



Merger and Acquisition of Banks and Financial Institutions in Nepal: Laws and Practices

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Abstract

The Nepalese financial sector is experiencing a significant increase in mergers and acquisitions (M&A) due to regulatory directives and market dynamics. This article provides a detailed analysis of the legal framework and practical processes involved in these consolidations, examining the step-by-step merger process, key Nepalese laws, and the concept and practice of mergers. It also discusses the potential benefits, procedures for concluding a merger, and the critical integration process, offering a concise yet comprehensive understanding of BFI mergers in Nepal. Finally, the potential benefits of mergers within the specific context of Nepal, the procedures for concluding a merger, and the subsequent critical integration process will be discussed, offering a concise yet comprehensive understanding of BFI mergers in Nepal.

Key words : *Merger and Acquisition (M&A), Banks and Financial Institutions (BFIs), Capital Strength, Legal and Practical Dimensions, Benefits of Mergers.*

Introduction

The financial landscape of Nepal has been undergoing a significant transformation, marked by an increasing prevalence of mergers and acquisitions (M&A) among its banks and financial institutions (BFIs), a trend driven by regulatory factors and the pursuit of greater efficiency and capital adequacy. This article provides a focused analysis of the legal framework and practical processes governing these consolidations in Nepal. It examines the step-by-step merger process, culminating in final approval, and explores the key Nepalese laws pertaining to such transactions. Furthermore, the article elucidates the concept and practice of mergers in Nepal, tracing their emergence and the underlying requirements within the sector. It also highlights available concessions and the essential conditions financial institutions must meet during a merger. Finally, the potential benefits of mergers within the specific context of Nepal, the procedures for concluding a merger, and the subsequent critical integration process will be discussed, offering a concise yet comprehensive understanding of BFI mergers in Nepal.

The Nepalese banking sector presently confronts a period of significant instability and operational challenges, placing it at a critical juncture requiring decisive strategic interventions. In response to these systemic pressures, the Nepal Rastra Bank (NRB), acting within its

regulatory mandate to ensure financial stability and promote a sound banking system, has directed banking institutions to actively pursue mergers and acquisitions as a primary mechanism for consolidation and enhanced resilience.

In the broader context of corporate law and finance, amalgamations, mergers, and takeovers (or acquisitions) represent cognate corporate actions that result in the integration of two or more previously distinct and legally separate firms into a single, unified legal entity. These corporate restructuring mechanisms are typically undertaken with the objective of achieving significant operational synergies, which can manifest in various forms, including economies of scale, enhanced market share, and the pooling of complementary resources and expertise. Indeed, the overarching goal of most mergers and acquisitions is the enhancement of long-term company performance and the maximization of shareholder value through strategic consolidation.

A merger, in its fundamental legal and commercial sense, constitutes the combination of two or more corporate bodies into a singular legal entity, wherein the separate identities of the merging entities cease to exist, and their assets, liabilities, and operations are integrated into the resultant entity. Legal dictionaries, such as Investopedia, define a merger as the consolidation of two or more companies, often effectuated through an offering of securities in the acquiring company to the stockholders of the target company in exchange for the surrender of their existing stock holdings. The legal effect of an amalgamation is the dissolution of the merging companies and their complete fusion into the newly created or surviving entity, which thereupon assumes all the property, rights, powers, duties, and obligations of the constituent companies.

The strategic rationale underpinning a merger or an acquisition often rests on the principle of creating synergistic value, where the integrated entity possesses a value exceeding the arithmetic sum of the individual, pre-combination entities – a concept often expressed as "one plus one makes three." The core tenet driving the acquisition of a company is the creation of shareholder value that surpasses the combined value of the separate entities. This enhanced value proposition arises from the structural and operational advantages secured through the merger, enabling the combined business to achieve cost efficiencies, enhance revenue streams, and ultimately increase profits, thereby bolstering shareholder returns for all involved parties.

In the present economic and regulatory scenario, the Nepalese Banking Sector faces a confluence of factors, primarily three in nature, that have compelled institutions within the sector to actively pursue the process of M&A as a strategic imperative for survival and growth.

