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The Time Demand Step as Merger Law by NRB

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Abstract

This study checks and tries to determine the impact of financial institutions mergers on efficiency and productivity of commercial banks in Nepal for the period from 2008 until 2014. The study uses a simply theoretical approach and examines efficiency Productivity based on some major indicators like paid up capital, non performing loan, spread rate. Amongst the findings are that banks exhibit higher efficiency scores after the merger and that the merged banks and some foreign banks are more efficient than the local banks. For productivity, the banks had improved in both periods, before and after the merger. However, it is the local banks that improved the most after the merger. The main sources of productivity were sound financial administration, improved in internal financial backup, reduction in cost of operation and technical change or innovation. The findings support the existing policy of having larger domestic banks in terms of size and internal strength of merged banks.

Keywords: Efficiency, Productivity, Data envelopment analysis, Commercial banks.

1. Introduction

During 2008 to 2010, Nepal Rastra Bank realized that there were too many banks in the country compared to its real size. The condition was too poor for new banks and the existing banks were encouraged to consolidate. However, the call for bank consolidation and merge was not received well by the bankers. Only a few consolidations and merge took place after the introduction of merger by law 2011. The lesson from the Asian financial crisis during 1990s also forced to the government and announced a major consolidation and merge after merger by law. The law mentioned the minimum paid up capital 5 corer.

This study wants to measure and compare the financial and technical efficiency of the commercial banks before and after the merger and to identify the sources of productivity growth of the commercial banks. This is done by using a theoretical and data based analysis and data envelopment analysis. The findings of the study suggest that on average the commercial banks have improved in term of their technical efficiency.

The scores of technical efficiency are higher after the merger. The study also indicates that the some merged local banks and foreign banks are more efficient than the others local banks. In term of productivity, the banks have improved both periods.

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This has been contributed by improvement paid up value, cost of operation and in technology. The current literature shows that there are three debatable issues related to the efficiency and productivity of financial institutions. The three issues are bank inputs and outputs, the concept of efficiency and productivity and the measurement of efficiency and productivity. A thorough discussion was provided by Vennet (1996), Pillof & Santomero (1998).

Nepal is a land lock country and its economy is based agriculture. The total population of Nepal is 26,494,504 (CBS, 2012). Agriculture sector is considered as main source of income and employment of Nepalese people because it provides 73.9 percent employment opportunity (CBS, 2008). However the agriculture sector is not developed and improved as it is important in Nepalese economy. The economic development and economic growth are influence by different factors among of them banking sector is one of them. During the fiscal year 2008 A. D. to fiscal year 2012 number of financial institutions are significantly increased in Nepal. The data by Nepal Rastra Bank (NRB) shows there are 245 financial institutions with 32 commercial banks, 88 development banks, 70 finance companies and others. These growths failed to show noticeable impact on Nepalese economy but in contrary it brought some serious problems like liquidity crunch, unfair competition in interest rate, uncontrolled loan flow in unproductive sectors etc. The main problem was that banking sectors getting collapse internally that would be very critical situation for Nepalese economy. So, NRB did number of exercise, seminars and discussion for the solution the problem that was Merger by Law 2011 AD.

