger bylaws policy introduced by the Nepal Central Bank in the year 2011 has been successful as almost one fourth of the financial institutions have opted mergers. (Singh 2013)

A lot of speculations have been going on in the financial sector whether the merger policy will be fruitful to strengthen the Nepalese bank and financial institutions. Some positive signals have been visible in the financial institutions as 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 and customers.

Merger and Acquisition

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors. According to Ross−Westerfield−Jordan (2003), "A merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist as a separate entity". A merger is a corporate strategy usually done between two or more than two companies where acquiring firm and acquired firm stand on a merger agreement. The terms merger and consolidation have been used synonymously. However, the two have different legal identities after the merger deal. In a consolidation, two firms come together to create an entirely new firm. Both the acquiring firm and the acquired firm dissolve their previous names and identity (Ross et.al 2003a, 843). In practice, a merger between company A + company B= company A, where company B merged with company A .In a consolidation, company A + company B = company C, where company C is an entirely new company (Gaughan 2011, 7). "An acquisition is a transaction in which an individual or company, known as the offeror (or acquirer) gains control of the management and assets of another company, known as the offeree (or target), either by becoming the owner of these assets or indirectly by obtaining control of the management of the company, or by acquiring the shares". Acquisition can be done either by purchasing the stock and/or assets of the target company. A takeover is another form of acquisition, which can be used interchangeably. Typically, a takeover is unfriendly and hostile in nature and without the will of target firms. Acquisitions are friendlier where both corporations mutually agree to become a part of one to another.

The Bank and Financial Institutions Act (BAFIA) 2006 broadly guides the classification of the Nepalese financial system. BAFIA categories the financial sector of Nepal into a formal sector and informal sector. Currently, the overall financial system of Nepal constitutes the Central Bank, commercial banks, development banks, finance companies, microfinance development banks, co-operatives, financial intermediaries NGOs and contractual saving FIs. The contractual saving financial institutions are of three types. They are insurance companies, Employee's Provident Fund and the Citizen Investment Trust. Among them, EPF and CIT are owned and managed by the government whereas the insurance companies are regulated and supervised by the Insurance Board.

Nabil Bank Limited is the nation's first foreign joint venture bank of Nepal, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 48 points of representation. In addition to this, Nabil has presence through over 1300 Nabil Remit agents throughout the nation.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team.

Bank is fully equipped with modern technology, which includes international standard banking software that supports the E-channels and E-transactions.

Nabil is moving forward with a Mission to be "1st Choice Provider of Complete Financial Solutions" for all its stakeholders; Customers, Shareholders, Regulators, Communities and Staff. Nabil is determined in delivering excellence to its stakeholders in an array of avenues, not just one parameter like profitability or market share. It is reflected in its Brand Promise "Your Bank at your service". The entire Nabil Team embraces a set of Values "C.R.I.S.P", representing the fact that Nabil consistently strives to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional.

Literature Review

The motives behind M&A, its impact and increasing trend of M&A in Nepalese Banking and Financial Institution is the main concern for my study. Researcher has collected some article related to those topics.

Mergers and Acquisitions in Nepalese Banking Sector Bishal Kafle, Wednesday, February 27, 2013

Presently, 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.

Analysis of Mergers and Acquisition in Banking Sector of Pakistan Qureshi, Abdul Hafeez; Sharif, Umbreen; Butt, Babar Zaheer; Bilal, Muhammad Interdisciplinary Journal of Contemporary Research in Business; May 2011, Vol. 3 Issue 1, p1281

This study investigates 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 PICIC, PICIC 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.

Need for the Study

The main purpose of this paper is to get insight of the Merger and Acquisition trend in Nepalese Banking and Financial Institutions. This study helps to know the details about motive behind the M&A and its impact on employee, customers and the shareholders. The need of the study is to analyze the role of investment banks in M&A advisory.

Objectives of the Study

1. To study the reasons or motives behind Merger and Acquisition
2. To identify why there is an increasing trend in merger and acquisition in banking and financial sectors
3. To identify the impact of M&A on employees, customers, shareholders, and overall financial markets

Research Methodology

This research is descriptive type. Survey method was used to interpret the primary data collected from respondents using open and closed end questionnaire. Data was analysed and presented quantitatively using Statistical Package for Social Science (SPSS) and MS-Excel in which diagrams such as bar and pie charts from the data were generated. Moreover, content and logical analyses were used to qualitatively analyse the data.