Mergers, acquisitions, and amalgamations are distinct but often overlapping corporate restructuring mechanisms that result in the consolidation of business entities. While the terms are sometimes used interchangeably, they have specific legal nuances:

- **Merger:** A merger involves the combination of two or more companies into a single legal entity, where one entity survives, and the others cease to exist. The surviving company assumes the assets and liabilities of the merged entities.

- **Acquisition:** An acquisition occurs when one company (the acquirer) takes control of another company (the target). This can be achieved by purchasing the target's shares, acquiring its assets, or through other means. The target company may continue to exist as a subsidiary or be absorbed into the acquirer.
- **Amalgamation:** Amalgamation typically refers to the combination of two or more companies to form a completely new entity. In an amalgamation, the original companies are dissolved, and a new company is created, holding the combined assets and liabilities.

Indian Practice of merger

In India, Out of the respondent banks, 55% are in favor of bath mergers, and among the public sector banks, 44% reported that they are in favor of mergers. Further five possible types of mergers were identified, the first three of which are:¹⁷⁸

Merger of two public sector banks.

- a) Merger of public and private sector banks
- b) Merger between two private sector banks.

The remaining two types were to ascertain the intentions of commercial banks in providing integrated financial solutions. Thus, these types are:

- a) Merging a commercial bank with an NBFC and
- b) Merging a commercial bank with any other financial services company. Out of the respondent banks, 70% have assigned highest priority for merger of two public sector banks, which demonstrates the banking sectors view on the need for consolidation of public sector banks. On the other hand, 40% of banks have favored merger among private sector banks and merger between public and private sector banks, as the second most preferred type of merger. The survey raised several questions on important issues at the pre and post-merger stage. These are summarized as follows.¹⁷⁹

- a) **Valuation of target bank's loan portfolio:** More than 70% of the respondent banks stated that a valuation of loan portfolio of the target banks is the main factor to be considered at the time of merger. In credit portfolio management, the exposure and accounting norms suggested by the RBI are the same for all banks, which helps in finding out the book value of loans.
- b) **Valuation of intangible Assets:** Valuation of assets of the target bank is a critical factor for the success of consolidation. A bank's tangible assets are mainly loans and investments, apart from other fixed assets like buildings, ATMs and IT infrastructure. A commercial bank holds a lot of intangible assets-core deposit base clientele, safety vault contracts, proprietary computer software, knowledgeable human resources,

¹⁷⁸ TAXMANN'S, COMPANY LAW, Taxmann Company Pvt. Ltd. New Delhi, at 250-251 (2009)

¹⁷⁹ Ibid 50 at 251

brands and good will. Deciding the inherent strength of the target bank on the basis of intangible assets is equally important for successful consolidation.¹⁸⁰

- c) **Human Resource Issues:** Out of the respondent banks, 90% of banks have stated that human resource function is the most complicated organizational issue in mergers. In case of voluntary merger like Times Bank' and Bank of Madura', the acquired banks have guaranteed employment to all the employees and minimized the scope for conflicts.
- d) **Cultural Issues:** Another critical issue in pre and post merger period is culture. Culture is central to the institutional environment in which people have to work. Cultural friction is a difficult condition to analyze because it is 'Totally Symptomatic', revealing itself in diverse problems such as poor productivity, wrangles among the top team, high turnover rates, delays in integration, and an overall failure to realize the synergies of the deal. Cultural integration is an essential prerequisite for a successful merger, here two banks aim to take the 'Best of Both' and create a new culture.
- e) **Integration of Information Technology:** Modern commercial banking is highly dependent on information technology (IT). It is not a process driven necessity alone but a key strategic issue. According to McKinsey and as quoted in Walter (2004), 30 % to 50% of all bank merger synergies depend directly on IT in India. Around 65% of branches are fully automated and only 12% of branches are offering core banking solutions.