NRB is the Central Bank of Nepal established by the Nepal Rastra Bank Act -1955. It commenced its operations officially in 1956. The head quarter of the bank is located in Kathmandu, the capital city of Nepal. Nepal Rastra Bank is the main supervisory and regulatory body of all the Banking and Financial Institutions in Nepal. The vision of the Nepal Rastra Bank is to become a modern, dynamic, credible, and effective central bank. Similarly, the vision of the Nepal Rastra Bank is to maintain macro-economic stability of the country by adopting sound and effective monetary, foreign exchange and financial sector policies. The Central Bank of Nepal is an autonomous body governed by the public law defined in the Nepalese Constitution. Preamble of Nepal Rastra Bank Act - 2002 states that it is expedient to establish NRB"… to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system; and for the enhancement of public credibility towards the entire banking and financial system of the country". Likewise, section (4) subsection (b), (d) and (e) of the Act states the objectives of NRB as promoting stability and liquidity required in banking and financial sector; regulating, inspecting, supervising and monitoring the banking and financial system; promoting entire banking and financial system and enhancing public credibility. To achieve such objectives, NRB has always endeavored to adopt international best practices with proper customization to address increased risks in the financial system. It took almost five decades, since the establishment of first commercial bank – Nepal Bank Limited in 1937, for Nepalese Financial System to be liberalized. Since then, Nepalese financial system has seen a tremendous growth in terms of number of institutions as well as in terms of the products and services. Industry's growth coupled with the rapid development in information and communication technology not only increased the banking products to the consumers but also fostered the competition and increased the complexities, risks and challenges in the banking industry.

The journey of merger of Nepali banks began nine years back. In 2004, Laxmi Bank has merged Himalayan Saving and Finance Company (HISEF), and it was done according to the broad provisions of Company Act and Bank and Financial Institution Act (BAFIA). Then Narayani Finance and National Finance had merged to become Narayani National Finance following the same Acts. Similarly, Himchuli Development Bank and Birgunj Finance merged and became H & B Development Bank also merged under the same act. Consolidation is necessary also to increase the paid-up capital since the possibility to increase of paid up capital by issuing rights shares is very slim. Moreover, the size of loans being demanded by single borrowers has been increasing in recent years. So, BFIs having low paid-up capital cannot fulfill such demand. Similarly, merger becomes an urgent need also because due to the terms agreed by Nepal while gaining membership of World Trade Organization (WTO), financial services sector is open for foreign investors beginning 2010. So, foreign banks can open their branch in Nepal. If big foreign banks open their branches in Nepal, the Nepali banks with small capital base may not be competitive.

The large numbers of BFIs are working in such small economy in Nepal. Senior economists say that the numbers of BFIs in Nepal are too much excessive as need of Nepalese economy. There were 32 A class commercial banks, 87 B class development banks, 79 C class financial companies and 21 D class Micro Finance companies in Nepal.

As merger activities around the world have the same purpose, the most common purpose for merger is to increase efficiency of banking sector and reduce costs of operation. The history of Nepal's financial market for international investment is not long. Contrary to the anticipation of the Ministry of Finance (MoF), only one foreign bank has applied to start up banking business in Nepal, mainly due to the instable political and economic environment. If foreign banks do enter Nepal, MoF was concerned about the capacity of local banks to compete with its foreign counterparts. Hence, it was essential for local institutions to explore and introduced of M&A options.

The government is considering raising the capital requirement from Rs. 2 billion to Rs.5 billion. However, M&A would prove far more effective than the earlier solution as M&A will minimize costs and increase capacity of banking sector, Thus, being able to compete at international level. Merging is a difficult task, especially to maintain the sentiment of shareholders, management committee, and employees. Furthermore, the current issues of liquidity crisis and unstable investment climate pose significant challenges for companies to expand. In such a case, M&A establish an ideal solution (Khanal, 2010). The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. However, the unnatural increment of the BFIs has brings several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and, at the verge of a collapse. "Merger is a golden opportunity for BFIs. This facility is floated to reduce the number of BFIs to strengthen them" (The Himalayan Times, 2013). According to the monetary policy report of the Nepal Rastra Bank (2014), the total number of the BFIs stood at 235 including 29 class A commercial banks, 73 class B development banks, 46 class C finance companies, and 33 class D microfinance institutions. The number of such BFIs was 250 in the mid- July 2014 (NRB, 2014). But the numbers of financial institutions are gradually decreased after NRB Act for merging. The latest list of banks and financial institutions in Nepal is presented below.

