

A REPORT ON  
**MERGER CONFERENCE - 2016**

KATHMANDU  
3<sup>RD</sup> MARCH 2016



NATIONAL BANKING INSTITUTE  
*"The Banking Academy of Nepal"*

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## 1. Background

Nepal Rastra Bank (NRB) brought out Merger Bylaw 2068 aiming to get the Financial Consolidation Policy into a logical end. Nepal Rastra Bank (NRB) decided to increase the paid up capital of Banks and Financial Institutions (BFIs) as per the Monetary Policy promulgated for FY 072/73.

Accordingly, NRB decided to increase the Paid up capital to Rs 8 billion from existing Rs 2 billion for commercial banks, Rs 2.5 billion to national level development banks from the existing Rs 640 million and Rs 800 million to national level finance companies from existing Rs 200 million.

Many BFIs took merger and acquisitions as one of the key tools for increasing the paid up capital as per the regulatory requirement. Apart from other factors, paid up capital and merger bylaw appear to have been playing a lubricating role in giving the momentum for the merger. As a result, 84 Banks and Financial Institutions have become 33 after merging into each other as of Magh end 2072.

On the one hand, merger process has taken its momentum; on the other hand, many BFIs have found merger as a hard-nut to break it out. They have the bitter experience of coming back even after signing the Memorandum of Understanding (MoU) and obtaining Letter of Intent from NRB.

Notably, pre and post-merger communication issues have also been affecting significantly to the BFIs. Similarly, BFIs have been facing challenges on cultural transformation and human resources, operations, system integrations. More importantly, meeting the expectation of various stakeholders has been considered to be one of the key challenges to the BFIs. The survey report unveiled by NRB also substantiates the same.

Total 68 BFIs merged into each other and became 25 as of Poush 2071. NRB had carried out a study on those 25 BFIs to understand the impact of the merger by interviewing Promoters, Directors, Senior Management, Employees, Accountholders and Borrowers.

A total of 550 concerned stakeholders, 22 each from 25 BFIs were interviewed and brought out the report in Aswin 2072. NRB carried out study on those 25 BFIs to understand the impact of the merger by interviewing Promoters, Directors, Senior Management, Employees, Accountholders and Borrowers. 550 concerned stakeholders, 22 each from 25 BFIs were interviewed and brought out the report in Aswin 2072.

The report indicates that merger have been contributing positively in many aspects. But, there are a few concerning findings too. A few of them are:

- **39% Promoters, Directors and Employees felt that Turn Around Time has increased**
- **36% Promoters, Directors and Employees felt that complexities have increased in Decision Making Process**
- **20% Customers have experienced that Service Delivery Period has increased**
- **17% employees responded that their motivation level has further worsened**
- **13% Borrower made up the mind to change the BFI**
- **10% CEOs, Senior Management and Employees expressed that Merger objectives were met.**

National Banking Institute (NBI) therefore took the initiatives to look for the answers of the following questions:

- How value can be created from Merger?
- How the pre and post-merger issues can be resolved?
- After all What Makes a Merger Work?

Accordingly, a **Merger Conference - 2016** titled "**Merger, Challenges and Opportunities - a Local Perspective**" was organized on 3<sup>rd</sup> March 2016 in Kathmandu aiming to contribute to the industry in getting the merger success.

Directors, Merger Committee Members, CEOs, Deputy CEOs, Departments Heads, etc had attended the program. Altogether 110 participants from Commercial Banks, Development Banks, Finance Companies and NRB took the benefits from the program.

## 2. Program Designing

Conference Contents were designed aiming to get the answers of the above questions, which were as follows:

Paper Presentation Topics	Objectives
Merger: A Tool for Value Creation and Risk Management	<ul style="list-style-type: none"> <li>Contribute in creating value from merger</li> <li>Use merger as one of the key tools for risk management</li> <li>Have the synergistic impact of merger</li> </ul>
Pre-merger Due Diligence & Valuation, Issues and Solutions	<ul style="list-style-type: none"> <li>Avert the risks of breaking of merger process due to SWAP Ratio</li> </ul>
Pre and Post-merger: Communication Issues and Key Challenges in Cultural and Human Resources Integration	<ul style="list-style-type: none"> <li>Communicate properly to the Human Resources to mitigate dissatisfaction</li> <li>Have successful integration of Human Resources</li> <li>Inculcate "We are one" Culture</li> </ul>
Operations and System Integration and Post Merger Business Planning	<ul style="list-style-type: none"> <li>Have successful integration of Operations and System</li> <li>Plan the business properly after merger so that existing business of different BFIs would not affect adversely</li> </ul>
Post-merger Challenges in Meeting Expectations of Stakeholders	<ul style="list-style-type: none"> <li>Avoid the possible dissatisfaction of different stakeholders as indicated in the "Merger</li> </ul>

