



Navigating Bank Mergers and Acquisitions in Nepalese Banking Sector: Opportunities, Challenges, And Implications

Rakhi Kumari¹, Dr. Shashi Srivastava²

^{1,2}Institute of Management Studies, Banaras Hindu University, Varanasi-221005, India

ABSTRACT: Mergers and acquisitions (M&As) have emerged as pivotal elements in the consolidation of the banking sector in Nepal, signifying efforts to cultivate more robust, efficient, and resilient financial institutions. This study explores the rationale, opportunities, challenges, and implications of M&As within Nepal's commercial banking sector, with a particular focus on the role of the Nepal Rastra Bank in facilitating consolidation. Employing a descriptive and analytical methodology grounded in secondary data, the analysis reveals that M&As have the potential to enhance capital adequacy, support economies of scale, improve risk diversification, augment technological and digital banking capabilities, and expand market reach. However, these potential benefits are dependent on successful post-merger integration. The paper contends that the mere legal completion of a merger does not guarantee its success; rather, sustained strategic planning, thorough due diligence, transparent human resource management, customer-centric service delivery, effective risk management, and ongoing regulatory oversight are crucial. When managed effectively, M&As can contribute to a more stable, competitive, inclusive, and technologically advanced banking sector in Nepal.

KEYWORDS: mergers and acquisitions, commercial banks, financial consolidation, Nepal Rastra Bank, banking sector, financial performance

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**Corresponding Author:* Rakhi Kumari

INTRODUCTION

Financial sector reforms have significantly changed the structure and operation of Nepal's banking industry (Pandey et al., 2022). The rapid increase in the number of banks and financial institutions was a result of economic liberalization and the growth of private-sector banking (Amoah et al., 2020). Although this expansion improved access to formal financial services, it also created concerns related to intense competition, small institutional size, weak capital bases, overlapping branch networks, governance weaknesses, and uneven risk-management practices. In response, the Nepal Rastra Bank (NRB) adopted policies to encourage consolidation through mergers and acquisitions (Bajgai & Pradhan, 2021; Pandey et al., 2022; Pokharel, 2018).

Mergers and acquisitions are strategic processes through which two or more institutions combine their operations, resources, assets, liabilities, employees, customers, and branch networks to achieve their goals. A merger generally refers to the combination of two institutions into a unified entity, whereas an acquisition occurs when one institution takes over another and the acquired institution loses its separate identity (Faulkner et al., 2012; Kudryashova & Taran, 2021; Teerikangas et al., 2012). In the banking industry, these processes are particularly significant because banks handle public deposits, provide credit to households and businesses, and contribute to the overall financial stability.

Singh (2025) argue that banking sector mergers are often motivated by the need to improve competitiveness, enlarge market presence, strengthen capital resources, achieve economies of scale, and respond to changing regulatory and technological conditions, among others. Their study highlights that mergers may lead to organizational and human resource challenges, such as employee insecurity, cultural conflicts, diminished morale, and difficulties in integrating disparate systems. These issues are pertinent to Nepal, where consolidation has been promoted as a strategy for developing robust and sustainable banking institutions (Maity & Sahu, 2021).

The number of licensed banks and financial institutions in Nepal expanded rapidly prior to the implementation of the merger policy. The NRB introduced the Merger Bylaw in 2011 and later strengthened the consolidation process through acquisition provisions and

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capital-related reforms (Coates, 2025).The policy aimed to develop stronger institutions with improved capacity, efficiency, and outreach, particularly in underserved areas (*Mergers and Acquisitions of the Financial Institutions*, 2018).

This paper examines mergers and acquisitions in Nepal's commercial banking sector. It focuses on the reasons for consolidation, its potential benefits and risks, the role of the NRB, and the conditions required for successful post-merger integration.

Table 1. Major Mergers and Acquisitions among Commercial Banks in Nepal

S.N.	Participating bank(s)	Type of consolidation	Resulting/acquiring bank
1	Nepal Bangladesh Bank Limited.	Acquisition	Nabil Bank Ltd.
2	Janata Bank Nepal Ltd.	Merger	Global IME Bank Ltd.
3	Bank of Kathmandu Ltd.	Merger	Global IME Bank Ltd.
4	Nepal Credit and Commerce Bank, Ltd.	Merger	Kumari Bank Ltd.
5	Mega Bank Nepal Ltd. and Nepal Investment Bank Ltd.	Merger	Nepal Investment Mega Bank Ltd.
6	Century Commercial Bank Ltd.	Merger	Prabhu Bank Ltd.
7	Civil Bank Ltd.	Acquisition	Himalayan Bank Ltd.
8	Sunrise and Laxmi Bank Ltd.	Merger	Laxmi Sunrise Bank Ltd.