Merger under Nepalese Laws and Practices

The central bank has to call the applicants within 15 days to preliminary discussion. The central bank may give the letter of intent to forward the essential process if the central bank realizes that the impact of merger shall not be negative in any way in the development of bank and financial system, fair competition and the application of the prevailing laws of the country. The evaluator shall prepare the report and mention it with the specific opinion as prescribed by the central bank.¹⁸¹

The institutions authorized for merger by central bank shall make the mutual agreement by mentioning the fundamental matters as follows.

- i) Name and address, class of licensed institution & workplace after merger.
- ii) Necessity and rationality of merger.
- iii) Its impact in banking & financial sector and its system.
- iv) Provision of the protection of depositors, general shareholders and other stake holders interest.

¹⁸⁰ Ibid 51 at 252

¹⁸¹ ADHIKARI, HEM RAJ, Challenges and Possibilities of Financial at Ins Mergers in Nepal, BUSNISS LAW JOURNAL, Vol.19, Commercial Law Society Nepal, Babarmahal, Kathmandu, at 16 (2012)

- v) Financial status, loan & investment and management of transaction of bank and financial institution.
- vi) Evaluation of assets, process of asset/liability.
- vii) Letter of intent of the concerned investing institution in the case of the institution having joint venture foreign investor.
- viii) Time period for merger.
- ix) Capital structure, control after merger & structure of ownership. Employee reduction plan and human resource management plan.
- x) Share exchange ratio of institution.
- xi) Commitment of qualitative reform, promotion of profession & security, corporate governance.
- xii) The matters for compliance of company law and stock exchange law and acceptance procedures. xiii) Corporate restructuring.
- xiv) The proposed work plan beginning transaction quoting the exact date after merger.
- xv) Estimated cost for merger.

Nepalese Laws relating to merger

In recent years, high set finance was merged with Laxmi bank, Nepal Bangladesh finance and leasing company was merged with Nepal Bangladesh Bank. Narayani finance limited was merged with National finance limited and formed into Narayani national finance limited. Nepal Sri-lanka merchant banking and finance limited was merged with Nepal Bangladesh bank limited, Birjung finance limited was merged with Himchuli bikash bank limited and later formed into H and B development bank limited. Likewise, IME financial institution was merged with Global bank limited and later formed into Global IME bank limited industrial and, Bank of Asia Nepal was merged with commercial Nepal bank limited and new name yet to be declared and Rastriya banijya bank and Nepal industrial and development corporation (NIDC) are also in pipeline of merger. By observing the flow of merger in the Nepalese scenario, it has become an ongoing process until all the Nepalese banks and financial institutions are merged as per the set legal provision of bye law 2011. Here, in this chapter the researcher has attempted to mention about some existing Nepalese Acts, rules and regulations.

Nepal Rastra Bank Act 2002

The Nepal Rastra Bank is the main regulating body of all the banks and financial institutions in Nepal. Under Nepal Rastra Bank Act 2002, pursuant to section 79(1), the bank shall have full powers to regulate the functions and activities of commercial banks and financial institutions. And pursuant to sub-section (2), for the purpose of the regulation under sub-section (1), the bank may frame rules and bye-laws on the matters which the Bank deems appropriate and issue necessary order, directives and circular and it shall be the duty of the concerned commercial bank and financial institution to abide by such rules, bye-laws, order, directives and circular.

Hence, pursuant to the legal provision of section 79 of Nepal Rastra Bank Act 2002, the 'Merged Merging bye-laws of Bank & financial institutions 2068 was issued by Nepal Rastra Bank and came into being with view to regulate and facilitate the merger process and procedure of banks and financial institutions in Nepal. Likewise, by using the authority as mentioned in the section 110(2) of the Nepal Rastra Bank Act 2058, the banks and financial institutions are authorized to be merged to each other.¹⁸²

Company Act 2006

The merger of companies is difference where the public company is not involved. As per section 177 of the companies Act, 2063 a public company shall be merged to other public or private company by adopting special resolutions in its general meeting. But in respect of merger of a private articles of association meeting. In its memorandum of Association Company that matter shall be provided Act has given the liberal powers in ion or consensus agreement. Then case of private company. While merging the public company and private company, it is recognized as the public company. An application of merger shall be forwarded to Office of the Company Registrar (OCR) within thirty days from the date of the ratification of the resolution by general meeting of public company.