	<b>Effectiveness Report" and meet their expectation with better preparation and strategic planning</b>
<b>What Makes a Merger Work?</b>	<ul style="list-style-type: none"> <li>• <b>Understand the Tools and Mantras, which gets the merger Success</b></li> </ul>

### 3. Resources Person Selections

Practical experience gives more confidence than the theoretical inputs. Therefore, following Resource Persons were selected who have already gathered experience in merging the BFIs and addressing the issues arisen in between so that it would be beneficial to those participants who are in the merger process and looking for the suitable partner for merger.

<b>Topics</b>	<b>Resource Persons</b>	<b>Reason</b>
<b>Merger: A Tool for Value Creation and Risk Management</b>	<b>Mr. Laxmi Prapanna Niroula, Executive Director, Nepal Rastra Bank</b>	<ul style="list-style-type: none"> <li>• <b>Mr. Niroula played a key role in having MoU among NCC Bank, Kumari Bank and other 4 national level Development Banks</b></li> <li>• <b>Had addressed many merger issues too when he was heading Commercial Banking Supervision Department</b></li> </ul>
<b>Pre-merger Due Diligence &amp; Valuation, Issues and Solutions</b>	<b>Mr. Sudarshan Raj Pandey, FCA</b>	<ul style="list-style-type: none"> <li>• <b>Mr. Pandey is a very experienced FCA in Due Diligence Audit</b></li> <li>• <b>Have carried out Due Diligence and Valuation works of most of the BFIs, which merged into each other or backed out from Merger Process even after completing Due Diligence</b></li> </ul>
<b>Pre and Post-merger:</b>		<ul style="list-style-type: none"> <li>• <b>Mr. Bhandari played a key role in merging Narayani Finance and National</b></li> </ul>



Communication Issues and Key Challenges in Cultural and Human Resources Integration	<b>Mr. Umesh Singh Bhandari, CEO, Kasthmandap Development Bank</b>	<p>Finance, which merged before bringing out Merger Bylaw by NRB</p> <ul style="list-style-type: none"> <li>• Was instrumental in completing merger process of Standard Finance and Machhapuchhre Bank</li> <li>• Have been managing post-merger issues in Kasthmandap Development Bank</li> </ul>
Operations and System Integration and Post Merger Business Planning	<b>Mr. Sunil KC, Deputy CEO, NMB Bank</b>	<ul style="list-style-type: none"> <li>• Mr. KC was instrumental in completing operations, system and business integration process while merging other 4 BFIs in NMB Bank</li> <li>• Had given able leadership as Deputy CEO in successfully formulating the business planning after merger</li> </ul>
Post-merger Challenges in Meeting Expectations of Stakeholders	<b>Mr. Govinda Gurung, Deputy CEO, Civil Bank</b>	<ul style="list-style-type: none"> <li>• Mr. Gurung was instrumental in getting the merger process success while merging Axis Development Bank and Civil Merchant Finance at Civil Bank</li> <li>• Played a very active role in executing MoU with International Leasing and Finance Company</li> <li>• Had actively involved in dealing with stakeholders in addressing their issues</li> </ul>
What Makes a Merger Work	<b>Mr. Basudev Adhikari, Director, NRB</b>	<ul style="list-style-type: none"> <li>• Mr. Adhikari had been successful in giving merger momentum while discharging the duties at Banking Regulations Department</li> <li>• Had been successful in getting the merger process success by convincing the various stakeholders when issues were arisen during merger process</li> </ul>

## Welcome Remarks, CEO, NBI



- Mr. Sanjib Subba, CEO, NBI welcomed to all the distinguished guests and the participants.
- He mentioned NBI had taken this initiative to organize the conference observing the incidents of backing out from the merger process even after signing the MoU and obtaining Letter of Intent from NRB and a few concerning issues outlined in the "Merger Effectiveness" study unveiled by NRB so that the conference could contribute the industry.
- He added that conference with 4 panel discussion session with the participation of the banking professionals who have already completed the merger process have been designed so that it would be highly interactive and beneficial to the participants.