Source: (*Bank Supervision Report*, 2025).

Objectives of the Study

This study examines the role and implications of M&As in Nepal's banking sector. Its objectives are to explain the concept and rationale of bank mergers and acquisitions, review consolidation in Nepal, identify benefits for Nepali commercial banks, analyze post-merger integration challenges, and recommend ways to improve the effectiveness of future mergers and acquisitions.

METHODOLOGY

This study adopted a descriptive and analytical research design based on secondary data. The data were obtained from Nepal Rastra Bank reports, regulatory publications, official banking statistics, and relevant literature on bank mergers and acquisitions. As a conceptual study, it did not involve primary data collection, survey-based research, or econometric analysis.

The study applied these themes to Nepal's commercial banking sector, examining regulatory consolidation, capital strengthening, operational efficiency, customer service, employee management, competition, and financial stability.

Concept of Mergers and Acquisitions in Banking

A merger occurs when two banking institutions combine to create a larger, unified institution. In this process, the assets, liabilities, capital, reserves, branch networks, employees, and customer relationships of the participating banks are integrated(Marshall, 1957; Singh, 2025; Tereškinaite & Vasiliauskaitė, 2023) .The objective is to form a stronger organization with an increased market capacity and improved operational performance.

An acquisition occurs when one bank takes control of another. The acquiring institution assumes control over the acquired bank's assets, liabilities, customers, branches, technology systems and business operations. In this case, the acquired institution normally loses its independent identity(Chaturvedi, 2025; Goldberg, 1976; Kumar et al., 2024).

In the banking sector, mergers and acquisitions can be voluntary or policy-driven. Voluntary mergers occur when banks identify mutual strategic advantages, such as market expansion, cost reduction, improved technology, or access to a stronger deposit base(Das & Das, 2011). Policy-driven mergers occur when regulatory authorities encourage consolidation to address weaknesses in the financial system, including inadequate capital, poor governance, weak risk management, and an excessive number of institutions(Chaturvedi, 2025; Goldberg, 1976; S. Kumar et al., 2024).

Mergers and acquisitions should not be viewed only as legal or financial transactions. They involve complex organizational changes involving people, systems, corporate culture, products, customers, and regulatory responsibilities. Therefore, a merger may succeed financially but still face problems if employees are not properly managed, technology platforms are incompatible, or customers lose confidence in the combined institution.

Development of Mergers and Acquisitions in Nepal

Nepal's banking sector experienced substantial growth after financial sector liberalization. The increase in the number of banking and financial institutions improved competition and broadened access to financial services(Pandey et al., 2022). However, rapid expansion also resulted in fragmentation. Many institutions had limited capital, small operational scale, concentrated branch networks, and difficulties in maintaining strong governance and risk-management systems.

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To address these concerns, the NRB introduced policies promoting mergers and acquisitions. The regulatory objective was to reduce the number of fragmented institutions and establish stronger banks with better capital capacity and operational efficiency. The NRB's merger and acquisition framework was also intended to support the expansion of financial services beyond urban areas and encourage institutions to improve their ability to finance productive sectors of the economy (*Mergers and Acquisitions of the Financial Institutions*, 2018).

The consolidation policy has significantly changed the structure of Nepal's banking system. According to NRB data, the number of commercial banks declined from 31 in 2011 to 20 by mid-July 2025. The total number of licensed banks and financial institutions also declined substantially during this period. This trend indicates that mergers and acquisitions have become important features of banking-sector restructuring in Nepal (*Bank Supervision Report*, 2026).

Several major commercial bank combinations have taken place in recent years. Nepal Bangladesh Bank was acquired by Nabil Bank; Janata Bank Nepal merged with Global IME Bank; Bank of Kathmandu merged with Global IME Bank; Nepal Credit and Commerce Bank merged with Kumari Bank; Mega Bank merged with Nepal Investment Bank to form Nepal Investment Mega Bank; Century Commercial Bank merged with Prabhu Bank; Civil Bank was acquired by Himalayan Bank; and Sunrise Bank merged with Laxmi Bank to form Laxmi Sunrise Bank. These transactions reduced the number of commercial banks and created larger banking institutions with wider networks and greater capital capacity (*Bank Supervision Report*, 2026).