Types of Data

Both Primary and Secondary data have been used for the study.

1. **Primary data:** The primary data was collected by means of general observation, questionnaire and direct interview. The data were collected communicating with employees and customers and branch manager of the merged bank. The details about Merger and Acquisition concept in banking sector of Nepal were discussed with the officials of Nabil Investment Banking Ltd.
2. **Secondary data**; The secondary data was collected from a wide array of research papers, capital market, Journals, Magazines, Books, Websites and company's database etc. The financial data were extracted from the annual and quarterly reports of the institutes. Different Journal and Paper were studied to have the strong knowledge about the subject and calculations for the study.

Limitations of the Study

1. The overall study only covers aspect of merger and acquisition of Banking and Financial Sectors
2. The analysing part of the study covers only one merged institute
3. The financial data of the bank used in the study may not cover the actual figure of the industry
4. Post-merger financial data of the bank is limited to just two fiscal year
5. The data collected from the employees and customers of one institute may not be applicable to other institute

Data Analysis & Interpretation

NIC Asia bank's merger is first merger between two 'A' class commercial bank in history of Nepal. After the completion of the merger of NIC Bank and Bank of Asian Nepal (BOAN), NIC ASIA Bank commenced its operation on June 30, 2013. "Bank of Asia Nepal" was a relatively younger bank established in year 2007, the other partner – NIC Bank was established in year 1998 and has been recognized for many achievements including "Bank of the Year 2007 – Nepal" by The Banker, Financial Times, UK.

With the merger, NIC-Asia Bank turns 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 ie BOAN shareholders will be issued new share certificates equivalent to 1 share of NIC Asia Bank for 2 shares of BOAN. Existing share certificates of NIC Bank shareholders will continue to be valid.

Impact on Employees

The survey was conducted to analyse the impact of merger of the bank on employees. 50 questionnaires were distributed to the employees out of whom only 30 responded. Therefore, this analysis includes the survey of 30 respondents.

The respondents include 3 of age between 18 and 25 years, 25 between 26 and 35 years, 2 between 36 and 45 years and none above 46 years. There were 19 male respondents and 11 female respondents. There were 17 respondents of assistant level, 6 officer level, 1 managerial level and 6 of others positions. Among the respondents, 20 had experience of less than 5 years, 8 between 6 to 10 years and 2 between 11 to 15 years. All of the respondents were present at the time of merger process between two banks.

The demography can be shown in the percentage below:

Table 1: Demography of respondents with percentage

Age	Percent	Gender	Percent	Position	Percent	Experience	Percent
18-25	10	Male	63.3	Assistant Level	56.7	0-5 years	66.7
26-35	83.3	Female	36.7	Officer Level	20	6-10 years	26.7
36-45	6.7			Managerial Level	3.3	11-15 years	6.7
				Others	20		
Total	100		100		100		100

Source: Survey

The table above shows the percentage of the respondents in each section based on various demographics like age, gender, position and experience.

Awareness of merger by laws imposed by NRB on BFIs

Table 2: Awareness of merger by laws imposed by NRB on BFIs

Are you aware of merger bylaws imposed by NRB on BFIs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	86.7	86.7	86.7
	No	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

Source: Survey

Inference: The above table shows that 86.7 percentage of the respondents of the bank are aware of the Merger By law imposed by Nepal Rastra Bank on Bank and Financial Institutions whereas 13.3 percentage of them are still unaware of such policy. This kind of important policy regarding the BFIs should be known to all the employees of the bank.

Fear of Losing Job

Table 3: Fear of Losing Job

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	3	10.0	10.0	10.0
	Tend to agree	5	16.7	16.7	26.7
	Tend to disagree	7	23.3	23.3	50.0
	Fully disagree	14	46.7	46.7	96.7
	Don't know	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

Source: Survey

Inference: Out of the survey respondent, 10 percent of them mentioned that they fully agree with fear of losing job, 16.7 percentage tend to agree, 23.3 percentage tend to disagree, 46.7 percentage fully disagree and 3.3 percentage do not know about such. Many banks when merged layoff many of the staffs, but in NIC Asia all the staffs were retained so most of them do not have fear of losing job.