## 4. NBI Chairman's View



- Mr Shovan Dev Pant, Chairman, NBI mentioned that the merger requirement was arisen due to excess operating Licenses provided by NRB to the BFIs without considering the actual requirement of it vis a vis size of the country and business opportunity after 1990 due to liberalization and privatization policy adopted by the country.
- He appreciated the bold and challenging decision taken by Dr. Chiranjibi Nepal in increasing the paid up capital requirement vide Monetary Policy for FY 2072/73.
- He mentioned that merger should take place in order to have synergistic impact rather than just for the sake of merger. He added that the impact of any decision in the BFIs comes after a long time. Therefore, it would be a haste to mention that whether the merger momentum, which has been taking place in the country currently, would be yielding positive results only.

## 5. Key Note Speech from Governor

Considering the gravity and importance of the program, Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank was requested to grace his presence as a Chief Guest of the Inaugural Session and deliver the key Note Speech, which Dr Nepal consented.





Dr. Nepal inaugurated the conference and appreciated the initiation taken by NBI in organizing such conference aiming to contribute to the industry for getting the merger success. Delivering his key note speech Dr Nepal underlined the followings:

- Decision for increasing the paid up capital was taken aiming to enhance the risk absorbing capacities of the BFIs and getting enabled them in financing large infrastructural projects.
- Merger is one of the tools for increasing the paid up capital. But, it is not the only tool for it and should not be fully dependent on merger. Therefore, BFIs should also explore the opportunities for injecting capital to get increased the paid up capital.
- He mentioned that NRB has taken very liberal approach in getting increased the paid up capital by giving two years' time. He added that how Malasiya had completed merger process forcefully just within a period of 1 year.
- Dr Nepal showed concern about the 13 problematic institutions. He added that Nepal Rastra Bank is the regulator and it is not its duty to take over the management of BFIs. He therefore advised the BFIs to increase risk management capabilities.
- He expressed worries about the poor quality and skills of the Nepalese banking professionals as compared to the International Professionals. He showed concerns that probably the quality of Nepalese banking is lowest among the SAARC Countries and he wishes to upgrade it so that the bankers from other countries would emulate Nepalese banking practices.
- He revealed that Nepal Rastra Bank is putting in effort to ease up the process and shall make necessary amendments where required to make it BFIs friendly. He also asked

Merger is one of the tools for increasing the paid up capital. But, it is not the only tool and should not be fully dependent on merger. Therefore, BFIs should also explore the opportunities for injecting capital to increase paid up capital.

NBI to send the report of the conference so that it would be a reference for them for necessary amendments in its directive and other regulatory documents.

## 6. Paper Presentation & Panel Discussion

Following Regulators and Senior Banking Professionals presented the papers:

### A. Laxmi Prapanna Niroula

Mr. Niroula Presented the paper on **"Merger: A tool for Value Creation and Risk Management"** and mentioned that:

- Up to 10% plus minus could be accepted in regard to quality of loans, Non-Performing loan, staff expenses on total income, operating expenses on total income, no of employees on total assets and per employee income, etc making the net-worth as the focal point.
- Name of the BFI after merger should be agreed upon the mutual understanding and the issues on merger process should be clearly communicated.
- Human Resources should be integrated in the same level where possible. If not, exam can be conducted to test their capabilities to integrate in the same level. Thereafter only, it may be processed one level down integration for the employees of B and Category BFIs.
- Look into the possibilities to confirm the temporary or renewal of contract staffs
- Make necessary provision and arrangement of budget for the Voluntary Retirement Scheme where required and the VRS should be completed before merger.
- Crystal clear provision should be made in regard to credit extension, deposit mobilization, rebate on interest, accounting of Non-banking assets, etc after the execution of merger.
- There should be a strong provision that no party shall back out from merger process except in the case of instruction from the competent authority or the ratio of NPA adjudged to be extremely high as compared to what was initially disclosed.
- Training and development Programs for the staffs should be organized
- The Merger Committee should address the issues relating to due diligence and the record of which should be maintained.