Table 1: Growth of Financial Institutions

Types of Financial Institutions	Year 2014													
	1985	**1990**	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Commercial bank	3	5	10	13	17	18	20	25	26	27	31	32	31	30
Development Banks	2	2	3	7	26	28	38	58	63	79	87	88	86	84
Finance Companies			21	45	60	70	74	78	77	79	79	70	59	53
Micro finance Development banks			4	7	11	11	12	12	15	18	21	24	31	33
Credit Cooperatives Limited			6	19	20	19	17	16	16	15	16	16	16	15
NGOs(Financial Intermediaries)				7	47	47	47	46	45	45	38	36	31	30
Total	5	7	44	98	181	193	208	235	242	259	271	267	254	245

Source: Macro economic indicator-NRB quarter report, 2014

2. General Objective

The general objectives of the research are to study the effectiveness of merger of financial institutions in Nepal. This research work provides a comprehensive insight to the ongoing merger and acquisitions transaction in the Nepalese Banking and Financial Institutions (BFIs) since 2011 when the Nepal Rastra Bank, as a supervisory and regulatory body of all the BFIs, introduced a forceful merger by-law in May 2011. The main objective of this research work is to explore the possible effects and impacts on the BFIs caused by M&A since 2011 in the Nepalese financial sector. Since the economic liberalization of the financial sector in Nepal, there has been an unnatural growth of banks and financial institutions which led to an intense cutthroat competition amongst them in enticing institution, borrowers and individuals. Before the merger bylaws was introduced, the BFIs endorsed easy loans to real estate, land and housing sector borrowers without assessing their financial capacity for repayment of interest and principle amounts. This led to rapid rises in the value of land and building. When the price started to fall, the borrowers were unable to pay back resulting to a shortfall of liquidity.

3. Literature Review

Vennet (1996) found that domestic merger among equal-sized partners significantly increase the performance of merged banks. This type of merger provides ample opportunities to reduce redundancies and exploit synergies, and thus raised the operational efficiency and profit level of the merged banks.

Rhoades (1998) summarized nine case studies, by nine authors, on the efficiency effects of bank mergers. The mergers selected for study were ones that seemed relatively likely to yield efficiency gains. That is, they involved relatively large banks generally with substantial market overlap and most occurred during the early 1990s when efficiency was getting a lot of attention in banking. All nine of the mergers resulted in significant cost cutting in line with pre-merger projections. Four of the nine mergers were clearly successful in improving cost efficiency but five were not.

Berger et al (1999) reviewed more than 250 references in the context of financial services industry consolidation and found that consolidation appears to increase profit efficiency. There was little or no cost efficiency improvement on average following M&As.

Consolidations involving inefficient firms appeared to improve both cost and profit efficiency as the M&A event may have "woken up" management to the need for improvement.

Nepalese Perspective

Adhikari (1989) has pointed out three reason motivating financial deregulation in Nepal. First, financial resources were unevenly distributed among different financial institutions. Some of the financial institutions were abundant of financial resources while the others were facing scarcity. It was due to interest rate rigidity that different financial institutions could not attract resources reflecting their scarce prices. Second, there was a wide interest spread between lending and deposits rate of interest rates, preventing the development of competitive financial market. And, the third, the introduction of joint ventures (i.e. foreign investment with domestic participation) obliged the NRB to offer competitive financial environment for the activities of commercial banking in Nepal.

Rayamajhi (2010) has compared the M&A to the concept of marriage between two companies. The author outlined the difference between a merger, when two companies combine through pooling interests and acquisition, when one company buys out the other and assumes control of the firm. The author also touched on the two types of mergers – vertical and horizontal; vertical being merger between companies providing different products to produce one specified result and horizontal being merger of two or more companies with similar product lines. Rayamajhi emphasized that the main motive for M&A is to create additional value to shareholders. Apart from the value created, M&As helps companies to fulfill the regulatory frameworks, ensure that the merged company is able to maintain a competitive advantage, acquire unique resources from both sides, and create a bigger visibility(Nepal Economic Forum).