Co-workers are friendly

Table 4: Co-workers are friendly

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	13	43.3	43.3	43.3
	Tend to agree	16	53.3	53.3	96.7
	Fully disagree	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

Source: Survey

Inference: Out of the surveyed employees 43.3 percentage fully agree that the co-workers are friendly after merger, 53.3 percentages tend to agree about this and 3.3 percentages fully disagree. This shows that the merger process has been positive regarding the relationship among the employees.

Satisfied with work, wages and working conditions

Table 5: Satisfied with work, wages and working conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	3	10.0	10.0	10.0
	Tend to agree	17	56.7	56.7	66.7
	Tend to disagree	7	23.3	23.3	90.0
	Fully disagree	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Source: Survey

Inference: Among the surveyed employees around 66.7 of them, agree that after merger they are satisfied with work, wages and working conditions. Around 33.3 disagree about their satisfaction with work, wages, and working conditions. It proves that the management is able to satisfy the need of employees in the bank.

Relationship of education with challenging work

Table 6: Relationship of education with challenging work

Education	Work is more challenging and interesting					Total
	Fully agree	Tend to agree	Tend to disagree	Fully disagree	Don't know	
10+2 or equivalent	0	1	1	0	0	2
Graduations	4	3	0	1	0	8
Masters	6	10	3	0	1	20
Total	10	14	4	1	1	30

Source: Survey

Inference: From the above table it is seen that with merger there is more challenging and interesting work for those employees who have completed their education. The work may be same repetitive for less educated employees.

Relationship of experience with leaving job

Table 7: Relationship of experience with leaving job

Experience	Recently thought for working with other company					Total
	Fully agree	Tend to agree	Tend to disagree	Fully disagree	Don't know	
0-5 years	3	10	4	1	2	20
6-10 years	2	1	1	1	3	8
11-15 years	0	0	0	1	1	2
Total	5	11	5	3	6	30

Source: Survey

Inference: From the above table it is seen that those employees that have the experience in this bank of less than 5 years are thinking of joining any new company compared to those with experience of 6 to 10 years. There is less possibility of leaving job to those who have experience of more than 10 years in that bank.

Implementation of changes in the bank

Table 8: Implementation of changes in the bank

The changes in our company has been implemented well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	4	13.3	13.3	13.3
	Tend to agree	18	60.0	60.0	73.3
	Tend to disagree	6	20.0	20.0	93.3
	Fully disagree	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

Source: *Survey*

Inference: Merger is the process of drastic change. When employees were asked about if the changes have been implemented well in the bank, 13.3 percent fully agree that the changes have been implemented well, 60 percent tend to agree with the statement, 20 percent tend to disagree with the statement and 6.7 percent fully disagree with the statement. It is seen that most of the employees feel that the merger is a good decision of management and hence shows the success of the merger in the bank.

Post-merger experience of strategies and policies

Table 9: Post merger experience of strategies and policies

Experience the post-merger in strategies and policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very positive	3	10.0	10.0	10.0
	Positive	19	63.3	63.3	73.3
	Negative	1	3.3	3.3	76.7
	Indifferent	7	23.3	23.3	100.0
	Total	30	100.0	100.0	

Source: *Survey*

Inference: The employees were mostly positive towards the post-merger strategies and policies. They experience it in positive manner. 10 percent of them say it was very positive, 63.3 say it was positive, 3.4 say it was negative and 23.3 are indifferent towards it.

The other impacts felt by some of the employees in bank are communication, changes in organizational dynamics, cultural amalgamations, exchange of best system, new working culture, work force diversity, better R&D as positive impacts and informal relationship, nepotism, favouritism, corporate cultural clash , too much competition for personal growth and career development, higher responsibilities for career development, more challenges, no promotion, stress, higher level job dissatisfaction, position issues, collusions in managerial level, cultural complexity, lack of value to accommodate interest of all staffs, lack of firing management, groupism among staffs, ambiguity among low level staffs, fear of losing job, low motivation and zeal to serve the bank, HR issues, adjustment problem, pressure to handle heavy rush of merged entity, socialization as negative impacts.

Some of the suggestions provided by the employees toward the bank to improve the impact of merger on them are staff mingling activities to be more frequent, HR counselling and effective system to be implemented, more focus should be towards work, requires initiative to excel, incentives to be provided, new job dimensions and career oriented thoughts, larger hearted management that can accept criticism positively, change of environment, revision of policies and ambiguity over internal procedure and policies, staffs should be properly educated in this manner, study of all the aspects of M&A is necessary, various training and development and socialization process to improvised HR issues.