**Concluding the presentation Mr. Niroula emphasized that:**

- Merger is corporate marriage of two or more corporate entities. Therefore, it is considered to be one of the most difficult tasks anywhere in the world.
- Mergers and acquisitions require significant time and resources for its success

### **B. Sudarshan Raj Pandey**

Mr. Sudarshan Raj Pandey, FCA, presented the paper on "**Pre-merger Due Diligence & Valuation, Issues and Solutions**". He mentioned the process and method of Due Diligence and underlined the following reasons for the merger failure:



- Ego of the substantial shareholders
- Under/Over estimation of partners
- Executives focusing on managing business integration but giving less focus on managing human resources
- Ignoring cultural transformation issues
- Inadequate planning

### **He prescribed the following tools to avoid merger failure:**

- Analyzing the objective of merger clearly and putting in optimum effort in selecting the best partner
- Preparing merger strategy and obtaining the consultancy of the experts where required
- Setting the Goal and recognizing the partners strengths and weaknesses
- Sharing the vision and proper planning for culture reconciliation
- Building of the Team from both sides and putting in effort for trust-building
- Making proper communications properly without concealing anything.
- Addressing the issues if any sitting together and creating the environment of belongingness.
- Looking into from win-win perspective on every issue.

### C. Umesh Singh Bhandari

Mr. Umesh Singh Bhandari, CEO, Kasthmandap Development Bank, presented the paper on "**Pre and Post-merger: Communication Issues and Key Challenges in Cultural and Human Resources Integration**". He mentioned that merger is a challenge but an opportunity. He expressed his view that merger objectives can be met if strengths and weaknesses of both organizations are properly understood even in the cases of merging of weak and weak institutions. He cited the example of Narayani and National Finance and Standard Finance and Machhapuchhre Bank.



He underlined that before taking the merger decision following points should be taken into account:

- Merger is not a fashion / whim or compulsion and there must be a genuine requirement of the institution.
- Long term strategy should be well thought out and Merger is not solution for all short run problems.
- Owners/Sr. Management/Staffs should be ready to come out of personal interest

He prescribed for the followings:

- Proper communication should be made to all the stakeholders as the stakeholders may form different view even while doing the good things also in the absence of communication.
- Communication strategy should be made for deciding when and how to communicate about the merger process, developments, its benefits and collective effort requirement for its success
- HR issues should be addressed timely and properly
- A very good environment should be created for the cultural transformation
- Competency of CEO is a most important aspect. Therefore, the owners should give extra care in selecting able CEO.

#### **D. Sunil KC**

Mr. Sunil KC, Deputy CEO, NMB Bank presented paper on **"Operations & System Integration and Post Merger Business Planning"**. He advised that merger decision should be taken taking the following points into account:



- Optimize Cost Infrastructure
- Acquisition of Talent / Technology / Capability
- Maximize Scale
- Competitive and Industry Response
- Expand Geographical Reach
- Products, Service and Channel Expansion

He emphasized that following issues may arise, which needs to be properly taken care of:

- Staff Apprehension
- Resistance to Change
- Customer Attrition
- Decision Making Problems
- Cultural and HR Issues

He mentioned that proper communication is a must for addressing the above issues and following key areas should be properly taken care of while carrying out operation integration process:

- Due Diligence Findings
- Leveraging Centralized Processing Capacity
- Business Process Alignment
- Standard Infrastructure
- HR Structure
- Standardization of Process
- Training and Development
- Customer Awareness

Mr. KC further added that following points should be understood properly and managed accordingly while integrating the IT:

- Standard Infrastructure Net working
- Core Banking System
- MIS Consolidation
- IT Security and Compliance
- Alternative Delivery Channel Consolidation
- Training and People New Role Definition

Similarly, he suggested for the post-merger business planning by considering the followings:

- Formulating strategic business plan defining strategic goal, developing growth strategy, and defining M&A strategy
- Determining business drivers like market, technology, products, geographies, financial target and risk appetite
- Prioritizing the activities by integrating marketing function, customer communication, developing brand strategy, harmonizing risk management and addressing the change management issues.
- Capturing value by designing customer, products and channels model, process, organization and system model, exchanging assets and revenue efficiency, rolling out Performance Management Objectives and measuring results.

### **E. Govinda Gurung**



Mr. Govinda Gurung, Deputy CEO, Civil Bank, presented the Paper on **"Post-merger Challenges in Meeting the Expectations of Stakeholders"**.