NRB (2013) has approved the merger of six financial institutions in the country. The central bank has given the letter of intent to the financial institutions. The central bank has been encouraging financial institutions to go for mergers to build capital and implement better governance. The central bank, in the draft guidelines, has promised to relax provisions related to capital adequacy ratio, deprived sector lending, single obligor limit, branch expansion, up gradation and area expansion for a certain period for BFIs opting for merger. Single obligor limit means the maximum lending a bank or a financial institution can make to a single sector.

The Himalayan Times (2013) Inaugurating the merged entity, Prime Minster Baburam Bhattarai said that the government was committed to giving the private sector a key role in the country's economic development. The prime-minister claimed that the investment climate was improving despite a protracted political transition. Stressing the need to better utilize the massive amount of money entering the country as remittance, the prime minister asked the newly merged bank to use its expertise in the remittance business to make use of this resource more effectively.

3. Sources of Data and Methodology

Nepalese banking merging and consolidation was started in 2004 AD. The beginning of banking merger was very doubtful but some of the result shows that is in right track. The financial institutions merging has been continuously achieving its garget however not fully obtained the goal. The journey of merger of Nepali banks began nine years back. In 2004, Laxmi Bank merged the Himalayan Saving and Finance Company (HISEF), and it was done according to the broad provisions of Company Act and Bank and Financial Institution Act (BAFIA). The then Narayani Finance and National Finance had merged to become Narayani National Finance following the same Acts. Similarly, Himchuli Development Bank and Birgunj Finance merged and became H & B Development Bank also merged under the same act in 2011 AD. That experience financial institutions merging in Nepal highlighted a need for special rules to govern this process. But was only in May 2011 that Nepal Rastra Bank came up with a special rule to facilitate mergers between. In this study, the pre merger period is represented by year 2009 to 2012. More than 33 financial institutions have completed merger in the date of 2015 and still the growth of merger in increasing. Merged banks were not allowed to retrench employees for 2 years after the merger exercise was completed. With this restrictive action, banks are expected to achieve cost efficiency after 2 years. Rhoades (1996), found that merged banks need at least 2 years to achieve cost efficiency or improvement in performance pointed out that a longer period of study should provide a better picture. Hence, I have selected the post merger period as year 2012 to 2015.

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

The study is based on secondary data gathered from different merged banks and financial institution and other related publication and articles of different government department and other institutions. Due to the nature of the study, most of the information is collected from secondary sources of the data such as banking sector, different research studies and progress report of government department related to economic development of Nepal. In other to examine the analysis the foregoing objective, various financial variable as well as economic indicator are analyzed to enquire performance. Various ratio of balance sheet and income and expenditure statement item of different merger banks are analyzed. Banking legislation different research studies and financial statement of the merged banks and financial institutions are studied. Various types of the financial tools are used to analysis the performance of the sampled bank. So, the study is descriptive as well as analytical where it is required. Being it is newly burning issue of Nepalese economy, the required secondary data of different merger banks before merger are collected only for five years and data of different merger banks after merger are collected only for five years. To meet the objectives, this research is performed in three parts. In first part, the research work focuses on identifying the impact of M&As on employees and customers. In the second part, the research work studies the pre-merger and post-merger financial performance of the merged entity by using different financial indicators.

Financial institutions merger is a broad concept comprising policy liberalization, institutional strengthening, efficiency and capacity enhancement. Since policy liberalization is the major thrust of financial institutions merger, throughout this study, financial liberalization is interchangeably used to financial institutions merger.

4. Merger Bylaws 2068/69 (2011 Ad) By Nepal Rastra Bank

4.1 Objective of Law

Banking Industry, normally, occupies a bigger chunk in the financial system. Same is the case in Nepal. With the liberalized policies taken since 1980s, banking industry has been growing in a rapid pace. The number of Bank and Financial Institutions (BFIs), of class 'A', 'B', 'C', and 'D', increased in Nepalese banking industry in the last two and half decades. Nepalese Banking Industry saw the highest growth in the decade of 2000-2010. On the one hand, it increased people awareness and banking habit as well as made them more demanding and choosy on the other hand it increased the complexities and risks of failure, too. Gradually, industry realized the need for consolidation. The result of this has started to be seen in the increasing number of mergers in the banking Industry.