The overall survey of the employees shows that they are satisfied with the merger decision of the bank. They are satisfied in terms of wages, working condition, co-workers, strategies and policies, changes etc. But in regard of HR issues the bank is lacking ways behind. Employees find it difficult to adjust in changed situation. Although the bank has been so far seen as successful, it really needs a lot of improvement regarding human resource management. Counselling of each employee is needed and their suggestions should be considered.

Impact on Customers

The survey was conducted to analyse the impact of merger of the bank on customers. Out of 50 questionnaires distributed only 26 responded. So this survey includes the interpretation based on 26 respondents.

Table 10: Demography of customer respondents with percentage

Age	Percent	Gender	Percent	Type of bank account	Percent	Customer in bank	Percent
18-25 years	61.5	Male	50.0	Current	15.4	0-1 year	3.8
26-35 years	23.1	Female	50.0	Savings	76.9	1-3 years	50.0
36-45 years	11.5			Fixed deposit	7.7	3-5 years	19.2
46 and above	3.8					5 years and above	26.9
Total	100.0	Total	100.0	Total	100.0	Total	100.0

Source: *Survey*

The table shows the overall percentage of the surveyed respondents based on various demography like age, gender, type of bank account, and years of service received from bank. Out of 26 respondents, there were 16 of age between 18 to 25 years, 6 between age 26-35 years, 3 between 36 to 45 years and 1 above 46 years. There were 13 male and 13 female respondents. There were 4 respondents having current account, 20 with savings account and 2 with fixed deposit account. There was 1 customer having account since 1 year, 13 having account since 1 to 3 years, 5 between 3 to 5 years and 7 with more than 5 years.

Awareness of the merger in the bank

Table 11: Awareness of the merger in the bank

Are you aware of merger occurred in this bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	19	73.1	73.1	73.1
	No	7	26.9	26.9	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: Among the surveyed customers, 73.1 percent know about the fact that the bank is merged one, remaining 26.9 are unaware of this fact. It shows that many customers still do not follow the corporate activities occurred in their bank. Since merger is the major activities customer should know about such fact. Bank also should make their customers aware.

Experienced any changes in value, products, service and reputation of the bank

Table 12: Experienced any changes in value, products, service and reputation of the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	61.5	61.5	61.5
	No	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: Among the surveyed customers, 61.5 percent experience the changes in value, products, service and reputation of the bank. Remaining 38.5 do not experience any changes. Bank is still not able to cater differentiated services to its customers.

Customer service is fast and caring

Table 13: Customer service is fast and caring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	5	19.2	19.2	19.2
	Tend to agree	14	53.8	53.8	73.1
	Fully disagree	1	3.8	3.8	76.9
	Don't Know	6	23.1	23.1	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: The customer felt that post- merger customer service is fast and caring. 19.2 percent fully agree with fast and caring service. 53.8 percent tend to agree with this statement. 3.8 percent fully disagree and 23.1 do not know about this. So bank seems to have better customer service after merger.

Increment in service charge and interest for loan/borrowing

Table 14: Increment in service charge and interest for loan/borrowing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	1	3.8	3.8	3.8
	Tend to agree	14	53.8	53.8	57.7
	Tend to disagree	3	11.5	11.5	69.2
	Dont know	8	30.8	30.8	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: The customers believe that bank has increased service charge and interest for loan/borrowings after merger. 3.8 percent of the customer fully agree about increment in service charge and interest on loan. 53.8 percent tend to agree, 11.5 percent tend to disagree, 30.8 percent do not know about this. Bank should try not to impact hugely on customers in interest and charges.

Adoption of New Technology

Table 15: Adoption of new technology

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fully agree	5	19.2	19.2	19.2
	Tend to agree	14	53.8	53.8	73.1
	Tend to disagree	2	7.7	7.7	80.8
	Don't know	5	19.2	19.2	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: The surveyed customers feel that the bank has adopted new technologies in the bank afte the merger. 19.2 percent fully agree with it, 53.8 percent tend to agree with it, 7.7 percent tend to disagree with it, and 19.2 percent do not know about this. So the bank seems to have implemented chages well regarding the technology.

Has banking M&A restricted competition and created monopoly

Table 16: Has banking M&A restricted competition and created monopoly

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

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	7	26.9	26.9	26.9
	No	19	73.1	73.1	100.0
	Total	26	100.0	100.0	

Source: *Survey*

Inference: Among the surveyed customers, 26.9 percent believe that banking M&A has restricted competition and created monopoly but 73.1 percent and majority of them do not believe that it has created monopoly rather they see it in positive manner.