Benefits of Mergers and Acquisitions in Nepalese Banks

a. Strengthening the Capital Base

One of the main advantages of a merger is the combination of capital resources. A larger capital base can enable banks to increase lending capacity, absorb losses, invest in technology, and comply with regulatory capital requirements. In a developing economy such as Nepal, stronger banks may be better able to finance large infrastructure, hydropower, agricultural, tourism, trade, and industrial projects.

The increase in paid-up capital requirements introduced by the NRB also encouraged banks to consider mergers and acquisitions as a practical strategy for meeting regulatory expectations. Instead of raising capital independently, weaker or smaller institutions could combine with stronger institutions to create a more stable capital structure. (*Mergers and Acquisitions of the Financial Institutions*, 2018)

b. Economies of Scale and Cost Efficiency

Mergers can reduce duplication in banking operations. When two banks operate separately, they may maintain different head offices, administrative departments, technological systems, training units, branch offices, and marketing structures. After a merger, some of these functions can be combined. This may reduce administrative expenses and improve the use of financial and human resources. Economies of scale can also arise when a larger bank spreads fixed costs across a larger customer base and a wider branch network. For example, investment in digital banking, cybersecurity, mobile applications, data systems, and compliance mechanisms can be more affordable for a larger institution than for a small bank. However, cost efficiency is not guaranteed. If the integration process is poorly managed, the merged bank may initially face higher costs because of system conversion, employee restructuring, rebranding, legal procedures, and branch rationalization.

c. Improved Risk Diversification

A larger bank may have a more diversified loan portfolio, deposit base, geographical presence, and customer segments. This can reduce dependence on a limited group of borrowers, industries or regions. Merged institutions may also have a stronger capacity to manage credit, liquidity, operational, and market risks.

The NRB views consolidation as a way to strengthen the banking system and improve the capacity of banks and financial institutions. The policy has been linked to the broader objective of creating stronger and more efficient institutions, rather than maintaining a large number of small and potentially vulnerable entities. (*Optimal Number of Banks and Financial Institutions in Nepal*, 2022)

d. Better Technology and Digital Banking Capacity

Modern banking increasingly depends on technology. Commercial banks must invest in core banking systems, mobile banking, Internet banking, payment infrastructure, cybersecurity, data protection, and digital customer support. Smaller banks may face difficulties in making such investments because of their limited capital and technical capacity.

A merged bank can pool financial and technological resources to improve digital services. This can benefit customers through more reliable mobile banking, wider ATM access, improved payment systems, and faster service delivery. Nevertheless, technology integration is one of the most difficult aspects of a merger. If the systems of two banks are incompatible, customers may face service interruptions, transaction delays, account-related confusion, or difficulties in accessing digital platforms during the transition period.

e. Wider Market Coverage and Financial Inclusion

Mergers may help banks expand their market presence by combining their branch networks and customer bases. A bank that is strong in one region may merge with another bank that has better outreach in another region. Therefore, the combined institution may have broader national coverage.

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However, branch expansion alone does not ensure financial inclusion. A merged bank must continue to serve rural populations, small enterprises, women entrepreneurs, farmers, and low-income groups. The NRB's consolidation policy has emphasized not only institutional strength but also the need to expand banking services in underserved areas. Therefore, mergers should not lead to the closure of branches in less profitable regions. (*Mergers and Acquisitions of the Financial Institutions*, 2018)

Challenges of Mergers and Acquisitions

a. Employee Uncertainty and Organizational Culture

Employee-related problems are among the most serious challenges in bank mergers. Employees may fear job loss, transfer, demotion, changes in salary structure, or loss of seniority. These concerns can reduce morale, productivity, and commitment. Goyal and Joshi (2011) highlighted that mergers can negatively affect employee attitudes when organizational changes are not handled carefully. (Maity & Sahu, 2021)

In Nepal, banks involved in mergers must integrate employees from diverse institutional cultures. Each bank may have different management practices, promotion systems, compensation structures, work disciplines, and communication styles. If these differences are ignored, the merged institution may experience conflicts, dissatisfaction, and reduced performance. Therefore, management should establish transparent human resource policies, provide training, and communicate clearly with employees throughout the merger process.

b. Technology and Operational Integration

The integration of technological systems is a major operational challenge. Banks may use different core banking software, customer databases, loan management systems, mobile applications, internal controls, and reporting procedures. Combining these systems requires time, technical expertise, financial investment, and careful planning.