A merger is expected to generate improved performance if the change in accounting-based performance is superior to the changes in the performance of comparable banks that were not involved in merger activity. An alternative approach is to analyze the merger gains in stock price performance of the bidder and the target firms around the announcement event. Here a merger is assumed to create value if the combined value of the bidder and target banks increases on the announcement of the merger and the consequent stock prices reflect potential net present value of acquiring bank some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of Nepal, which is not yet explored by the major banks. Therefore NIC ASIA, Global IMF, and H & B and others number of banks and financial institutions have used mergers as their expansion strategy in rural market. It strengthens their networks across geographical boundary, improves customer base and market share. It is expected that the effective impact of BFIs merger in the economy and explore the possible threats of merger. Consequently, various emerging issues have been identified for further attention of researchers and scholars.

By 2010, the Nepalese banking and financial sectors have been passing a through a very crucial period. The International Monetary Fund 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.

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.

4.2 Guidelines and Conditions for Opting Merger Bylaws - 2011

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

The Merger Bylaws policy by the central bank also states that it can persuade the BFIs to merge if they are operated by a single family group. Similarly, as per the second condition, the central bank will force such BFIs to go for a merger if there is a shortfall of capital. As per NRB banking and financial institution regulations-

Commercial banks are required to maintain a minimum capital adequacy ratio (CAR) of 10 percent and development banks a CAR of 11 percent. A CAR is required to determine the capacity of the bank in meeting time liabilities and other risks such as the credit risk and the operational risk. If the BFIs fail to maintain a CAR imposed by the NRB, it will force them to merge which will help to strengthen their capital and increase competitive performance.

4.3 Major Provisions of Merger Bylaws - 2011

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

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

4.4 Facilities for Merger

The new regulations have pledged relaxation on provisions for capital structure, shareholding limit for promoters, credit-deposit ratio, borrowings limit for promoters and deprived sector lending, among others If the merger causes increases in the shareholding percentage of any promoter beyond the stipulated limit, such promoters get five years time to bring down their stake within the limit. Likewise, merged institutions are allowed additional three years to bring CD ratio down to the 80 percent. Similarly, promoters get additional three years to bring their borrowing (loans) down to less than 50 percent of the total shares they hold in the merged BFI. In a bid to lure BFIs to merger, the central bank has even promised a discount in refinance rate by one percentage point to the merged institution. It has also offered to lower penal rate on standing liquidity facility by half for three years in case two or more BFIs merged into one.

The central bank has also opened upgrading of financial institutions relaxed the restriction on upgrading of a BFI to encourage merger. A BFI can upgrade to higher category (category ‘C’ to ‘B’ and from ‘B’ to ‘A’) if the institution seeking to upgrade is formed through a merger).

The rules also promise to recommend to the government for exemption of taxes in case a BFI faces losses during the course of merger facilities include the time duration of using SLF will be expanded to 30 days from the existing 5 days for three years after completion of merger process. NRB can provide other facilities according to the need of the banks.