This law does not provide additional times to OCR except 30 days for taking the decision. After the approval of the resolution, the company shall mention the following matters with the application. The office shall give the decision within three months from the date of the application registered.¹⁸³

- a) In the case of a public company, a copy of the decision of the general meeting, and in the case of private company, companies of the related provisions contained in the memorandum of the associations, articles of the associations, or consensus agreement authorizing the merger.
- b) Last balance sheet and auditor's report of the merging company.
- c) A copy of the letter of consent in writing, of the creditors of the merging company and of the merged company.
- d) Valuation of the movable and immovable properties, actual details of the assets and liabilities of the merging company.
- e) If the merging company and merged company have made a decision as to the creditors and employees and workers of the merging company, a copy of such decision.

The scheme of arrangement concluded between the companies for merger with each other. All the assets and liabilities of the merging company shall be deemed to have been transferred to the merged company after the approval of merger. In the case of possibility of creating a monopoly or unfair trade or to be contrary to public interest, the OCR does not allow to the merger.

¹⁸² Nepal Rastra Bank Act, section 110(2) (2002)

¹⁸³ Companies Act, Section 177(7), (2063)

Recently, based on the recommendations of the Committee to Review Offences under the Companies Act, 2013 (Committee), the Companies (Amendment) Ordinance, 2018 (Ordinance) was passed on November 2, 2018, to effect certain changes in the Companies Act, 2013 (CA 2013). Around the same time the Ministry of Corporate Affairs (MCA) also issued a notice, seeking comments/suggestions from stakeholders on additional amendments of an “urgent nature” that are required to strengthen the corporate governance and enforcement framework. This new amendments also make new provision regarding merger. It restricts Profit not distributing company shall not merge with another type of Profit Sharing Company. so, company which has registered for service motive cannot merge with profit motive company.

Financial Act 2070

The Financial Act 2070 has and financial institutions merger.¹⁸⁴also provided concession on tax to be borne by the banks at the time of registration of a new company during 5.8 Unified Directives issued to the banks & financial institutions by Nepal Rastra Bank (NRB Guidelines) Chapter entitled" Provision on Promotion, portfolio expansion or contraction and merged/merging deals with merger of banking institutions. Under the sub-title "Promotional portfolio's" sector "Gha" has made provision of merged/merging. It states that pursuant to section 69 of Bank and Financial Institution Act 2063, in respect of merged/merging of licensed institutions, would be in accordance with the bye-law issued from this bank regarding merged/merging of banks and financial institutions.¹⁸⁵

Banks and Financial Institutions Act 2073

It replaced the BAFIA 2063. It has mentioned broad concept of merger. The chapter ten of Bank and Financial Institutions Act 2073, entitled "provision on each other merger of licensed institutions" deals thoroughly with joint application to be submitted to NRB regarding merger of banks and financial institutions. The section 69 and 70 of the same act are the key dealing sections with respect to the merger process of banks and financial institutions. The section 69 of the same act states that completing the process of this act, one licensed institution can be merged with another licensed institution in accordance with the existing law. Hence, the section 69 of the bank and financial institution act 2073 has spoken about the process that to be completed as specified in this act. Likewise, the section 70 of the same Act entitled "to give application by the licensed institutions to merge or to be merged each other" has made the following legal provisions.¹⁸⁶

- A) Procedures to be followed on application to be registered to NRB If one licensed institution intend to merge or to be merged with another institution and merging both the institutions shall ratify a special proposal from their own general meetings. If, so the resolution has

¹⁸⁴Financial Act, 2070

¹⁸⁵ NEPAL RASTRA BANK, NRB GUIDELINES, 2069

¹⁸⁶Bank and Financial Institutions Act, section 70 (2073)

been passed, both the institutions should jointly register an application to the Nepal Rastra Bank for approval depending on the conditions prescribed from a to e of sub-section 1 of section 70 of bank and financial institutions Act. pertaining to conditions to be fulfilled by the merging institutions in the joint application to be submitted to the central bank, the following key formalities should be maintained as prescribed from a to e of sub-section 1 of section 70 of bank and financial institutions Act.