Relationship between age and treatment of customers by staff

Table 17: Relationship between age and treatment of customers by staff

Age	Staff treat its customers fairly and evenly				Total
	Fully agree	Tend to agree	Tend to disagree	Dont know	
18-25 years	2	7	3	4	16
26-35 years	0	5	0	1	6
36-45 years	0	3	0	0	3
46 and above	0	0	0	1	1
Total	2	15	3	6	26

Source: *Survey*

Inference: The surveyed customers feel that the staffs of the bank treat their customers fairly and evenly. Most of them tend to agree about the fair treatment.

When customers were asked to provide any specific changes in the policies and regulations they have noticed after Merger activity, some of them responded in matter like the bank has focused on the customer satisfaction and reputation of the bank, the way to treat to the customer is appreciable, security has been tightened, Merger raises additional funds that leads to huge investment and provides opportunity to shareholders maximize their wealth. Some of the customers also suggest that the bank should offer new services, service charge should reduce and new marketing policy should be adopted by bank.

Impact on Shareholders

The impact of merger activity of the bank to the shareholders is analysed based on various financial indicators. These financial indicators are important for shareholders to analyse the bank for investment purpose. The indicators are extracted from the balance sheet, income statement and ratios published by the bank on annual basis. Some of the important indicators are mentioned below.

Paid Up Capital

The amount of a company's capital that has been funded by shareholders is known as paid up capital.

Indicators	**Pre-Merger**		**Post-Merger**	
	2010-11	**2011-12**	**2012-13**	**2013-14**
Paid Up Capital	1311552000	1311552000	2311552000	2658284800

Source: *Annual Reports*

Inference: The above table clearly shows that the bank has increased its paid up capital in post-merger phase. When two banks get merged combined paid up capital in increased. The Swap ratio in the merger process was 2:1 ie BOAN shareholders were issued new share certificates equivalent to 1 share of NIC Asia Bank for 2 shares of BOAN. Existing share certificates of NIC Bank shareholders will continue to be valid.

Reserve and Surplus

Reserve means certain amount taken from the profit and loss account to meet the sudden losses due natural calamities or to pay the premium to the shareholders when profits are insufficient. The excess of income over expenditure is known as surplus.

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
Reserve and Surplus	686793444	750684725	2076623925	2214747197

Source: *Annual Reports*

Inference: The reserve and surplus has increased tremendously after the merger. It shows that company has created more reserves out of the profit, which has increased. Reserve may be used to meet any unexpected situation or also sometimes to distribute bonus share. So its increment may be beneficial to the shareholder.

Total Assets

Total Assets is the combination of all the assets of the bank that includes fixed assets, current assets, loan given etc. Total assets of the bank are also the combination of shareholder's fund and debt of the bank.

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
Total Assets	22090376318	25579528966	45822344089	51500485800

Source: *Annual Reports*

Inference: The above table shows the increment in total assets of the bank. This may be because of the increment in physical properties of both the banks, loan provided to customers etc.

Net Profit

Net profit is the difference between the revenue and expenses of the bank. The major revenue for the bank is interest income and major expenses are interest expenses.

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
Net Profit	495703676	391779281	642136406	831588872

Source: *Annual Reports*

Inference: The above table shows that the bank has rapidly increased its net profit in post-merger phase. The increase in net profit in the year 2012-13 is 64% from the year 2011-12. This clearly shows the success of the merger for that particular bank. The existing shareholders are satisfied and new shareholders want to be part of the bank.

Earnings per Share

Earnings 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 = Net Profit / Number of outstanding shares

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
EPS	37.8	29.87	47.41	35.98

Source: *Annual Reports*

Inference: The EPS has grown rapidly in year 2012-13, that is immediately after the merger due to increase in the net profit. It has declined in the following year after that.

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.

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
MPS	520	468	554	970

Source: *Annual Reports*

Inference: Above table shows that the market price of the NIC Asia bank has continuously gone upward. The increment in the price is beneficial to the shareholders.

Price/Earnings Ratio

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

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
PE ratio	13.76	15.67	11.69	26.96

Source: *Annual Reports*

Inference: The price/earnings ratio has increased to 26.96 in year 2013-14 from 13.76 in the year 2010-11.