4.5 Effects of Merger Bylaws on BFIs

Table 2 : List of Merged BFIs

Commercial Banks

#	Before Merger		After Merger	Remarks
1.	Machhapuchhre Bank Limited	Standard Finance Ltd. (C class, National Level)	Machhapuchchhre Bank Ltd	2012/07/09 Merger
2.	Global Bank Limited	Lord Buddha Finance Ltd. (C class, National Level) IME Financial Institutions Ltd. (C Class, NationalLevel)	Global IME Bank Ltd.	2012/07/09 Merger
3.	Global Bank Limited	Social Development Bank Ltd. (B class, National Level) Gulmi Bikash Bank Ltd. (B class, National Level)	Global IME Bank Ltd.	2013/07/14 Merger
4.	Global Bank Limited	Commertz and Trust Bank Nepal Ltd.	Global IME Bank Ltd.	In process
5.	Nepal Industrial and Commerical Bank Ltd.	Bank of Asia Ltd.	NIC Asia Bank Ltd.	2013/06/30 Merger
6.	Civil Bank Ltd.	Axis Development Bank Ltd. Civil Merchant Finance Company (C class, National Level)	Civil Bank Ltd.	In process
7.	Civil Bank Ltd.	Int'l Leasing & Fin, Co. Ltd (In Process)	Civil Bank Ltd.	
8.	Citizens Bank International Limited	Nepal Housing & Merchant Finance Ltd. Peoples' Finance Ltd. (C class, National Level) Premier Finance Ltd. (2016/04/19 Acquisition)	Citizens Bank International Limited	In process
9.	Prabhu Bank Ltd.	Grand Bank Ltd.	Prabhu Bank Ltd.	In process
10.	Mega Bank Limited	Paschimanchal Bikash Bank Ltd	Mega Bank Ltd.	In process
11.	Bank of Kathmandu Ltd	Lumbini Bank	Bank of Kathmandu	In Process
12.	Nepal Credit and	Kumari Bank	N/A	In Process

	Commerce Bank Limited	Supreme Development Bank Limited (In Process) Infrastructure Development Bank Limited (In Process)		
13.	Siddhartha Bank Limited	Business Development Bank Limited	N/A	In Process
14.	Lumbini Bank Ltd. (A class, National Level)	Nawadurga Finance Co. Ltd. (C class, National Level)	Lumbini Bank Ltd. (A class)	In process
15.	Kist Bank Ltd. (A class)	Prabhu Bikas Bank Ltd. (B class, National Level), Gaurishankar Development Bank Ltd. (B class, National Level), Zenith Finance Ltd. (C class, National Level)	Prabhu Bank Ltd. (A class)	In process
16.	NMB Bank Ltd. (A class)	Clean Energy Development Bank Ltd. (B class, National Level), Pathibhara Development Bank Ltd (B class, 10 District Level), Bhrikuti Development Bank Ltd (B class, 10 District Level), Prudential Finance Ltd. (C class, National Level)	NMB Bank Ltd. (A class)	In process

Development Banks

#	Before Merger		After Merger	Remarks
1.	Pashupati Devlopment Bank Ltd.	Uddhyam Bikash Bank Ltd. (B Class, National Level)	Axis Development Bank Ltd. (B class, National Level)	2012/07/13 Merger
2.	Annapurna Development Bank Ltd.	Surya Darshan Finance Ltd.	Supreme Development Bank Ltd. (B class, National Level)	2012/07/13 Merger
3.	Kasthmandap Development Bank Ltd.	Sikhar Finance Ltd.	Kasthamandap Development Bank Ltd. (B Class, National Level)	2012/04/13 Merger
4.	Vibor Bikash Bank Ltd.	Bhajuratna Finance and Savings Company Ltd. (C class, National Level)	Vibor Bikash Bank Ltd. (B class, National Level)	2012/09/02 Merger
5.	Vibor Bikash Bank Ltd.	Society Development Bank Limited	N/A	(In Process)
6.	Birat Laxmi Development Bank Ltd. (B class, 3 District Level)	Khadbari Development Bank Ltd. (B class, 1 District Level)	Birat Laxmi Development Bank Ltd. (B class, 10 District Level)	In process
7.	Triveni Bikas Bank Ltd. (B class, 10 District Level)	Public Development Bank Ltd. (B class, 3 District Level), Bright Development Bank Ltd. (B class, 3 District Level)	Triveni Bikas Bank Ltd. (B class, National Level)	In process