- a) Auditor's report that includes audited balance sheet of the last fiscal year of merging and holding institutions, profit and loss account, and cash flow statement.
 - b) Copy of written consent letter to merge or to be merged from the debtors of holding and merging institutions.
 - c) Actual statement of current and fixed assets and liabilities of licensed holding and merging company.
 - d) Copy of decision regarding employees of merging licensed institutions.
 - e) Any other required details prescribed by Nepal Rastra Bank regarding each other merger of licensed institutions.
- B) Transfer of assets & liabilities: In addition to the above details to be furnished in the application regarding approval of merger to be submitted to the central bank, transfer of assets & liabilities also equally remains significant in this procedure. Wherein, the following matters are of prime concern. If an approval is granted to the licensed institutions on merge or to be merged by Nepal Rastra Bank, the assets and liabilities of merging institutions is transferred to the holding licensed company.
- C) Publication of notice and issuance of directives from Nepal Rastra Bank: later body of bank and financial institutions has to The Nepal Rastra bank, as a regulary keep record of all the merged licensed institutions. The Nepal Rastra Bank may give necessary directives regarding other process for holding and merging of institutions. The Nepal Rastra Bank should publish a notice at least at once in national level news paper regarding ground of decision made by itself for the information of public in general within thirty days from the date of decision.

Merged and Merging and Acquisition Bylaw of Banks and Financial Institutions 2011

Mergers Bylaw- 2011 is the provision established with the guidance of IMF AND WORLD BANK in order to help Nepalese Financial institutions to strengthen the capacity of them. NRB supervises the Nepalese BFIs mergers under Merger Bylaw – 2011.

Major issues raised by the law.

- Reduce unhealthy competition and malpractices among BFIs,
- Focus on strategically important Financial Institutions,
- Expand banking services to rural areas,
- Increase capital base and lending capacity,
- Provide guidance in proper investment and so on.

Merger practices in Nepal

Every merger in Nepal is performed as per Mergers Regulation Act Nepal 2011. Its usual that companies seeking mergers will have to get approval from shareholders in Annual General Meeting

Practical steps in case of Nepalese BFIs are highlighted below:

Formation of Merger Committee

- The committee consists of Directors from all BFIs, which are about to merge.

Special AGM

- Reasons and objectives of the ongoing mergers process are discussed.
- Sharing information to shareholders.
- If majority of shareholders approve, then decision comes into action.

MOU (Memorandum of Understanding)

- Prepared through the consensus of both parties from merging entities which tells about the future plans and objectives.

Letter of Intent to NRB

- In this application, the financial position of merging entities is mentioned. Along with it, the future plans are also highlighted.

Due Diligence Report

- It is the report prepared by independent 3rd party. It might be an audit firm. It gives the idea about what happens when these companies merge. In this report, Capital adequacy, liquidity position, market share, loans, stock valuation and various other financial indicators are mentioned.

Final Approval

- All the documents provided by the merging companies are studied and if every criterion is met then the application is approved by NRB.

Simply, merger is the process of combining or uniting different companies as single entity. The process of uniting two companies in the single company is also called amalgamation. This is relatively less used term in practice but it encompasses the meaning of other different terms like merger, acquisition, takeover, etc.

Broadly, merger refers the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies. In corporate governance, merger is known as market mechanism which compels the corporations and their managers to do the best for the achievement of goal or objectives of their respective corporation. When they are not able to perform properly then market will react against them.