Mr Gurung emphasized that Human resources management is one of the key post-merger challenges, which pose threats due to the followings:

- Cultural Conflict and Knowledge Gap



- Attitude, Mindset and Behavioral Complexities
- Communication Dynamics and Change Management and Institutionalization
- Leadership Conflict / Ownership and Loyalty
- Disengagement and Disorientation
- Staff Attrition and Key Talents Management
- Working Environment

He explained other challenges as follows:

- After merger, reasonable level of time is required to set all the things in order. But, shareholders' expectation goes up after merger for the high Return on Equity, Stock Price, and Business Growth and Brand Value and Low Non-performing Assets, which needs to be managed by elaborating long term benefits.
- Employees look for better salary and benefits and working environment. They also expect respect, recognition, rewards, learning and training opportunities and growth opportunities. Meeting their many expectations at a time is a difficult job but could be managed by making proper communication about the BFI and its plan for staff growth and opportunities.
- Customer dissatisfaction increases due to increase in service delivery period, lack of personal attention, change of relationship managers and leadership, price differentiation and quality of service. Therefore, special attention should be given to manage this challenge.
- Regulator's concerns shall be with compliance, risk management, good corporate governance, prudent practices, protection of interest of the stakeholder's etc, which may be overlooked if the better planning is not done.

Mr. Gurung concluded his presentation mentioning that **"Poor HR Integration may lead to disaster"** and **"Effective team mobilization may lead to success"**. He advised **"Proper Integration and Management of Human Capital"** for post-merger-success.

#### **F. Basudev Adhikari**

Mr. Basudev Adhikari, Director, Nepal Rastra Bank, presented paper on **What makes a Merger Work?**



He shed light on merger initiatives and initial mergers, which took place before bringing out the Merger Bylaw by Nepal Rastra Bank. He termed the following reasons for failure of the merger even after signing MoU and obtainment of Letter of Intent from NRB.

- Inadequate Homework
- Doubt on DDA Report
- Ego Issues
- Pricing Issues
- Proposal Turn Down by the Regulator

Mr. Adhikari outlined that whichever mergers have taken places so far, there are specific reasons behind it. He termed the following reasons:

- Up-gradation
- Wider Area Coverage
- Capital Enhancement
- Address the Sustainability and Stability Issues
- Common Promoters
- Synergy Expectation
- Horizontal Relationship

He advised the "Mantras" for merger as follows:

- Trust-worthy Valuation System.
- Thorough Study of Legal Framework
- Meeting and Communications
- Wider Consultations / Experience Sharing
- *Arjun-eye* on Value Creation

He cautioned for being alert with the following possible unethical activities from the partner:

- Account Manipulation
- Unethical Promotion of Staffs

- Unsecured Credit Disbursement
- Huge Procurement
- Accepting Costly Long-term Liabilities

He recommended success tool-kits as follows:

- Believe in Leadership Quality
- Comprehensive Discussion during pre-merger process and have disclosures
- Realistic DDA and Trust on the Report
- Coordination between Board and Management
- Multilayer Dialogue During Merger Process / Frequent Meetings of Joint Merger Committee
- Effective Management of Stakeholders
- Comprehensive MoU
- Exchange of Managerial Level Staffs
- Communication with Regulator
- Business Focused Strategy
- Special Attention in Managing Problems relating to Directors/Staffs/Union
- Human Resources Motivation
- Learning from other's Experience

He concluded his presentation by expressing his views as:

- Merger could be the effective tools but not the remedy for all problems
- Merger is like the energy in the water, which should be utilized.
- Merger creates synergy only if planned effectively and put in effort wholeheartedly
- Merger should be driven with discipline

### Panel Discussion



Panel discussion was held after each paper presentation. The experienced banking professionals were selected for the panel discussion as Panel Moderator and Members so that they could share their experience and answer the questions of the participants meeting their expectations. The details of the experience of Panel Members and their experience have been outlined below:

TOPICS	PANEL MEMBERS	
Pre and post -merger: Communication Issues and Key Challenges in Cultural and HR Integration	<ul style="list-style-type: none"> <li>Mr. Upendra Poudyal, CEO, NMB Bank and President, Nepal Bankers Association - Panel Moderator</li> <li>Mr. Janak Sharma Poudyal, Senior Deputy CEO, Global IME Bank</li> <li>Mr. Umesh Singh Bhandari - Panel Member</li> <li>Mr. Anil Shrestha, CEO, Reliance Lotus Finance - Panel Member</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Poudyal had given leadership to get merged the 4 BFIs in NMB Bank and has been heading the management team as CEO after merger.</li> <li>Mr. Poudyal as Deputy CEO of Global IME Bank played very active role in merging various BFIs and addressing post-merger issues.</li> <li>Introduction already given above*</li> <li>Mr. Shrestha Played a key role in merger process of Reliance and Lotus finance and has been heading the management team as CEO after Mreger</li> </ul>
Operations and System Integration and Post Merger Business Planning	<ul style="list-style-type: none"> <li>Mr. Ranta Raj Bajracharya, CEO, Sunrise Bank - Panel Moderator</li> <li>Mr Sunil KC - Panel Member</li> <li>Mr. Narayan Babu Lohoni, CEO, Reliable Development Bank - Panel Member</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Bajracharya successfully merged IME Finance, Commerze and Trust Bak and other a few BFIs at Global Bank and headed the management team as CEO after merger before joining Sunrise Bank</li> <li>Introduction already given above*</li> <li>Mr. Lohoni played instrumental role in merging Subha Laxmi Finance and Nepal Consumer Development Bank in Reliable Finance and have been managing the Bank as CEO after merger.</li> </ul>
Post-merger Challenges in Meeting Expectations of Stakeholders	<ul style="list-style-type: none"> <li>Mr. Rajan Singh Bhandari, CEO, Citizens Bank International and Former President of Nepal Bankers Association - Panel Moderator</li> </ul>	<ul style="list-style-type: none"> <li>Mr Bhandari as a CEO of Citizens Bank gave able leadership in acquiring Nepal Housing and Merchant Finance and People Finance and have been managing post -merger issues comfortably meeting the expectation of stakeholders</li> </ul>

	<ul style="list-style-type: none"> <li>Govinda Gurung - Panel Member</li> <li>Om Krishna Joshi, Director, Narayani National Finance</li> </ul>	<ul style="list-style-type: none"> <li>Introduction already given above*</li> <li>Mr. Joshi played a very active role as a then CEO of National Finance to have merger between Narayani and National Finance. Currently He is Director of Narayani National Finance</li> </ul>
What Makes a Merger Work	<ul style="list-style-type: none"> <li>Mr. Sashin Joshi, CEO, NABIL Bank and Former President of Nepal Bankers Association - Panel Moderator</li> <li>Basudev Adhikari - Panel Member</li> <li>Ashok Sherchan, CEO, Prabhu Bank - Panel Member</li> </ul>	<ul style="list-style-type: none"> <li>Under Mr. Joshi's Leadership Merger between NIC Bank and Bank of Asia had taken place without any hiccups.</li> <li>Mr Joshi headed the management team as CEO after merger before joining NABIL Bank in last July 2015. He had addressed the post-merger issues successfully</li> <li>Introduction already given above*</li> <li>Mr. Sherchan as a CEO of Prabhu Finance merged Gaurishanker Development , Sambhridhi Development and Zenith Finance and upgraded to Development Bank</li> <li>Again merged Kist Bank at Prabhu Development Bank and upgraded to a commercial Bank. He again played a key role in merging Grand Bank at Prabhu Bank</li> <li>Leading the management team as CEO of Prabhu Bank and managing the post-merger issues</li> </ul>



- Panel Moderators moderated and led the sessions and gave concluding remarks of the panel discussion
- Panel Members shared their experiences
- Moderators / Members answered the queries of the participants



- Many participants, including the followings, asked the questions to the Moderators and Panel Members:

- Mr. Guru Prasad Neupane, Director / Merger Committee Member, Janata Bank
- Ms. Raveena Desraj Shrestha, Chief Business Officer, Mega Bank
- Mr Arun Parajuli, Chief Manager, Sunrise Bank
- Mr. Ramesh Ghimire, Head Legal and Company Secretary, Nepal SBI Bank
- Ms. Anupama Khujeli, Chief Operating Officer, Mega Bank
- Mr. Sudeep Khanal, Regional Manager



- Participants expressed satisfaction from the response / answers of the panel moderators and members and expressed their satisfaction.

## **G. Suggestions / Conclusion**

Conference underlined the following important suggestions:

- Merger and acquisition have taken its momentum, which is substantiated by the results as 84 BFIs have become 33 after merging into each other. However, some post-merger issues may not be seen immediately and could arise even after 4/5 years. Therefore, managing the post-merger issues is more important than the completion of merger process.
- Merger is one of the tools for value creation and risk management.
- Merger is a tool for solving the weaknesses on the respective institution but it is not the solutions for all problems.
- Merger enables in increasing paid up capital but should not be fully dependent on it as it could bring problems too if merger goals is not rightly identified / defined.
- MoU should be executed covering all the issues. Any problems / issues should not be concealed.