8.	Jyoti Bikash Bank Ltd	Hamro Bikas Bank Limited Jhimruk Bikas Bank Limited	N/A	In Process
9.	Metro Development Bank Limited	Kailash Bikash Bank Ltd Nepal Express Finance Ltd.	N/A	In Process
10.	Himchuli Bikash Bank Ltd. (B class, National Level)	Birgunj Finance Lltd. (C class, National Level)	H&B Development Bank Ltd. (B class, National Level)	Merged on 2011/06/15
11.	Business Development Bank Ltd. (B class, National Level)	Universal Finance Ltd. (C class, National Level)	Business Universal Development Bank Ltd. (B class, National Level)	2012/04/03 Merger
12.	Infrastructure Development Bank Ltd. (B Class, National Level)	Swastik Finance Ltd. (C class, National Level)	Infrastructure Development Bank Ltd. (B class, National Level)	2012/07/10 Merger
13.	Shine Development Bank Ltd. (B class, National Level)	Resunga Bikash Bank Ltd. (B class, National Level)	Shine Resunga Development Bank Ltd. (B class, 10 District Level)	2013/03/17 Merger
14.	Diyalo Bikash Bank Ltd. (B class, , National Level)	Professional Bikash Bank Ltd. (B class, National Level)	Professional Diyalo Bikash Bank (B class, 10 District Level)	2013/06/30 Merger
15.	Araniko Development Bank Ltd. (B class, National Level)	Surya Development Bank Ltd. (B class, National Level)	Araniko Development Bank Ltd. (B class, 10 District Level)	2013/07/14 Merger
16.	Manakamana Development Bank Ltd. (B class, National Level)	Yeti Finance Ltd. (C class), Valley Finance Ltd. (C Class, National Level)	Yeti Development Bank Ltd. (B class, National Level)	2013/07/15 Merger
17.	Shangrila Development Bank Ltd. (B class, 10 District Level)	Bageshwori Development Bank (B class, National Level)	Shangrila Development Bank Ltd. (B class, National Level)	In process
18.	NDEP Development Bank Ltd. (B class, National Level)	Rising Development Bank Ltd. (B class, 3 District Level)	Deva Development Bank Ltd. (B class, National Level)	In process
19.	Biswo Bikas Bank Ltd. (B class, 10 District Level)	Fewa Finance Ltd. (C class, National Level)	Fewa Bikas Bank Ltd. (B class, National Level)	In process
20.	Garima Bikas Bank Ltd. (B class, 10 District Level)	Nilgiri Bikas Bank Ltd. (B class, 3 District Level)	Garima Bikas Bank Ltd. (B class, National Level)	In process
21.	Muktinath Bikas Bank Ltd. (B class, 10 District)	Civic Development Bank Ltd. (B class, 1 District Level)	Muktinath Bikas Bank Ltd. (B class, National Level)	In process
22.	Gorkha Development Ltd.(B)	Kathmandu Finance Ltd	Gorkha's Finance Ltd.(C)	In process

23.	City Development Bank Ltd.	Om Finance Ltd.	Om Development Bank Ltd.(B)	In process
24.	Kailash Bikash Bank	Metro Development Bank Nepal Express Finance	Kailash Bikash Bank	In process