Generally, merger is the voluntary phenomenon as determined by the company itself. In our context, in case of banking companies Nepal Rastra Bank has directly or indirectly compelling banks and financial institutions for merger. Those banks and financial institutions which are intended to upgrade their license or those which are in critical financial situation NRB

suggest such institution to go for merger. Some people favour this encouragement but there are other opinions too. To facilitate merger of banking companies NRB has issued a Merger Bye-law applicable to banking companies which determines the process of merger which companies need to complete with NRB. It also makes provision for different concession which participant of merger can get.¹⁸⁷ Although there is heavy attraction of investment in different sectors by the banks and financial institutions, in the context of incorporation and operation, due to scarcity of capital and various capital base problems Nepal development bank has entered into the process of liquidation. Large banks like NIC bank and Bank of Asia (previously known) have also merged each other and formed as NIC ASIA Bank. In the same way Rastriya Banijya bank and Nepal Industrial and Development Corporation (NIDC) are also likely to go for merger.¹⁸⁸

In Nepal, merger practice is initiated by NRB where as the merger can be possible only with voluntary initiation of the company itself. Those banks and financial institutions willing to be upgraded by merger or those companies which are in very critical financial condition are advised to be merged by the Nepal Rastra Bank. In corporate governance the aim of the company is to achieve the targeted goal of the company.

Merging a commercial bank with any other financial services company. Out of the respondent banks, 70% have assigned highest priority for merger of two public sector banks, which demonstrates the banking sectors view on the need for consolidation of public sector banks. On the other hand, 40% of banks have favoured merger among private sector banks and merger between public and private sector banks, as the second most preferred type of merger. Respondent banks have assigned low importance for merger between banks and NBFCs or financial services entities. The survey raised several questions on important issues at the pre and post-merger stage. These are summarized as follows.

- a) **Valuation of target bank's loan portfolio:** More than 70% of the respondent banks stated that a valuation of loan portfolio of the target banks is the main factor to be considered at the time of merger. In credit portfolio management, the exposure and accounting norms suggested by the RBI are the same for all banks, which helps in finding out the book value of loans. However, Indian banks have been adopting divergent practices in rating the borrowers, pricing the loans and in the maintenance of collateral securities. Hence, detailed audit of loan portfolio on the basis of rating, cash flows generated, and collaterals is essential to get an opinion on the value of target bank's loan portfolio.
- b) **Valuation of intangible Assets:** Valuation of assets of the target bank is a critical factor for the success of consolidation. A bank's tangible assets are mainly loans and investments, apart from other fixed assets like buildings, ATMs and IT infrastructure. A commercial

¹⁸⁷ Companies Act, Section 177 (7), (2063)

¹⁸⁸ BISHNU PRASAD GAUTAM, Process of each other holding and merging of banks and financial institutions and it's legal status, BUSINESS LAW JOURNAL, Vol. 19, Commercial Law Society Nepal, Kathmandu, at 65. (2012)

bank holds a lot of intangible assets-core deposit base clientele, safety vault contracts, proprietary computer software, knowledgeable human resources, brands and good will. Deciding the inherent strength of the target bank on the basis of intangible assets is equally important for successful consolidation.

- c) **Human Resource Issues:** Out of the respondent banks, 90% of banks have rated that human resource function is the most complicated organizational issue has speed up towards the merger of banks and financial institutions. Around half dozen institutions got the letter of intent (LOI) for consolidation and dozens of institutions are interested towards the merger.

Not only the relaxation. according to the bye-law section (12) there are some directives where central bank can enforce to get forced merger, which are as follows:

- a) If the central bank realized that the Bank and FIs which are promoted by same group can create unhealthy banking competition.
- b) If the institution has 5 or more than 5 % c NPL since consecutive three years. c) If the institution getting prompt corrective Action (PCA) 3 or more time for the non-accomplishment of PCA Bye-law 2007.
- d) In case of violation of BAFIA's section 37(1). e) If the institution is unable to pay the liabilities due to growth of systemic risk.
- e) If the organizations are getting operated in status quo effects negatively in whole financial system.
- g) If the two or more institutions getting merger, improves the whole financial system.

Section 37(1) of The BAFIA act 2006 has made the following provisions regarding up gradation of lower category's licensed institutions to upper category.¹⁸⁹

- a) Maintaining capital for the upper category licensed institutions as prescribed by NRB.
- b) Able to make profit from last consecutive five years.
- c) Total (Non-performing loan) NPL is remaining within the limitation as prescribed by NRB. d) Completing all the conditions prescribed by the NRB.