- Decision like heavy procurement or unsecured loan disbursement or acceptance of long term liability should not be taken after execution of merger
- Communication is one of the key issues in merger process. Proper and timely communication is one of the prerequisite for managing pre and post-merger issues successfully.
- Human Resources Integration is the critical factor in merger process, which should be managed cautiously and appropriately
- Merger strategy should be formulated before going for merger as the merger is not a fashion or whim.
- Adequate homework should be done before choosing the partner and specific action plan should be chalked out to get the merger success
- Cultural transformation cannot be done within a short period of time as it is a continuous process. Therefore, well-chalked out plan with review process should be in place.
- Support from all the stakeholders is required to get the merger success and address the issues.
- Egos should be avoided and owners, senior management and staffs should not be guided by the personal interest
- NRB to provide quick decision in providing LoI and final Operating License.
- Lessons should be learned from other BFI's failure in merger process and planning / homework should be done to avoid such failed attempts.
- All the effort should be focused in having synergistic result to create value, manage risks and get the BFI strong.

Communication is one of the key issues in merger process. Proper and timely communication is one of the prerequisite for managing pre and post-merger issues successfully.

**Merger Conference - 2016 has been successful in addressing the many issues relating to merger, which have currently been facing by many BFIs. NBI believes that merger process breaking incidents would be reduced that post-merger issues would be managed more effectively by the BFIs.**

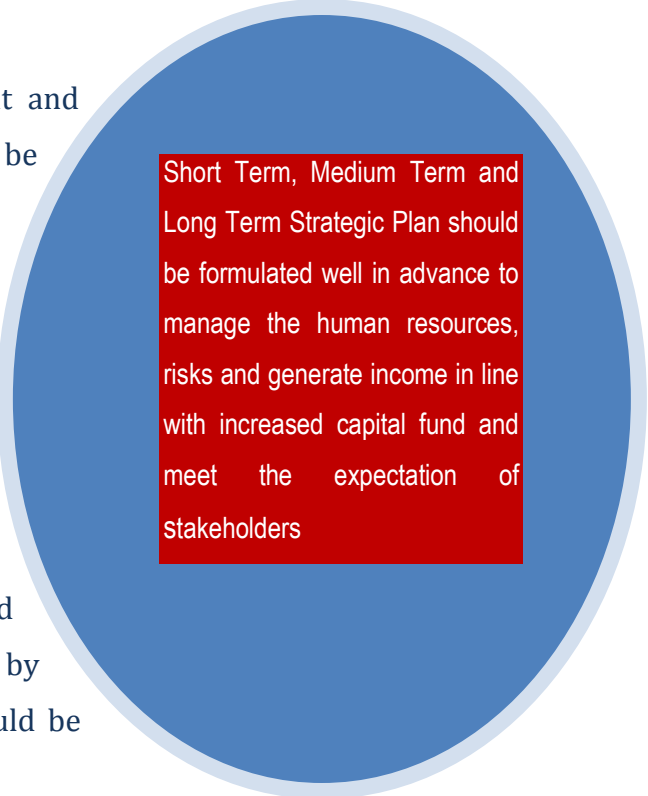
## **H. NBI Observation**

Whilst merger and acquisition activities have been moving ahead progressively and the numbers of BFIs have been decreasing, the days ahead are seemingly appearing challenging in terms of:

- Managing the human resources coming from different culture
- Thinking alike by the Board of Directors, who come from different background and culture
- Generating income in line with the increased capital fund
- Streamlining the policies, procedures, etc and managing risks
- Meeting the expectations of customers and other stakeholders
- Others

## **I. NBI Recommendation**

- Merger should be done as per requirement and have the synergistic impact. It should not be forceful and should not be taken as a fashion.
- Short Term, Medium Term and Long Term Strategic Plan should be formulated well in advance to manage the human resources, risks and generate income in line with increased capital fund and meet the expectation of stakeholders
- Training and Development Programs should be organized for the human resources by developing the calendar and its impact should be analyzed.
- Communication Strategy should be formulated before commencing the operations as a merger entity. The Strategy should be executed in a focused way so that all concerned would not form different view.



Short Term, Medium Term and Long Term Strategic Plan should be formulated well in advance to manage the human resources, risks and generate income in line with increased capital fund and meet the expectation of stakeholders