Finance Companies

#	Before Merger		After Merger	Remarks
1.	Royal Merchant and Banking Finance Ltd.	Rara Bikash Bank Ltd. (B class, National Level) & Api Finance Ltd. (C class, National Level)	Apex Development Bank Ltd. (B class, National Level)	2013/07/15 Merger
2.	Butwal Finance Ltd. (C class, National Level)	Alpic Everest Finance Ltd. (C class, National Level) & CMB Finance Ltd. (C class, National Level)	Synergy Finance Ltd. (C class, National level)	2012/12/06 Merger
3.	Prudential Finance Coy. Ltd. (C class, National Level)	Gorkha Finance Ltd. (C class, National Level)	Prudential Finance Comapany Ltd. (C class, National Level)	2013/03/18 Merger
4.	Prabhu Finance Ltd. (C class, National Level)	Sambridhi Bikash Bank Ltd. (B class, National Level) & Baibhav Finance Ltd. (C class, National Level)	Prabhu Bikash Bank Ltd. (B class, National Level)	2013/07/14 Merger
5.	Reliable Finance Ltd. (C class, National Level)	Shuvalaxmi Finance Ltd. (C class, National Level) Nepal Consumer Development Bank Ltd. (B Class, 10 District Level)	Reliable Development Bank Ltd. (B Class, National Level)	In process
6.	Siddhartha Finance Ltd (C class, National Level)	Imperial Finance Ltd. (C class, National Level)	Siddhartha Finance Ltd. (C class, National Level)	In process
7.	Reliance Finance Ltd. (C class, National Level)	Lotus Investment Finance Ltd. (C class, National Level)	Reliance Lotus Finance Ltd. (C class, National Level)	In process
8.	Sagarmatha Merchant & Fin. Co. Ltd. (C class, National Level)	Patan Finance Ltd. (C class, National Level)	Sagarmatha Finance Ltd. (C class, National Level)	In process

Source: NRB bank supervision 2014

The main objective of implementation of merger law is that contracting the number of banks and financial institutions which help to increase the efficiency and enrich the capacity of BFIs which able to face the unseen problems in competitive banking sectors. The above table shows that the implementation of merger by law in Nepalese financial sector. In beginning, there was doubt about its implementation and effectiveness. So, banks are scared to involve in it but later on the BFIs show noticeable interest on it and each and every bank started the process of merger and acquisition.

5. Results

Table 3: Structure of Investment Rate of BFIs of Nepalese Banking Sector

Policy rate	Year						
	2008	2009	2010	2011	2012	2013	2014
CRR (%) A-level B-level C-level	 5.5 5.5 5.5	 5.5 5.5 5.5	 5.5 5.5 5.5	 5.5 5.5 5.5	 5 5 5	 6 5.5 5	 5 4.5 4
Bank rate (%)	6.5	6.5	6.5	7	7	8	8
Interbank rate (%)	3.66	3.66	6.57	8.22	0.86	0.86	0.16
Weighted average deposit rate (%)						5.25	4.09
Weighted average lending rate (%)					6.17	12.09	10.55
Base rate (%)					12.4	9.83	8.36

Source: Macro economic indicator of Nepal by NRB (Nov. 2014)

Table 3 shows that effectiveness of merger of BFIs in different indicators. The table shows the comparative study and analysis of BFIs before and after merger. Although the indicators did not show the significant changes and effectiveness of merger but it started to improve the indicators of BFIs and decreased the number of BFIs.

Table 4: The Expansion of BFIs in Nepal since 2007 to 2014

Institutions	2007	2008	2009	2010	2011	2012	2013	2014
A class	555	752	990	1111	1425	1486	1557	1669
B and C class	0	0	0	0	979	1006	1057	1044
Total	555	752	990	1111	2404	2492	2611	2713
	Changed in no. of branches							
A class	0	197	238	121	314	61	71	112
B and C class	0	0	0	0	0	27	51	-13

Source: Quarterly economic bulletin NRB

Table 5: Number of Merged/Acquired BFIs(As of mid-July 2014)

Bank and Financial institutions	**2011***	**2011**	**2012**	**2013**	**2014**
Commercial banks	2	0	2	3	4
Development banks	0	1	6	12	6
Finance Companies	5	1	8	12	8
Micro Finance development Banks	0	0	0	0	0
Total No. of BFIs Merged/Acquired with each other	7	2	16	27	18
BFIs formed on account Merged/Acquired	3	1	7	11	8

Source: BFIs regulation department NRB report 2014.

The result of implementation merger by law is shown by table no 2 and table 3 as the branches are increased and the number of merged banks are noticeably increased shown by table no 3.

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