Restriction on merger of BFIs

There are some restriction made by laws regarding company and BFIs as following :

- D class financial institutions have not qualification to merge with A,B and C class license holding BFIs¹⁹⁰
- There shall not be merger and acquisitions between infrastructure bank and BFIs¹⁹¹
- Profit not distributing company shall not merge with another type of Profit sharing company

¹⁸⁹Bank and Financial institutions Act 2006

¹⁹⁰ Merged and Merging and Acquisition Bylaw of Banks and Financial Institutions 2011, Rule4(1)

¹⁹¹ Merged and Merging and Acquisition Bylaw of Banks and Financial Institutions 2011, Rule 4(1)

Requirement of merger in Nepal

In Business organization consolidation is very familiar facts. Two or more organizations take the consolidation decision influencing by various motives. Behind the merger there are so many of motives. The major reasons of mergers are as follows.¹⁹²

- a) With the purpose of market dominance to be a giant organization.
- b) Integration between different categories of organization for maintaining channel between themselves.
- c) Regulating of diversified business, risks spreading and reduction on cost.
- d) To get synergy effect.
- e) To be world class leading organization so as to maintain global reach.
- f) To maintain survival even in unfavourable situation and to keep the organization from being suffered from cut-throat competition.
- g) To be flexible to limited extent.
- h) Using of high class technologies.
- i) Purpose of getting more talented and knowledge people. Basically, in merger two or more companies combine together and form a new company.

Conclusion

There are a number of benefits of merger activity. The general benefits are simply that the purchasing firm considers the acquisition to be a profitable investment. The most common theme found in the work of economists who have written about merger activity is that mergers are often thought of as an alternative form of investment. Firms will undertake acquisitions when it is the most profitable means of enhancing capacity, obtaining new knowledge or skills, entering new product or geographic areas, or reallocating assets into the control of the most effective Managers/owners. Thus, many of the same factors that influence major investment decisions would also influence merger activity. The most common benefits of mergers and acquisitions are:-¹⁹³

Accelerating a company's growth, particularly when its internal growth is constrained due to capacity of resources. Internal growth requires that a company should develop its operating facilities- manufacturing, research, marketing, etc. But, lack or inadequacy of resources and time needed for internal development may constrain a company's pace of growth. Hence, a company can acquire production facilities as well as other resources from outside through mergers and acquisitions. Specially, for entering in new products/markets, the company may lack technical skills and may require special marketing skills and a wide distribution network to

¹⁹² RESHAM RAJ REGMI, BANKING LAW OF NEPAL, Lumbini Pustak Pasal at 231, (2064)

¹⁹³ RESHAM RAJ REGMI, BANKING LAW OF NEPAL, Lumbini Book Publication, Kathmandu, at 231, (2064)

access different segments of markets. The company can acquire existing company or companies with requisite infrastructure and skills and grow quickly.

Therefore, The timeframe to close the merger may last for few hours until a few weeks depending on the complexity of the deal and the accuracy of the work done before. Final negotiations about the acquisition price and a binding letter of intent will be signed together with the closing contracts. Nevertheless, mistakes can be made during the final meeting, where the contracts are signed, which may cause delay in the closure. There are several points to keep in mind for the closing meeting: All lawyers and other people involved in the deal, such as consultants, should be present all the time during the final meetings, in case of changes through last minute documents. All time constraints such as desk opening hours of involved banks for instance, must be taken into consideration. Emphasis on speed should not influence the quality. Single change made in the closing meeting, caused by late obtained documents or any other reason, must be thoroughly proved by all lawyers concerned to the deal.

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Nepal Rastra Bank Act, section 110(2) (2002)

Companies Act, Section 177(7), (2063)

Merged and Merging and Acquisition Bylaw of Banks and Financial Institutions 2011, Rule 4(1)

Bank and Financial institutions Act 2006