A weak integration process can disrupt customer service. Customers may experience changes in account numbers, branch codes, digital banking credentials, cheque facilities, and transaction procedures. Therefore, banks should conduct detailed technology assessments before completing a merger and maintain effective customer communication during the transition.

c. Customer Retention and Service Quality

Customers may be uncertain about the effects of mergers on deposits, loans, interest rates, branch access, and service quality. If customers perceive that the merger will make banking less convenient, they may shift to competing institutions. Maintaining customer confidence is particularly important because banks depend on public trust to survive.

The merged bank should ensure that customers receive clear information regarding changes in banking services. Help desks, digital notices, call centers, and branch-level support should be established to reduce confusion. Service quality must be protected during the integration period because any disruption can damage the reputation of an institution.

d. Reduced Competition

Although consolidation can create stronger institutions, excessive consolidation may reduce competition. If a small number of large banks dominate the market, customers may have fewer choices regarding deposit rates, lending rates, service charges, and credit facilities. Large institutions may also gain substantial influence over the allocation of resources.

Therefore, the NRB must balance the objective of stronger banks with the need to preserve healthy competition. The purpose of consolidation should be to eliminate weaknesses and inefficiencies, not to create institutions that are too dominant to be effectively monitored.

e. Governance and Risk Management

A larger bank is not automatically better governed. When institutions merge, their governance structures, board compositions, internal controls, risk management procedures, and compliance systems must be integrated. If governance weaknesses remain unresolved, the merged bank may become larger, but also more complex and difficult to supervise.

The NRB's recent financial stability report recognizes that the number of banking institutions has declined through mergers and acquisitions and continues to provide incentives for consolidating institutions. This indicates that consolidation is connected to the broader goal of financial sector stability (Global financial stability Report, 2003).

RECOMMENDATIONS

First, banks should conduct thorough due diligence before entering a merger or acquisition. This should include an assessment of financial health, loan quality, non-performing assets, liquidity position, legal obligations, technology compatibility, employee structure and governance practices.

Second, banks should develop detailed post-merger integration plans. The plan should cover technology conversion, branch rationalization, employee management, customer communication, branding, risk management, and internal control. A merger should not be considered complete merely after legal approval; its success depends on the quality of post-merger implementation (PMI).

Third, employee concerns should be addressed through transparent communication and fair human-resource policies. Training programs, career counseling, skill development, and clear promotion procedures can reduce resistance and improve employee commitment.

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Fourth, customer service should remain a priority. Banks should avoid unnecessary service disruptions and provide timely information on changes to account operations, digital banking, branch services, and loan facilities.

Fifth, the NRB should continue to closely supervise the merged institutions. Regulatory monitoring should focus on capital adequacy, asset quality, liquidity, governance, customer protection, cybersecurity, and lending concentration. Consolidation should produce stronger and more responsible banks rather than simply larger institutions.

Finally, future research should examine the financial performance of merged banks in Nepal using indicators such as return on assets, return on equity, net interest margin, cost-to-income ratio, non-performing loan ratio, capital adequacy ratio, and customer satisfaction (CS).

CONCLUSION

Mergers and acquisitions have become a significant part of the banking sector restructuring in Nepal. They have reduced the number of commercial banks, increased the scale of major banking institutions, and supported the NRB's objective of creating a stronger and more stable financial system. The decline in the number of commercial banks from 31 in 2011 to 20 by mid-July 2025 demonstrates the substantial effect of consolidation on Nepal's banking structure.

The potential benefits of mergers include stronger capital, improved operational efficiency, wider market coverage, enhanced technological capacity, and better risk diversification. However, these benefits are not guaranteed in all patients. Mergers can also create challenges related to employee insecurity, cultural conflict, technology integration, customer dissatisfaction, reduced competition, and complex governance issues.

Nepal's experience shows that successful consolidation requires more than regulatory approval. It requires sound strategic planning, compatible institutions, effective leadership, transparent employee management, customer-centered service delivery and continued regulatory supervision. Therefore, M&A s should be treated as a long-term process of institutional transformation. When properly managed, they can contribute to a more resilient, efficient, inclusive, and competitive banking sector in Nepal.

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