Credit to Deposit Ratio

It is the ratio of how much a bank lends out of the deposits it has mobilised. 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.

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
CD Ratio	82.45	79.25	81.23	82.93

Source: *Annual Reports*

Inference: The CD Ratio in case of NIC Asia bank can be seen fluctuating. The central bank requires financial institutions to maintain a CD Ratio of 80 per cent, which means that banks can only lend 80 per cent of the total deposit collection. However, particularly this bank seems to be lending more than what is required.

Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital to its risk. It is a measure of a bank's capital. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

$$\text{CAR} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Indicators	Pre-Merger		Post-Merger	
	2010-11	2011-12	2012-13	2013-14
Capital Adequacy Ratio	12.89	11.01	13.17	14.05

Source: *Annual Reports*

Inference: In case of Nepal, for the ‘A’ class commercial banks, the core capital should be 6% and capital fund or CAR that is the combination of core capital and supplementary capital should be 10%. The bank seems to maintain its requirement and also has increased its CAR in post-merger phase.

Non-Performing Loan to Total Loan

Indicators	Pre-Merger		Post-Merger	
	2010-11	**2011-12**	**2012-13**	**2013-14**
Non-Performing Loan to total loan	0.6	0.73	2.32	2.33

Source: *Annual Reports*

Inference: In case of NIC Asia Bank, it is observed that the non-performing loan to loan has increased in post-merger phase. It may be bad indicator for the company. The increase in non-performing loan is due to the reason that when two companies are merged they have to share the assets as well as liabilities. The BOAN, which had more non-performing loan, was also shared in the post-merger phase. The bank should try to reduce its non-performing loan to present itself better in eyes of shareholders.

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.

Indicators	Pre-Merger		Post-Merger	
	2010-11	**2011-12**	**2012-13**	**2013-14**
ROA	2.24%	1.53%	1.40%	1.61%

Source: *Annual Reports*

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.

Indicators	Pre-Merger		Post-Merger	
	2010-11	**2011-12**	**2012-13**	**2013-14**
ROE	24.81%	19.00%	14.63%	17.07%

Source: *Annual Reports*

Book Value per Share

The book value per share is the value of the share based on the shareholders equity fund.

Indicators	Pre-Merger		Post-Merger	
	2010-11	**2011-12**	**2012-13**	**2013-14**
Book Value per share	152	157	190	211

Source: *Annual Reports*

Inference: The book value per share has increased continuously in four years. It is due to the increment in the paid up capital and reserve fund.

Comparison of MPS and Book Value Per share

The book value per share shows the value of share based on the actual value of the shareholders fund whereas the market price per share shows the value of share based on the demand and supply of the share in stock market.

Indicators	Pre-Merger		Post-Merger	
	2010-11	**2011-12**	**2012-13**	**2013-14**
MPS	520	468	554	970
Book Value per share	152	157	190	211

Source: *Annual Reports*

Inference: The table above shows that the market price of share of NIC Asia bank is quiet higher than the book value of the share. This is a positive indicator of the NIC Asia bank in the mind of shareholders.

The overall impact on shareholders on NIC Asia Bank in post-merger phase is positive. The bank seems to have progressed a lot after merger. It has given a positive message to the banking and financial institutions which want to get merged in near future.

FINDINGS

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

1. The M&A activities are increasing in 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 merger activities. The basic reasons were liquidity crunch, capital requirement and open market.
3. The M&A activities of particular banks certainly impacts on their employees, customers and shareholders.
4. The results obtained provide the evidence that M& A 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, favouritism, senior management clash in positions, problem in socialization etc.
5. The results obtained provide the evidence that M& A 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 M& A activities have a significant impact on the shareholders of particular organization. Some of the important financial indicators were analysed 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.

CONCLUSION

This research was conducted to analyze the impact of Merger and Acquisition activities in Nepalese Banking and Financial Institutions. The impact was considered to be on employees, customers and shareholders. The sample bank was NIC Asia Bank Ltd, which was a formed in 2012 with merger of NIC Bank and Bank of Asia Nepal.

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 M&A activities remain debatable topic. It is difficult to analyze whether the impact is positive or negative. It is different for different employees, customers, shareholders and a different bank as well. However, the M&A 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, M&A is facilitated by an Investment Banker who carries out a successful M&A by coordinating various phases of the process viz. Pre-merger, merger and post-merger. In Nepal M&A 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.

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